



COUNCIL MINUTES

October 18, 2005

The City Council of the City of Mesa met in a Special Study Session in the lower level meeting room of the Council Chambers, 57 East 1st Street, on October 18, 2005 at 3:35 p.m.

COUNCIL PRESENT

Mayor Keno Hawker
Rex Griswold
Kyle Jones
Tom Rawles
Janie Thom
Claudia Walters
Mike Whalen

COUNCIL ABSENT

None

OFFICERS PRESENT

Mike Hutchinson
Debbie Spinner
Barbara Jones

1. Discuss and consider 2025 Transportation Funding Plan including funding requirements for the Regional Transportation Plan and the City of Mesa annual transportation operation and maintenance plan.

City Manager Mike Hutchinson reported that at the conclusion of the October 6, 2005 Planning Session, the Council requested that staff provide additional information regarding a number of budget/financial issues. He explained that the 20-year Transportation Funding Plan is an extremely complicated item and stated that he directed staff to make a detailed presentation today regarding this important matter.

Mayor Hawker commented that he would have preferred that the recent Planning Session had been conducted in the Council Chambers so that the meeting could have been televised for the benefit of Mesa residents.

Assistant Development Services Manager Jeff Martin referred to an extensive PowerPoint presentation entitled "Transportation Financial Review," which was displayed in the Council Chambers. (The complete document is available for review in the City Clerk's Office.) He explained that during this discussion, it is essential that the Council consider a series of components including street capital, Mesa's local match of the Regional Transportation Plan (RTP), and street maintenance.

Mr. Martin explained that approximately 30% of Mesa's streets are beyond their useful life and said in the next ten years, the remaining streets would experience a similar impact unless the City begins to address this issue. Mr. Martin also provided a brief synopsis of Mesa's previous transportation financial activities.

Discussion ensued relative to the current Streets Program revenue sources including the Highway User Revenue Fund (HURF); Quality of Life (QOL); Maintenance of Effort (MOE); Regional Area Road Fund (RARF); and Congestion Mitigation and Air Quality (CMAQ); that the City's Transportation system is currently valued at more than \$1 billion; that after FY 08/09, O&M and debt service will exceed projected revenues; that through FY 08/09, there will be decreased bond issuance and the total discontinuation of bond issuance after that time; that no local funds would be available for capital projects and only developer-funded capital projects will be built; that RTP funds require a 30% local match for street capital identified; that nearly half of Mesa's projects are in the final five years of the 20-year RTP, requiring City-financed acceleration to balance the workload; that the RTP cost estimates are generally too low; that the RTP street funding is capped by the Maricopa Association of Governments (MAG) using the Consumer Price Index (CPI), instead of available construction and right-of-way cost indexes; and that construction and right-of-way cost inflation greatly exceeds CPI rates used by MAG to inflate costs over time.

Transportation Director Jeff Kramer continued with the presentation and directed the Council's attention to a document entitled "Mesa Transportation Division Operational Priorities Master Listing." He explained that the list consists of 88 activities (45 are currently funded), based on O&M history, that are currently performed or should be performed in order to adequately maintain the City's transportation system.

Mr. Kramer further highlighted the MAG Arterial Life Cycle Program, which demonstrates the RTP project reimbursement schedule of regional funds to Mesa for the City's projects within the program. He noted that recent MAG revisions to the program have deferred six project repayment dates by a total of 15 years, thereby increasing local costs to advance projects. Mr. Kramer also briefly reviewed the RTP projects related to cost sharing (regional, local-Mesa and local-other partner cost shares), and Developed Non-RTP Capital Project Details (Major Pavement Rehabilitation Program, Street Projects included in the Mesa Transportation Plan (MTP) but not funded in the RTP, and the Intelligent Transportation System (ITS) Program).

An extensive discussion ensued among the Council and staff regarding the above-referenced items.

Mr. Kramer reviewed five possible Transportation Program funding scenarios for the City of Mesa as follows:

No New Funding

- Would provide no local matching funds for street capital and the City would only secure 21.7% of RTP street capital funding by using developer contributions for the local match.
- \$485.4 million in RTP funds would be returned to the region.
- Increased debt service after FY 08/09 would cause operations and debt to exceed revenue, thereby causing reductions in available funds for O&M.
- The City Share Program would be discontinued.
- O&M reductions would equate to approximately 28.5%.
- Streets would continue to deteriorate, there would be no funding available for any major or minor preventative maintenance; traffic signal construction would be

discontinued, as well as landscape maintenance (other than minimal items); and no funding for capital equipment replacement.

- With the above-referenced reductions, the Transportation Program does not balance, and at the end of 20 years, the City would experience a \$166 million deficit.
- This scenario is not an option for Mesa, and if the necessary funding does not become available, for all practical purposes, the City's transportation system would be abandoned.

Mr. Kramer advised that the following components apply to the upcoming funding scenarios: 1.) Existing bond debt, plus any new bond debt the City would issue in order for the capital construction program to operate, would be retired within the 20-year program; 2.) All four programs would be balanced at the end of 20 years; 3.) 10% of any revenue generated in each of the four programs would be placed into a contingency line item within the Transportation Program to be used for potential cost overruns, matching funds for Federal grant monies, or unforeseen emergency needs.

Mr. Kramer outlined the key elements of the following funding scenarios:

.25 cent (Capital focus)

- Generates \$20.9 million annually (2005 dollars).
- Secures 100% of RTP street capital funding (based on current MAG estimates for RTP streets program).
- Actual local match expected to exceed 50% over 20-year program, which would result in the City being unable to provide a local match for all RTP projects.
- Increasing debt service would cause reductions in available funds for O&M.
- No funding provided for City Share.
- O&M would be reduced 5% below current level. (Continued current under funding of overlays and reconstructions; continued zero funding for traffic signal construction, storm drain pump and drywell maintenance, traffic signal timing plan review, and streetlight preventative maintenance; maintains current funding level for crack seals, capital equipment replacement, and street sweeping.).

.25 cent (O & M focus)

- Generates \$20.9 million annually (2005 dollars).
- Secures only 9.7% of available RTP street capital funding through developer contributions.
- \$560 million in regional funds would be returned to the region over 20 years.
- No funding provided for City Share.
- O&M increased above current level by 14%. (Increases funding of overlays and reconstructions; continues zero funding for streetlight preventative maintenance, funds current level for crack seals, capital equipment replacement, traffic signal construction, street sweeping, and landscaping maintenance, and provides minimal funding for storm drain maintenance and traffic signal timing plan review.).

.31 cent

- Generates \$25.9 million annually (2005 money).
- Secures 100% of RTP street capital funding (based on current MAG estimates for RTP streets program).
- Provides funding for City Share.
- Actual local match expected to exceed 50% over 20-year program, therefore City will not be able to provide local match for all RTP projects.
- O&M increased above current level by 17%. (Funds overlay and reconstruction program at \$8 million annually; current level for crack seals, capital equipment replacement, traffic signal construction, street sweeping and landscaping maintenance; and provides funding for storm drain maintenance, traffic signal timing plan review and streetlight preventative maintenance.)

.35 cent

- Generates \$29.3 million annually (2005 dollars).
- Secures 100% of RTP street capital funding (based on current MAG estimates for RTP streets program).
- Actual local match expected to exceed 50% over 20-year program and the City will not be able to provide local match for all RTP projects.
- Provides funding for City Share.
- O&M increased above current level by 25%. (Funds recommended level for overlays and reconstructions; current level for crack seals, capital equipment replacement, traffic signal construction, street sweeping and landscaping maintenance; and provides adequate funding for storm drain maintenance, traffic signal timing plan review and streetlight preventative maintenance.)

An extensive discussion ensued among the Council and staff regarding various components of the above-referenced scenarios.

Mr. Martin stated that it is important to note that staff's proposal is not a "Cadillac system" and that only "absolute necessities" have been included in the funding scenarios. He added that the proposals include no requests for additional transit service. Mr. Martin concluded the presentation by commenting that based on the extensive study and evaluation of the various transportation programs and the associated financial needs, it is the recommendation of staff that a dedicated local funding source is needed for capital and O&M needs. He added that staff is also recommending that a .31 cent local sales tax (or the equivalent totaling \$25.9 million in 2005 dollars) be dedicated to transportation needs.

Mr. Hutchinson commended staff for their hard work and dedication in this regard. He urged the Council to give strong consideration to staff's recommendations and added that it is very clear from staff's analysis that if the City does not begin to address its burgeoning transportation needs, "Mesa will continue to fall farther and farther behind."

Mayor Hawker thanked staff for the informative presentation.

2. Discuss issues relating to calculation and implementation of property taxes.

Financial Services Manager Bryan Raines and Assistant Budget Director Chuck Odom addressed the Council relative to this agenda item. Mr. Odom referred to spreadsheets, copies of which were distributed to the Council, and provided a detailed analysis of the mechanism by which the City of Mesa Primary Property Tax Levy and Levy Limit would be calculated. He also reviewed, as an example, the manner in which the primary value for a single family home in Mesa for a three-year period would be calculated (See Attachments 1 and 2.)

Vice Mayor Walters commented that one of her concerns relative to the possible implementation of a City property tax is its impact on Mesa's senior citizens who are on low and/or fixed incomes. She commented that in reviewing information provided by staff regarding a tax exemption enacted by Maricopa County to assist those individuals, it appeared that the property value limitation was very low (given Arizona's rapidly increasing property values) and questioned whether the State Legislature had the ability to consider changing the value limitation.

In response to Vice Mayor Walters' inquiries, City Attorney Debbie Spinner explained that because there are Constitutional provisions and State statutes that apply to this issue, it is difficult for her to respond at this time. She stated that she would research the matter and forward a memo to the Council regarding whether the property valuation component is contained in the Arizona Constitution or State statutes. Ms. Spinner added that local government entities would not have the right to grant exemptions due to income levels (i.e., poverty level or living on Social Security).

Discussion ensued relative to the importance of setting an appropriate levy amount initially; and the process that would be undertaken between the City and Maricopa County in order for the County Assessor to collect a City primary property tax (pending voter approval of the measure).

3. Discuss and consider various financial funding scenarios.

Mr. Odom referred to a series of documents distributed to the Council and highlighted possible revenue and/or budget reduction scenarios for the City of Mesa. (Documents are available for review in the City Clerk's Office.) He reviewed the following options:

- **Alternative 1.** \$36 million reduction in existing City services on an ongoing basis. (This item was presented at the Council Planning Session.)
- **Alternative 2.** Primary Property Tax rate is established at \$1.00; sales tax rate increases to \$1.75.
- **Alternative 3.** Primary Property Tax rate is established at \$1.40; sales tax rate remains the same at \$1.50, with \$0.25 earmarked for the Transportation Master Plan. The General Fund makes up the \$5.0 million per year to keep the Transportation Plan funded at the equivalent sales tax rate of \$0.31; \$9.6 reduction in existing services on an ongoing basis.

Mr. Odom emphasized that the above-referenced alternatives are merely for discussion purposes and said that prior to the Council making a final decision, staff would perform financial modeling of the preferred alternative to ensure that the long-term projections are, in fact, what the Council anticipate them to be.

Vice Mayor Walters voiced concerns that the three alternatives do not include increased fuel costs and the proposed Police salary adjustments, which were previously discussed at the Council Planning Session.

Responding to Vice Mayor Walters' comments, Mr. Odom stated that staff's analysis includes the base forecast and noted that any additional costs (i.e. Police salary adjustments) would be added to that figure and increase the already identified \$36 million in reductions in existing City services. He also provided a detailed analysis of the manner in which the three alternatives would financially impact the City with regard to a significant reduction in services.

Mr. Hutchinson recommended that the November 10th Study Session tentatively be scheduled for the presentation of additional budget/financial information requested by the Council during the Planning Session. He stated that he is hopeful the Council would reach a decision by late November or early December regarding possible ballot items.

Mayor Hawker requested that items such as a secondary property tax, the Quality of Life sales tax, and the Alternative FY 06/07 Budget Reductions be included on the Study Session agenda.

Councilmember Rawles commented that following the completion of the City Manager finalists' interviews on November 8th, it might be appropriate for the Council to convene a Study Session that afternoon to continue their discussions regarding these matters.

4. Prescheduled public opinion appearances.

There were no prescheduled public opinion appearances.

5. Adjournment.

Without objection, the Study Session adjourned at 6:15 p.m.

KENO HAWKER, MAYOR

ATTEST:

BARBARA JONES, CITY CLERK

I hereby certify that the foregoing minutes are a true and correct copy of the minutes of the Study Session of the City Council of Mesa, Arizona, held on the 18th day of October 2005. I further certify that the meeting was duly called and held and that a quorum was present.

BARBARA JONES, CITY CLERK

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Attachments (2)