



COUNCIL MINUTES

May 20, 2013

The City Council of the City of Mesa met in a Study Session in the lower level meeting room of the Council Chambers, 57 East 1st Street, on May 20, 2013 at 4:35 p.m.

COUNCIL PRESENT

Scott Smith
Alex Finter
Dina Higgins
Dave Richins
Scott Somers

COUNCIL ABSENT

Christopher Glover
Dennis Kavanaugh

OFFICERS PRESENT

Christopher Brady
Debbie Spinner
Dee Ann Mickelsen

(Mayor Smith excused Councilmembers Glover and Kavanaugh from the entire meeting.)

1. Review items on the agenda for the May 20, 2013 Regular Council meeting.

All of the items on the agenda were reviewed among Council and staff and the following was noted:

Conflict of interest: None

Items removed from the consent agenda: 10-a

2-a. Hear a presentation and discuss the Economic Development Investment Fund projects.

Economic Development Department Director Bill Jabjiniak displayed a PowerPoint presentation (**See Attachment 1**) and provided an update on the Economic Development Investment Fund projects. He said that the Economic Development Investment fund was established last year in an effort to support economic development and the creation and retention of quality jobs in the City.

Mr. Jabjiniak advised that Benedictine University, which is located on Main Street, is one of the City's high-profile economic development projects. He said that Benedictine University originally signed a two-year lease with the option to renew. He displayed a rendering of the building located at 225 East Main Street (See Page 3 of Attachment 1) and described the renovations that are scheduled to be completed in July 2013. He remarked that it is anticipated that there

will be an estimated 200 to 225 students in the downtown area during the 2013/14 academic school year.

Mr. Jabjiniak remarked that Benedictine University has shown an interest in leasing space at the Mesa Arts Center (MAC), as well as the Mesa Center for Higher Education (MCHE). He further noted that Benedictine University is covering the cost of all of its own services in the building and added that it has signed a 15-year lease with an option to purchase in the tenth year.

Mr. Jabjiniak added that the Mesa Center for Higher Education (MCHE), which is located at 245 West Second Street, is the home of Westminster and Wilkes Universities. He explained that both universities have signed a five-year lease and are scheduled to begin classes in the fall. He said that the City's \$6.5 million investment in this property has been easier to manage than the property occupied by Benedictine University.

Mr. Jabjiniak indicated that the City will be responsible for providing some of the services at the MCHE as follows:

- Building Maintenance
- Shared Print Services
- Security Services
- Managed IT Services
- Solid Waste Services
- Water and Wastewater Services

Mr. Jabjiniak said that the services provided by the City will be coordinated through a new Facilities Maintenance position and noted that the employee will serve as a central point of contact for any service or maintenance issue that may arise at the building.

Mr. Jabjiniak pointed out that the City of Mesa's University Recruitment Process has been used as a case study by Harvard University.

Mr. Jabjiniak explained that the Chicago Cubs' Spring Training facility is on schedule and on budget. He stated that the debt service for the bonds has been included in the Economic Investment Fund. He also remarked that the budgeted amount for this project is \$84 million, plus an additional \$15 million that will be used for public parking, drainage and street improvements.

Mr. Jabjiniak advised that the investment and renovation costs of Hohokam Stadium are estimated at \$17.5 million. He noted that discussions are taking place with regards to a hotel being constructed near the Chicago Cubs' Stadium.

Mr. Jabjiniak, in addition, indicated that the City has funds set aside for marketing at Gateway. He stated, however, that a decision was made to assist Visit Mesa with the "Mesa Limitless" campaign. He noted that \$250,000 has been reprogrammed and added that such modifications will conform to what the Economic Development Investment fund is trying to accomplish.

Mr. Jabjiniak provided brief background information regarding the Arizona Laboratories for Security and Defense Research (AZLabs) and said that there are currently three existing leases and three pending leases at the site. He pointed out that AZLabs is becoming a well-known

opportunity and has served as a great partner with the State and the Federal Aviation Administration (FAA) to become a test center for unmanned systems. He also noted that staff is working with academic organizations and other United States government entities in an effort to attract new tenants. He stated that a Defense Forum was held that identified eight new lease leads and added that those leads are being followed up on a weekly basis.

Mr. Jabjiniak further remarked that the City is still under an interim lease with the Air Force for AZLabs and noted that the lease expires on June 26, 2013. He explained that the Air Force has put a high value on its property, which has resulted in delayed negotiations. He stated that staff believes that the investment the City has already made over the years should be included in the calculation.

Mr. Jabjiniak briefly highlighted the Mesa Technology Accelerator that will open in partnership with Arizona State University (ASU) Polytechnic to assist in the growth of technology-based businesses in the area. He said that some of the potential services that will be offered include legal services, strategic planning and assistance in applying for Small Business Innovative Research (SBIR) or Small Business Technology Transfer (STTR) funding.

Mr. Jabjiniak also spoke regarding the Historically Underutilized Business (HUB) Zone that has been established. He noted that AZLabs has been designated as a HUB Zone. He said one of the benefits of being included in the HUB Zone is that it provides competitive advantages for procurement with the federal government.

Mr. Jabjiniak commented that for FY 2013/14, one of the Economic Development Department's primary objectives will be to implement a healthcare recruitment strategy. He explained that staff was in the process of prioritizing the potential opportunities including, but not limited to: medical simulation; medical devices and equipment; delivery of services; research and development; super-computing; bioinformatics; and medical education.

Mr. Jabjiniak remarked that staff would also be exploring a business assistance program for targeted areas. He said some of the potential business assistance program opportunities include the following:

- Development of a Mesa Technology Corridor in the Gateway area
- Utilizing retail centers for charter schools

Mayor Smith suggested that staff explore ways and areas within the City that would benefit from increased broadband service and how existing assets could be expanded, such as in the Gateway area.

Mayor Smith thanked Mr. Jabjiniak for the presentation.

2-b. Hear a presentation, discuss and provide direction on a FY 2013/14 budget update and utility rate adjustments.

Budget Director Candace Cannistraro indicated that this agenda item was a continuation of staff's presentation from the May 16, 2013 Study Session. She stated that staff had completed the General Fund discussion at that time and noted that she will move forward with her presentation regarding the Enterprise Fund.

Ms. Cannistraro displayed a PowerPoint presentation (**See Attachment 2**) and reported that with respect to the Enterprise Fund, the refinancing of existing debt service in FY 2011/12 allowed the City to forgo utility rate increases that were previously scheduled for FY 2012/13. She explained that due to the fact that the nation's economic recovery is slower than anticipated, it is necessary for the City to implement minimum utility rate adjustments (i.e., water, wastewater and the residential portion of solid waste) in the FY 2013/14 budget in order to maintain the targeted fund balance over the course of its forecast.

Responding to a question from Vice Mayor Finter, Ms. Cannistraro clarified that within the Enterprise and Utility Funds, water and wastewater have the largest spectrum of customers and the largest revenue contributions to the funds in general, followed by solid waste. She said that electric service covers a small area of the City and added that gas covers only certain parts of Mesa.

City Manager Christopher Brady explained that when staff reviewed the cost pressures (i.e., fuel, water commodities) associated with these funds, they found that the areas where the greatest pressures were being experienced were the funds with the broadest base, and therefore, would have the greatest cost impact throughout the forecast period.

Vice Mayor Finter indicated that there has been a significant amount of reinvestment in the City's electric system, as well as in the Magma service area with the replacement of new gas lines. He stated that even though the City's electric service does not have a broad customer base, it would be reasonable for staff to review the costs for such services and "put it on the table" for Council consideration.

Mayor Smith concurred with Vice Mayor Finter and added that Council needs to review the City's electric rates to create some parity with Southwest Gas and Salt River Project rates.

Ms. Cannistraro explained that the City continues to benefit from the significant financial savings gained as a result of the refinancing of existing debt service. She referred to a document titled "Forecasts Comparison" (See Page 12 of Attachment 2) and reiterated that the City was able to forgo a utility rate increase for one year and minimize the current rate increase recommendation compared to what was anticipated in the Spring 2011 forecast.

Mayor Smith clarified that it is the rate payers, and not the City, who have benefited from the refinancing of existing debt service. He noted that the City passed on those savings to utility customers.

In response to comments made by Mayor Smith, Ms. Cannistraro explained that when staff looks at the FY 2013/14 budget, they also consider the impact on FY 2014/15 and beyond. She added that if staff foresees increased commodity or debt service costs, such costs are anticipated into the future to ensure that the rates recommended by staff are graduated.

Discussion ensued relative to the City's General Fund; that the Enterprise Fund transfer to the General Fund is one of the major contributors to the resources that the City uses to fund public safety, parks, culture and other general governmental programs; and that the costs and resources needed to provide such services are not steady and continue to increase each year.

Ms. Cannistraro briefly outlined the recommended utility rate increases for FY 2013/14 and beyond and the impact on the average residential homeowner. (See Page 13 of Attachment 2)

In response to a question from Mayor Smith, Mr. Brady explained that the recommended 2% utility rate increases for water, wastewater and the residential portion of solid waste are sufficient to meet current needs and maintain the reserves throughout the five-year forecast period.

Responding to comments from Vice Mayor Finter, Ms. Cannistraro explained that when staff discusses financial policies and plans, they look at maintaining a reserve between 8% and 10% of the following year's costs. She added that in the past, staff tried to set the forecast and modeling somewhere in the middle, usually around 9%. She added that following Council direction, the amount has come closer to 8% in the General and Utility Funds.

Mayor Smith clarified that the City is managing its reserves and maintaining them at the minimum amount in order to "soften" cost increases to rate payers.

Councilmember Richins stated that he would prefer the reserves be closer to 10% than to 8%.

Mr. Brady explained that by FY 2014/15, the reserves will be below 9% and that in the remaining years of the forecast (FY 2015/16, 2016/17 and 2017/18), the reserves will be below 8.5%.

Mayor Smith stated that there has been a fixed amount in the Enterprise Fund transfer over the last several years. He added that the misperception is that the City is raising utility rates to cover the current year. He explained that what is actually happening is that the increase in the transfer is an amount that will be steady going forward as the new benchmark and added that the \$90 million recommended transfer will not decrease to last year's level of \$83.5 million in future years.

Vice Mayor Finter spoke about the need for additional budget discussions, specifically with respect to increasing the secondary property tax levy to cover old debt. He said that he would prefer to figure out how Council can accomplish a balanced budget without increasing property taxes.

Mayor Smith commented that he believes one of the reasons this Council has been successful is due to the fact that Council and staff have created and followed policies and never "chased the deficit hole." He noted that one such policy has been to fund new bond debt with the secondary property tax and pay off fixed-debt payments with fixed-revenue sources. He added that he wanted to get away from the idea of using fluctuating sales tax revenue to pay off fixed-debt amounts.

Mayor Smith concurred with Vice Mayor Finter's comment that the Council needs to have further budget discussions. He noted, however, that such discussions should be done within the context of the current policy as follows: Is the Council going to continue to ease off using sales tax revenue to pay off existing bond debt, and if not, how would it affect the current and future General Fund.

Vice Mayor Finter respectfully disagreed with Mayor Smith's comments and noted that the City has a quasi-primary property tax, which is the water service. He said that he would like to have a discussion about alternatives to taking the old existing bond debt and implementing a secondary property tax increase to pay for such debt.

Councilmember Somers commented that during the time he has served on this Council, significant changes have been made to the organization that has saved taxpayers a substantial amount of money. He added that this Council has cut more than \$100 million from the General Fund budget; crime has been reduced to 1960's levels; Mesa voters have come forward to say they want to build a different type of community and have approved new parks, public safety projects, and the Chicago Cubs' Spring Training facility. He stressed the importance of protecting the investments that the voters approved, while at the same time protecting taxpayer and rate payer dollars.

Councilmember Somers further noted that despite these cuts and changes, the City still relies on the same revenue streams that are sometimes quite unstable. He added that although sales tax revenues are improving, they have not improved as quickly as the Council had hoped.

In response to a question from Mayor Smith, Ms. Cannistraro clarified that at the June 3, 2013 Regular Council meeting, the Tentative Budget is scheduled for Council approval. She also stated that at the June 17, 2013 Regular Council meeting, the Council would approve the Final Budget and utility rates.

Additional discussion ensued relative to possible Study Session dates at which the Council could engage in additional budget discussions as requested by Vice Mayor Finter.

In response to a question from Vice Mayor Finter, Ms. Cannistraro explained that staff is available to meet with Councilmembers to discuss any budget-related ideas or solutions they might have.

Mayor Smith thanked staff for the presentation.

3. Hear reports on meetings and/or conferences attended.

There were no reports on meetings and/or conferences attended.

4. Scheduling of meetings and general information.

City Manager Christopher Brady stated that the meeting schedule is as follows:

Thursday, May 23, 2013, 7:30 a.m. – Study Session

Saturday, May 25, 2013, 9:00 a.m. – Child ID Safety Event

5. Adjournment.

Without objection, the Study Session adjourned at 5:38 p.m.

SCOTT SMITH, MAYOR

ATTEST:

DEE ANN MICKELSEN, 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 20th day of May, 2013. I further certify that the meeting was duly called and held and that a quorum was present.

DEE ANN MICKELSEN, CITY CLERK

bdw/dm
(attachments – 2)



Economic Development Investment Fund Project Updates

May 20, 2013

Office of Economic Development



Economic Investment Fund



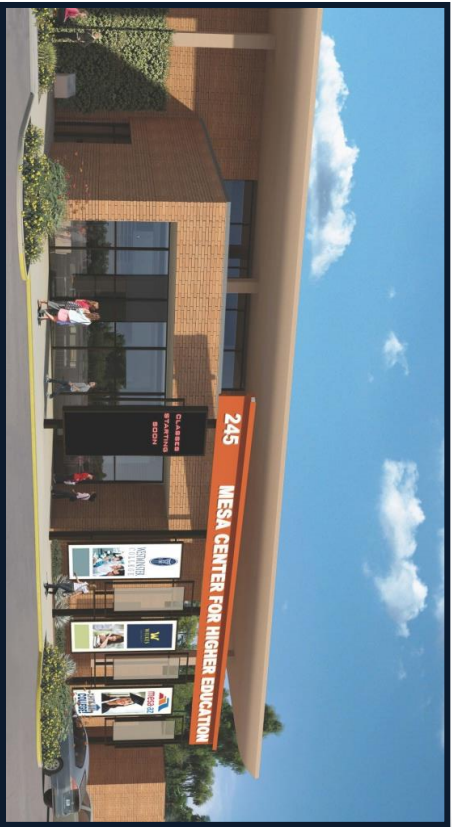
The Economic Investment Fund supports economic development including the creation and retention of quality jobs.

Office of Economic Development



Economic Investment Fund

- Benedictine University
 - 51 E. Main St.
 - 225 E. Main St.
- Mesa Center for Higher Education (MCHE)
- Staffing

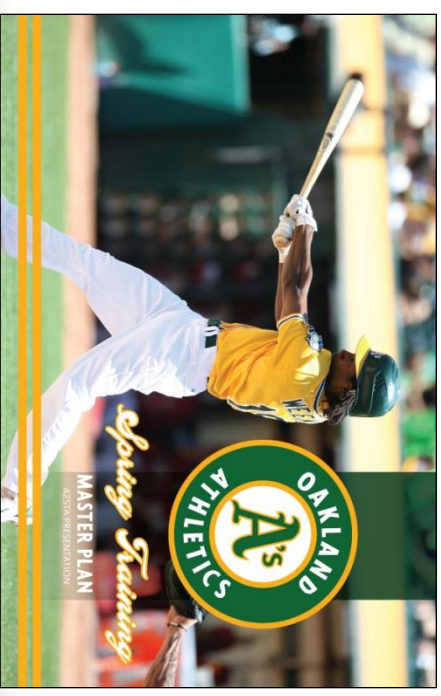
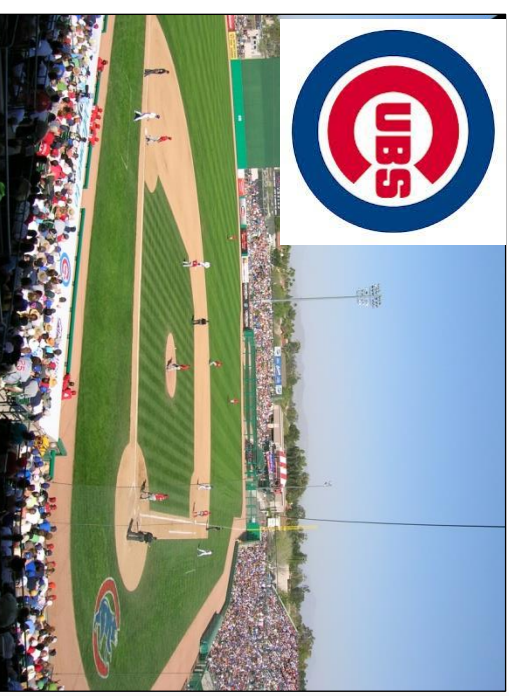




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Economic Investment Fund

- Spring Training Facilities
 - Chicago Cubs
 - Oakland A's
- Visit Mesa
 - “Mesa Limitless” campaign





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Economic Investment Fund

AZLabs

- Lease status
 - Existing
 - Pending
- New tenant attraction
- Conveyance

Accelerator

- Site
- Program of work
- Staffing





Economic Investment Fund

Focus for FY 13/14

- Implement Healthcare Recruitment Strategy
- Explore a business assistance program for targeted areas



Questions?

www.mesaaz.gov/economic



@ MesaEconDev



@ City of Mesa Office of Economic Development



@ mesaecondev.com



@ Mesa Educates U

Office of Economic Development

City of Mesa

FY 2013/14 Budget Update

May 16, 2013

Presented by the Office of Management and Budget



Multi-year Forecast

- Revenues and Expenditures are estimated for the current fiscal year and forecasted over five to eight years

Projects related to the Capital Improvement Program are projected over ten years

Actual revenues and expenditures are reviewed each month and assessed for impact on the forecast

- Unrestricted fund balances are managed according to the City's adopted financial policies.

Fund balance (reserves) as a percent of the following fiscal year's estimated costs are maintained above 8% for each year of the forecast period

Ongoing expenses are identified and funded with on-going revenues

The General Fund



General Update

- Local sales tax is showing some strengthening, however the most significant increase is in the contracting category (\$1.1M).
Contracting sales tax has the greatest volatility. The forecast assumes a base level of construction activity each year. Activity greater than the base is considered one-time revenue.
State legislation is still pending regarding contracting sales tax. The City will continue to track the movement in this area.
- City departments have been asked to manage the FY 13/14 budget to achieve \$6.0M in general fund savings. This savings has been included in the forecast.

FY 13/14 Budget Summary

- \$8.5M is required to maintain our reserves at the targeted level over the forecast period.
- The cost to maintain the City's compensation plan (step pay) in FY 13/14 is \$3.5M.
- Departments have requested additional budget items. The City Manager recommends funding a minimum number of requests totaling \$3.4M.

Potential Solutions: On-going

Various potential solutions have been identified previously. The recommended solution package includes the following items.

- The enterprise fund transfer has been maintained at the same level for five years. The transfer is a significant resource for the general fund and therefore public safety. Staff recommends increasing the enterprise fund transfer by \$6.4M for a total transfer of \$90.0M.
- Staff recommends providing debt service relief to the general fund by covering \$2.2M in scheduled debt service payments with the debt service fund. The resource for the debt service fund is the secondary property tax levy. This would leave \$8.6M of debt service covered by the general fund in FY 13/14.

Potential Solutions: On-going (continued)

- The Municipal Court recommended a new technology and sustainability fee which will fund technology needs of the court as well as off set existing costs of municipal security related to the court. The fee would fund the Court's budget requests as well as have a savings impact to the general fund. The total revenue estimate is \$0.9M.

Potential Solutions: One-time

The Employee Benefit Trust Fund balance improved in FY 11/12, providing some relief to the scheduled medical premium increases. Staff recommends drawing down the fund balance over the next two years to allow for decreased costs to both the City and employees.

Implement a premium holiday in December, 2013. City savings of \$3.6M total and **\$2.5M** in the General Fund. Total employee savings of \$1.1M.

Hold medical premiums at current levels for 2014. Reduction in expenses for the City of **\$0.4M** in FY 13/14 and \$0.8M annualized. Employees scheduled increases will also be avoided.

Schedule a 2015 contribution increase of 5% rather than the 9% cost increase currently predicted by the City's consultant.

Solution Summary

The recommended solution package provides for a balanced budget while maintaining the targeted reserve fund balance over the forecast period.

The Enterprise Fund



Overview

The refinancing of existing debt service in FY 11/12 allowed the City to forego utility rate increases in FY 12/13. The projected length of the recovery from the recession is longer and slower than expected. It is necessary to implement minimum utility rate adjustments in FY 13/14 in order to maintain the targeted fund balance over the course of the forecast.

Forecasts Comparison

	FY 11/12	FY 12/13	FY 13/14	FY 14/15	FY 15/16	FY 16/17
SPRING 2011 FORECAST						
ELECTRIC	0.0%	1.6%	1.6%	1.6%	1.6%	
GAS	2.5%	2.5%	2.5%	2.5%	1.0%	
WATER	6.8%	6.8%	6.8%	6.8%	6.8%	
WASTEWATER	5.8%	5.8%	5.8%	5.8%	5.8%	
SOLID WASTE	0.0%	1.4%	1.4%	1.4%	1.4%	
SPRING 2013 FORECAST						
	FY 11/12	FY 12/13	FY 13/14	FY 14/15	FY 15/16	FY 16/17
ELECTRIC	0.0%	0.0%	0.0%	2.0%	2.0%	2.0%
GAS	2.5%	0.0%	0.0%	3.0%	3.0%	3.0%
WATER	6.8%	0.0%	2.0%	4.9%	4.9%	2.0%
WASTEWATER	5.8%	0.0%	2.0%	4.9%	4.9%	2.0%
SOLID WASTE	0.0%	0.0%	2.0%	4.9%	4.9%	2.0%

Average Residential Homeowner Impact

Impact to Monthly Bill

Average Residential Homeowner

	Current		FY 13/14	FY 14/15	FY 15/16	FY 16/17	FY 17/18
	Monthly Bill						
Water	\$38.21	\$0.76	\$1.91	\$2.00	\$0.86	\$1.01	
Wastewater	\$25.03	\$0.50	\$1.25	\$1.31	\$0.56	\$0.66	
Solid Waste	\$23.88	\$0.48	\$1.19	\$1.25	\$0.54	\$0.63	
Avg Homeowner	\$87.12	\$1.74	\$4.35	\$4.57	\$1.96	\$2.29	
Electric	\$44.80	\$0.00	\$0.90	\$0.91	\$0.93	\$0.95	
Gas	\$24.10	\$0.00	\$0.72	\$0.74	\$0.77	\$0.79	

