



AUDIT, FINANCE & ENTERPRISE COMMITTEE

January 12, 2015

The Audit, Finance & Enterprise Committee of the City of Mesa met in the lower level meeting room of the Council Chambers, 57 East 1st Street, on January 12, 2015, at 3:53 p.m.

COMMITTEE PRESENT

Dave Richins, Chairman
Alex Finter
Scott Somers

COMMITTEE ABSENT

Christopher Brady, Ex Officio

COUNCIL-ELECT PRESENT

Kevin Thompson

STAFF PRESENT

Debbie Spinner
Dee Ann Mickelsen
Alex Deshuk

1. Items from citizens present.

There were no items from citizens present.

2-a. Hear a presentation, discuss and accept the City's Comprehensive Annual Financial Report (CAFR) and Single Audit Reports for Fiscal Year Ended June 30, 2014.

Finance Director Irma Ashworth introduced Sandy Cronstrom with CliftonLarsonAllen, LLP, the City's external audit firm, who was prepared to address the Committee.

Ms. Ashworth displayed a PowerPoint presentation (**See Attachment 1**) and provided a brief overview of the Fiscal Year 2014 Comprehensive Annual Financial Report (CAFR). She stated that the report provides a detailed presentation of the City's financial and economic condition that includes an unmodified report, which is a clean audit opinion that meets the Generally Accepted Accounting Principles (GAAP) and complies with the Government Accounting Standards Board (GASB).

Ms. Ashworth pointed out the financial highlights of the document and indicated that the City's total assets are approximately \$3.7 billion. She added that the assets include capital assets (buildings, infrastructure, machinery and equipment) and any cash receivables that have not been collected but earned. She also reported a total of \$2.4 billion in liabilities, which include current liabilities (e.g., accounts payables, long-term liabilities and bonds) resulting in a combined net position of \$1.4 billion.

Ms. Ashworth commented that the cash balances as of June 30, 2014 were approximately \$551 million. (See Page 4 of Attachment 1) She noted that the Cash and Repurchase agreement funds are overseen by J.P. Morgan Bank and that any excess funds are swept into repurchase agreement accounts that earn a higher interest rate. She explained that the Cash with Trustee and Fiscal Agents account is a combination of funds with the fiscal agent to ensure the July 1st payment to bond holders, which also includes funds for the Highway Project Advancement Notes (HPAN) funds. She added that long-term investments are managed by a third party and have done well over the years.

In response to a question from Chairman Richins, Ms. Ashworth responded that Employee Trust accounts comprise both cash and investment accounts.

Ms. Ashworth displayed a chart illustrating the Citywide Long-Term Debt and the outstanding principal. (See Page 5 of Attachment 1)

In response to a question from Chairman Richins on the current status of the City's borrowing power, Ms. Ashworth pointed out Table X of the CAFR and stated that under Arizona law, cities can issue general obligation bonds for purposes of water, wastewater, artificial light, open space preserves, parks, playgrounds and recreational facilities. She added that this amount cannot exceed 20 percent of the assessed secondary valuation. **(See Attachment 2)**

Ms. Ashworth continued with her presentation and displayed the Revenue by Source graph. (See Page 6 of Attachment 1) She commented that the majority of the large revenue funds include taxes, state shared revenues, and transfer funds. She also illustrated a chart that indicated how the expenses are divided for the government activities funds and added that Court Services are included with Public Safety expenses.

Committeemember Finter asked Ms. Cronstrom if the City has made any progress on past significant findings.

Ms. Cronstrom responded that there has been a reduction of past significant findings and that the City met the audit deadline as of December 31, 2014. She indicated that there were fifteen significant findings last year and only six were identified this year. She added that four of the findings were related to financial statements and repeated items that were unable to be corrected in the last six months.

In response to a question from Chairman Richins on the definition of "materially", Ms. Cronstrom responded that auditors conduct a calculation of a dollar amount (a threshold), where auditors would feel comfortable that anything measured below that amount will not materially misstate any financial statements.

Committeemember Finter commented that the City is making progress with the automated financial system and commended staff and the auditors for working hard in bringing the number of audit findings down.

Council-Elect Thompson asked how the significant findings of the federal grant programs impact any future grant funding.

Ms. Cronstrom responded that only two single audit findings were found and that she does not foresee any impact in federal funding.

Housing and Community Development Director Tammy Albright pointed out that the issue at hand under the Community Development Block Grant (CDBG) is due to late reporting submittals by the grantees regardless of the numerous reminders from staff. She added that late submissions of financial statements could impact future CDBG funding.

It was moved by Committeemember Finter, seconded by Committeemember Somers, to recommend that the City's Comprehensive Annual Financial Report (CAFR) and Single Audit Reports for Fiscal Year Ended June 30, 2014, be forwarded on to the full Council for acceptance.

Carried unanimously.

Chairman Richins thanked everyone for the presentation.

2-b. Hear a presentation, discuss and provide a recommendation on a modification of the Electric Economic Development and Retention Rate.

Energy Resources Department Director Frank McRae displayed a PowerPoint presentation (**See Attachment 3**) and provided information on a modification of the Electric Economic Development and Retention Rate.

Mr. McRae commented that on December 1, 2014 he presented a program to the Economic Development Committee that would amend the electric tariff and provide a discount rate to commercial customers doing business in Mesa. He noted that per Council's directive, staff researched criteria that would be useful and beneficial to both the applicant and to the City.

Mr. McRae stated that research found a wide spectrum of criteria for both public utilities as well as those regulated by organizations such as the Arizona Corporation Commission. He highlighted criteria such as requirements for full-time employees (FTE's) added to utility operations and capital investments.

Mr. McRae outlined the modification of electric economic development and retention rate schedule recommendations as follows:

- Reduce minimum consumption to 200,000 kWh per month; and
- 5 FTE's per 100kW of new electric demand; or
- Minimum of \$500,000 Capital Investment.

Chairman Richins concurred with the recommendations but noted that further discussion will be needed with the entire Council as it relates to the overall downtown vision.

Committeemember Somers also concurred with Chairman Richins that further discussion with the full council will be beneficial to provide additional direction.

In response to a question from Committeemember Somers, Mr. McRae responded that the program will be closely monitored by conducting annual reviews.

Committeemember Somers stated that there should be consideration given to business cycles and allow some flexibility in order for businesses to meet the criteria.

Discussion ensued relative to the ranges for both commercial and residential customers in order to balance both business and community needs.

Economic Development Department Director Bill Jabjiniak addressed the Committee and stated that there are four basic metrics used when considering an economic development project: the number of jobs; the quality of those jobs; the amount of capital investment; and the amount of square footage. He stated that this model was fashioned after one used in Santee, South Carolina.

In response to a comment by Chairman Richins on the need to revise the policy to include residential construction, Mr. McRae responded that if it was necessary in order to bring a residential development to the area, it could be considered and incorporated, however, it was not considered in their research. He added that there were various criteria considered and the best practice was the combination of capital investment and jobs.

Committeemember Finter suggested including the railroad in downtown when considering a future data center and agreed to allow for flexibility and communication under the criteria.

Chairman Richins noted that it was the consensus of the Committee that this item be forwarded on to the full Council for consideration.

Chairman Richins thanked staff for the presentation.

3. Adjournment.

Without objection, the Audit, Finance & Enterprise Committee meeting adjourned at 4:28 p.m.

I hereby certify that the foregoing minutes are a true and correct copy of the minutes of the Audit, Finance & Enterprise Committee meeting of the City of Mesa, Arizona, held on the 12th day of January, 2015. I further certify that the meeting was duly called and held and that a quorum was present.

DEE ANN MICKELSEN, CITY CLERK

abg
(Attachments – 3)

Overview of Fiscal Year 2014 Comprehensive Annual Financial Report

Audit, Finance and Enterprise Committee
January 12, 2015

Comprehensive annual financial Report

- Provides a detailed presentation of the City's financial and economic condition
- Unmodified report issued
- Follows Generally Accepted Accounting Principles (GAAP)
- Complies with Governmental Accounting Standards Board (GASB)



Citywide Financial Highlights

- * Total Assets of \$3.7 billion
- * Total Liabilities of \$2.4 billion
- * Combined net position of \$1.4 billion

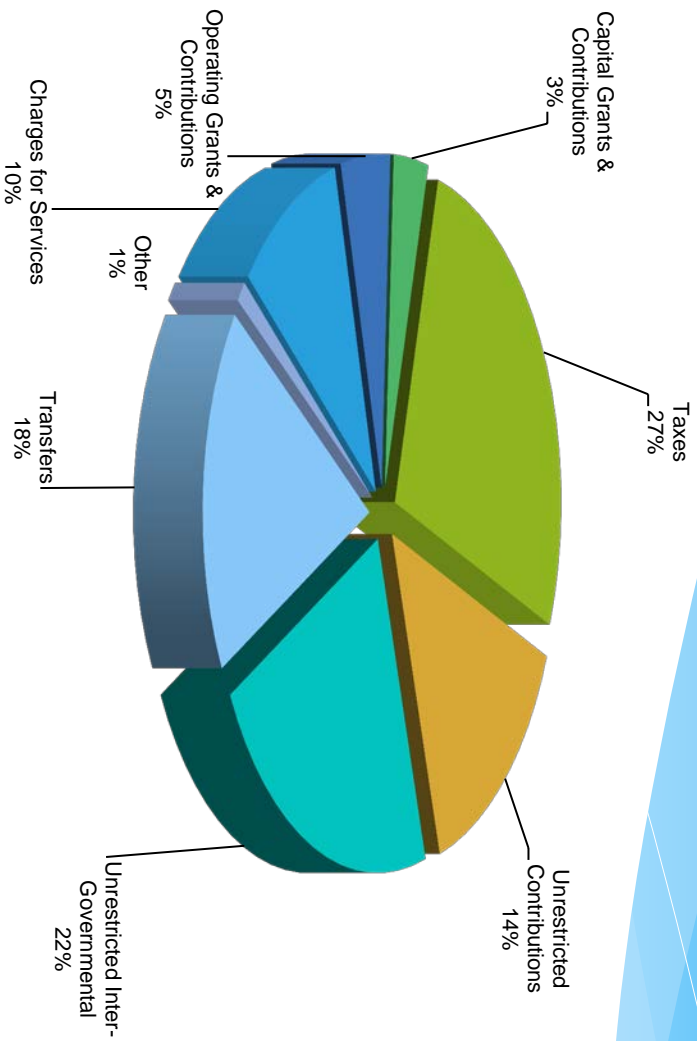
Cash Balances as of June 30, 2014 (In Thousands)

Cash & Repurchase Agreement	\$ 57,729
Investment in Local Govt Investment Pool	38,690
Cash with Trustee and Fiscal Agents	123,346
Long-Term Investments	<u>336,549</u>
Total Pooled Cash and Investments	\$ 551,314

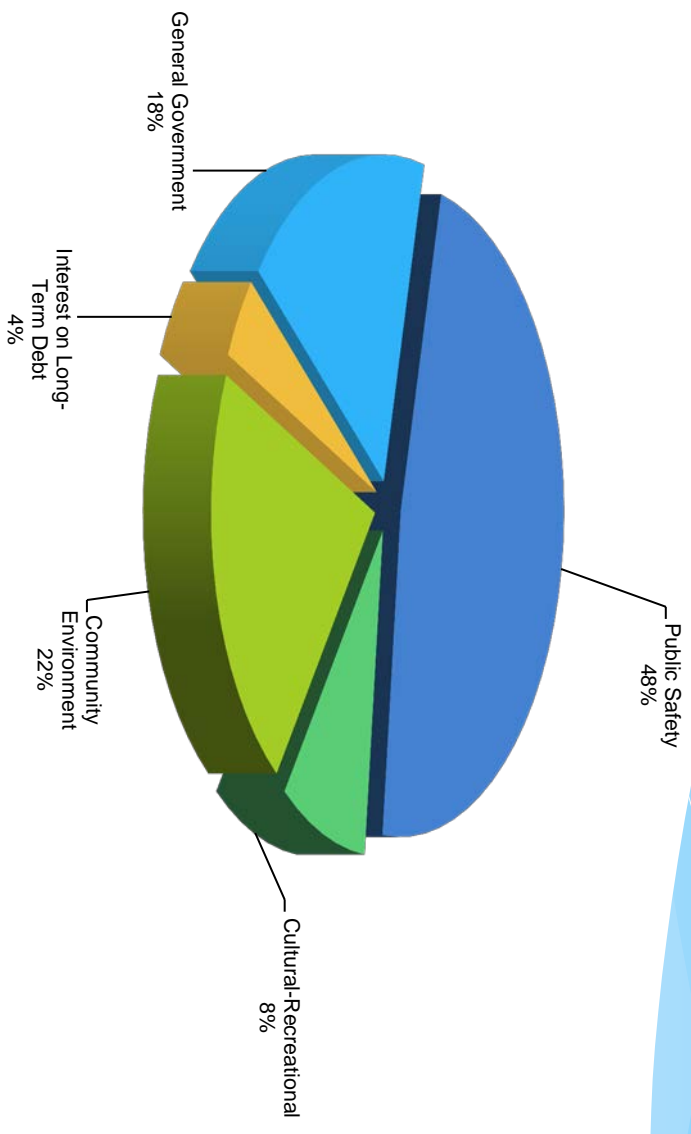
Citywide Long-term Debt (In Thousands)

Issue Type	Principal Outstanding	% of Total
General Obligation Bonds	\$ 344,645	21.2%
Highway User Revenue Bonds	107,705	6.6
Revenue Bonds	991,995	61.0
Excise Tax Obligations	94,060	5.8
Special Assessment Bonds	3,574	0.2
Community Facility District	5,897	0.4
HPAN Notes Payable	<u>77,835</u>	<u>4.8</u>
Total	<u>\$1,625,711</u>	100.0%

Revenue by Source - Governmental Activities



Functional Expenses - Governmental Activities



Questions ?

Irma Ashworth

Finance Director

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CITY OF MESA, ARIZONA
TABLE X
 LEGAL DEBT MARGIN INFORMATION
 LAST TEN FISCAL YEARS
 (in thousands)

	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>
6% Limitation				
Legal Debt Limitation Equal to 6% of Assessed Valuation	\$ 158,890	\$ 175,320	\$ 184,984	\$ 246,872
Total Net Debt Applicable to 6% Limit	<u>110,085</u>	<u>115,400</u>	<u>22,453</u>	<u>17,688</u>
Margin Available for Future General Obligation Bond Issues for 6% Bonds	<u>\$ 48,805</u>	<u>\$ 59,920</u>	<u>\$ 162,531</u>	<u>\$ 229,184</u>
Total Net Debt Applicable to the 6% Limit as a Percentage of the 6% Legal Debt Limitation	69.28%	65.82%	12.14%	7.16%
20% Limitation				
Legal Debt Limitation Equal to 20% of Assessed Valuation	\$ 529,633	\$ 584,400	\$ 616,614	\$ 922,905
Total Net Debt Applicable to 20% Limit	<u>91,975</u>	<u>95,750</u>	<u>203,952</u>	<u>207,227</u>
Margin Available for Future General Obligation Bond Issues for 20% Bonds	<u>\$ 437,658</u>	<u>\$ 488,650</u>	<u>\$ 412,662</u>	<u>\$ 715,678</u>
Total Net Debt Applicable to the 20% Limit as a Percentage of the 20% Legal Debt Limitation	17.37%	16.38%	33.08%	22.45%
Total Margin Available	<u>\$ 486,463</u>	<u>\$ 548,570</u>	<u>\$ 575,193</u>	<u>\$ 944,862</u>

- (1) Under Arizona law, cities can issue General Obligation Bonds for all purposes other than those listed in Note 2 below, up to an amount not exceeding 6 percent of assessed secondary valuation.
- (2) Under Arizona law, cities can issue General Obligation Bonds for purposes of water, wastewater, artificial light, open space preserves, parks playgrounds and recreational facilities up to an amount not exceeding 20 percent of assessed secondary valuation.

TABLE X
 (Continued)

Legal Debt Margin Calculation for Fiscal Year 2013-14

Secondary Assessed Value		\$	2,559,634
Legal Debt Limitation	\$	<u>6% Bonds (1)</u>	<u>20% Bonds (2)</u>
Debt Applicable to Limit:		153,578	511,927
General Obligation Bonds		<u>605</u>	<u>344,040</u>
Total Net Debt Applicable to Limit		<u>605</u>	<u>344,040</u>
Margin Available for Future General Obligation Bond Issues	\$	<u>152,973</u>	<u>167,887</u>
Total Margin Available		\$	<u>320,860</u>

<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>
\$ 287,585	\$ 284,977	\$ 245,642	\$ 189,857	\$ 166,225	\$ 153,578
<u>13,569</u>	<u>6,064</u>	<u>5,326</u>	<u>1,370</u>	<u>175</u>	<u>605</u>
\$ <u>274,016</u>	\$ <u>278,913</u>	\$ <u>240,316</u>	\$ <u>188,487</u>	\$ <u>166,050</u>	\$ <u>152,973</u>
4.72%	2.13%	2.17%	0.72%	0.11%	0.39%
\$ 958,616	\$ 949,923	\$ 818,807	\$ 632,855	\$ 554,084	\$ 511,927
<u>246,326</u>	<u>270,496</u>	<u>278,409</u>	<u>288,900</u>	<u>300,735</u>	<u>344,040</u>
\$ <u>712,290</u>	\$ <u>679,427</u>	\$ <u>540,398</u>	\$ <u>343,955</u>	\$ <u>253,349</u>	\$ <u>167,887</u>
25.70%	28.48%	34.00%	45.65%	54.28%	67.20%
\$ <u>986,306</u>	\$ <u>958,340</u>	\$ <u>780,714</u>	\$ <u>532,442</u>	\$ <u>419,399</u>	\$ <u>320,860</u>

CITY COUNCIL AUDIT, FINANCE & ENTERPRISE COMMITTEE

MODIFICATION OF ELECTRIC ECONOMIC
DEVELOPMENT & RETENTION RATE
SCHEDULE (E3.6)

ENERGY RESOURCES DEPARTMENT

JANUARY 12, 2015

BACKGROUND

2

- E3.6, Mesa's Electric Retention/Economic Development Rate adopted in 2009 in close coordination with Economic Development & Budget Depts.
 - A very large electric customer explored moving to non-Mesa location.
 - Significant electric utility revenue loss.
 - Significant loss of other forms of revenue & economic activity.
- E3.6 developed to provide incentive to retain operations in Mesa.
 - Reduction in rate for energy usage for commercial customers.
 - Eligibility Requirements
 - Minimum of 250,000 kWh per month (Average).
 - E3.6 eliminates/delays relocation or discontinuation of Mesa operations.
- Customers enter into an agreement with City to:
 - Retain its business operation in the City for 5 years.
 - Use reasonable efforts to increase number of jobs in Mesa.

PROPOSED MODIFICATIONS

2.1.14

3

- More effective accommodation of new or expanding economic development opportunities.
- Reduction in minimum consumption - 200,000 kWh per month.
- New/expanding customers eligible if minimum consumption projected to be met within 3 years.
- Consolidation of up to 4 meters to meet eligibility requirements.
- Initial term of 5 years and 1 year extensions.
- Financial instrument only required during first 5 years.
- No proposed changes to the \$/kWh rates

COUNCIL DIRECTION & TAFB RECOMMENDATION

4

- Develop specific Economic Development criteria for eligibility.
- Research findings:
 - Wide spectrum of whether criteria is included
 - Retention/Expansion/New electrical load only requirement
 - Generic reference to increases in employment
 - Specific requirement for FTE or Capital Investment
- Recommendations
 - Reduce minimum consumption to 200,000 kWh per month; and
 - 5 FTE per 100 kW of new electric demand; or
 - Minimum of \$500,000 Capital Investment

QUESTIONS?