

FINANCE COMMITTEE MINUTES

November 15, 2001

The Finance Committee of the City of Mesa met in the lower level meeting room of the Council Chambers, 57 East 1st Street, on November 15, 2001 at 9:45 a.m.

COMMITTEE PRESENT

Bill Jaffa, Chairman
Dennis Kavanaugh
Mike Whalen

COUNCIL PRESENT

Jim Davidson

OFFICERS PRESENT

Mike Hutchinson
Barbara Jones

1. Discuss and consider recommending acceptance of the City of Mesa Comprehensive Annual Financial Report and Management Comments for fiscal year ended June 30, 2001.

Finance Director Larry Woolf addressed the Committee and commended Controller Kathy Pace and staff for their efforts in connection with preparation of the City's Comprehensive Annual Financial Report. Mr. Woolf introduced John Hunter, Greg Lee and Stan Watkins of Deloitte & Touche and reported that they performed the audit of the Financial Report.

Mr. Hunter advised that the audit of the Financial Report is complete. He said that although this year's audit did not pose any difficulties, next year's financial report process may be more challenging as a result of a new Governmental Accounting Standards Board requirement for a new format (GASB 34).

Mr. Watkins discussed five management comments contained in the Management Letter provided to the Committeemembers, which addressed security of the City's Information Services systems and proposes recommendations concerning: 1) Mainframe RACF Security Settings; 2) Virus Scanning of Email Attachments; 3) Information Security Policy and Procedure Manual; 4) Business Continuity Planning Document; and 5) Help Desk Centralization & Use for all Service Requests. He stated that Deloitte & Touch strongly recommends that the City protect its information systems from viruses, hackers, and physical disasters and also stressed the importance of implementing alternative plans in the event of a system interruption.

Mr. Lee stated that the firm had not recommended any management changes in connection with the financial portion of the audit.

Committeemember Jaffa voiced appreciation for the various recommendations concerning security of the City's information systems.

In response to questions from Chairman Jaffa relative to the GASB 34 format, Mr. Hunter said that the new format is closer to a "for profit" type of financial format and will place more emphasis on the City's fixed assets and the need to systematically replace fixed assets. He added that the new format will also include an introductory letter containing management discussion and analysis.

Mr. Lee said that the GASB 34 format will provide the user a greater opportunity to understand what the City would look like if it was operating as a true business and stated that the format will also be based on a single method of accounting versus the previous dual-method system.

Vice Mayor Davidson voiced concerns regarding the sole-source purchasing of computer software used by the City.

Discussion ensued regarding various measures the City can take to mitigate risks associated with the purchase of and reliance upon various types of software; the possibility of developing software internally versus purchasing software; the City's petty cash balance; and the increase in the capitalization threshold from \$1,000 to \$5,000.

In response to concerns voiced by Chairman Jaffa regarding the voluminous and complex nature of the Financial Report, Mr. Woolf advised that in 2003 staff intends to issue an additional summary type of report that will be more user friendly. He explained that the additional report will not be available in 2002 due to the transition to the GASB 34 format.

Committeemember Whalen expressed concerns regarding the \$8 million loss of sales tax revenue on food, the downturn in development related revenue, and difficulties associated with maintaining the level of services citizens expect in Mesa with the existing decreased revenue streams.

Committeemember Kavanaugh voiced appreciation to staff for the Comprehensive Financial Report. He stated the opinion that although the report is complex, it is a thorough accounting of the City's financial status.

It was moved by Committeemember Kavanaugh, seconded by Committeemember Whalen, to recommend to the Council that the City of Mesa Comprehensive Annual Financial Report and Management Comments for Fiscal Year ended June 30, 2001, be accepted.

Carried unanimously.

Chairman Jaffa voiced appreciation for the presentation.

2. Discuss and consider the issuance of Municipal Development corporation Excise Tax Revenue Refunding Bonds, Series 2001.

Finance Director Larry Woolf addressed the Committee relative to this agenda item and said that Larry Given, who served as the City's financial advisor for 15 years, is now an extremely valued employee of the City and currently serves in the position of Assistant Financial Services Director.

Mr. Woolf noted that when the City acquired farmland in Pinal County in 1985, \$37 million in bonds were issued as a variable rate debt. Included in that amount was \$4 million for a reserve fund to help provide security for the bondholders. Mr. Woolf referred to an attachment included in a handout, which outlined the history of this action and noted that a positive average interest rate of 4.1% has been consistently achieved. He stated that over the last several years staff has looked at whether it made any sense to fix the floating rate debt but said that it did not seem appropriate to do so until now.

Mr. Given stated that as a former investment banker, he used to think it made sense to fix the rate every time but the City has waited and now is the best possible time to do so with the short term interest rate at its lowest point in 40 years. Mr. Given referred to *Attachment No. 2* to staff's report in this matter (See Attachment) and said that this item is being presented to the Committee for their input and consideration. He stressed the importance of moving quickly on this issue in order to lock in the interest rate over the remaining term of the bond over the next seven years through 2008. He reiterated that the City's average interest rate has been 4.1% and stated the opinion that the current market would most likely allow the City to issue bonds at an average rate of 3 $\frac{3}{4}$ %.

Discussion ensued relative to the fact that once the City fixes the rate of the bonds, refunding bonds will be issued and the entire document of the deal will be changed, the fact that at that time the City no longer needs a reserve fund like the one currently in place which would have been utilized to pay down debt service on the floating rate issue in 2008, and the fact that options exist as to how to use that reserve fund as far as what years the City takes a reduction in debt service.

Mr. Given again referred to *Attachment No. 2* and explained the proposed structure of the deal. He said that staff is recommending that the City maintain the retirement schedule for the bonds as they exist today from 2004 through 2008 and added that staff is also recommending that the amount of bonds that the City is paying on January 1, 2002 (in approximately 45 days) and next year as well be reduced. He said that the savings could be taken over the next two years because of the current budget but added that flexibility exists regarding this issue. Mr. Given advised that staff is recommending that the reserve fund be liquidated and asked that the Committee recommend approval of this action to the Council. He stated that the schedule will be a challenging one in order to accomplish all that needs to be done by the end of December and for that reason, staff has requested that this item be considered on an expedited basis.

Chairman Jaffa thanked Mr. Given for his presentation.

Committeemember Kavanaugh stated support for staff's recommendations and thanked them for their hard work on this important matter.

It was moved by Committeemember Kavanaugh, seconded by Committeemember Whalen, to recommend to the Council that staff's recommendations relative to the issuance of approximately \$20,600,000 Municipal Development Corporation Excise Tax Revenue Refunding Bonds, Series 2001, and execution of an installment purchase agreement and other legal documents necessary theretofore, be approved.

In response to a question from Committeemember Whalen relative to the value of the water farm, City Manager Mike Hutchinson advised that it is staff's intention to present a briefing to the

Council on this issue in the future. He reported that the City bought the farm at an average cost of \$2,800 per acre and although the costs have gone down over the years, he believes that should the City decide to sell the farm, the property would sell for \$2,800 to \$3,000 per acre. He added that he believes that the future outlook is very positive.

Committeemember Whalen commented that the true value of the property lies in the water, particularly if the City needs those supplies in the future. He said that he recently heard that the average cost of groundwater in the State right now is \$3,600 per acre.

Mr. Hutchinson reiterated staff's intention to provide a briefing on this matter in the near future.

Chairman Jaffa commented that the City will be able to eliminate the reserve fund that they have and said the question that remains is how to apply that. He also discussed budgetary concerns and said that this action will have the effect of moving the debt service payment period from the next two years to 2007-08. He added that this provides flexibility because the reserve will no longer be necessary.

Chairman Jaffa thanked staff for their insight and excellent timing in presenting this matter to the Committee for recommendation to the Council. He agreed that this is an opportune time in which to proceed.

Carried unanimously.

3. Discuss and consider amending Title 4, Chapter 9, Section 1 of the Mesa City Code relating to the payment of plan review fees.

Committeemember Kavanaugh commented on the Council's recent discussion of this issue. He stated that in the event he has to leave the meeting before discussion on this issue is complete, he will offer a motion at this time.

It was moved by Committeemember Kavanaugh, seconded by Committeemember Whalen, to recommend to the Council that the recommendations of staff amending Title 4, Chapter 9, Section 1 of the Mesa City Code relating to the payment of plan review fees, be approved.

Deputy Building Safety Director Jeff Welker addressed the Committee and provided an overview regarding the City's assessment of plan review fees. He said that the City has historically collected plan review fees at the end of the review and approval process in conjunction with the collection of permit fees. He explained that although staff has previously recommended that plan review fees be collected at the beginning of the review process, it was the consensus of prior City management that collection of the fees at the end of the process would encourage development. He added that the majority of other Valley communities collect plan review fees at the beginning of the process.

Mr. Welker stated that the Building Safety Division discards approximately 300 sets of plans each year that have been reviewed by staff but are abandoned by the owner/developer and never permitted. He further reported that staff estimates that abandoned plans represent approximately \$300,000 per year in lost revenue over the last five years, and an inordinate waste of staff time and effort.

Mr. Welker reported that this proposal was recently discussed with developers at the Development Advisory Forum and was unopposed because it is consistent with other Valley municipalities. He noted that the only concern expressed by developers was that the caveat in the proposed Ordinance which allows the City to assess additional fees for plans that are resubmitted three or more times, would automatically result in additional fees. He further noted that he explained to the developers that this caveat does not represent a new condition, is consistent with the existing Ordinance and is a discretionary fee under the authority of the Building Safety Director.

Mr. Welker stated that it is the consensus of staff that approval of this proposal will serve to recoup lost revenue resulting from the submittal of speculative development plans.

In response to a question from Chairman Jaffa regarding the types of projects this proposal will and will not impact, Mr. Welker reported that plan review fees would not be collected in advance for plans relative to residential swimming pools and spas, master plans for single residences, and other types of plans that are minimal in scope and size that have not historically been problematic. He added that large commercial projects and large residential developments have been problematic in terms of abandoned plans and lost City revenue.

Committeemember Whalen said that although he is generally supportive of this proposal, he has concerns regarding on-going difficulties between the development community and the Building Safety Division. He stressed the importance of staff endeavoring to improve relations with the development community, especially in light of this proposal to collect fees in advance.

In response to Committeemember Whalen's expressed concerns, Mr. Welker reported that staff recently participated in a special workshop with the development community to address developers' concerns and to improve the plans review and inspections processes. Mr. Welker further reported favorable input from developers and said that staff would continue efforts to improve relations with the development community.

Carried unanimously.

Chairman Jaffa thanked Mr. Welker for the presentation.

4. Adjournment.

Without objection, the Finance Committee Meeting adjourned at 10:43 a.m.

I hereby certify that the foregoing minutes are a true and correct copy of the minutes of the Finance Committee meeting of the City of Mesa, Arizona, held on the 15th day of November 2001. I further certify that the meeting was duly called and held and that a quorum was present.

BARBARA JONES, CITY CLERK

ATTACHMENT NO.2

CITY OF MESA MUNICIPAL DEVELOPMENT CORPORATION
 EXCISE TAX REVENUE REFUNDING BONDS, SERIES 2001

COMPARISON OF PRINCIPAL MATURITY REPAYMENT SCHEDULES

Fiscal Year	Series 1985 Principal Maturities*	Projected Series 2001 Principal Maturities	Estimated Annual Difference
2001/02	\$ 2,200,000	\$ 0	\$ -2,200,000
2002/03	2,600,000	800,000	-1,800,000
2003/04	2,900,000	2,900,000	0
2004/05	3,400,000	3,400,000	0
2005/06	3,900,000	3,900,000	0
2006/07	4,500,000	4,500,000	0
2007/08	1,100,000	5,100,000	4,000,000
\$	20,600,000	\$ 20,600,000	\$ 0

*Series 1985 Principal Maturity for fiscal year 2007/08
 has been reduced by \$4,000,000 in the above table to
 reflect application of the existing Reserve Fund.

Prepared by: City of Mesa Finance Administration (October 31, 2001)