

AUDIT & FINANCE COMMITTEE MINUTES

December 3, 2007

The Audit & Finance Committee of the City of Mesa met in the lower level meeting room of the Council Chambers, 57 East 1st Street, on December 3, 2007 at 3:49 p.m.

COMMITTEE PRESENT

Claudia Walters, Chairman
Tom Rawles
Darrell Truitt
Christopher Brady, Ex-Officio

COUNCIL PRESENT

None

STAFF PRESENT

Bryan Raines
Debbie Spinner

(Committeemember Truitt participated in the meeting through the use of telephonic equipment.)

1. Items from citizens present.

There were no items from citizens present.

2. Hear a presentation, discuss and provide direction on the audit of the Mesa Arts Center – Events Settlement.

City Auditor Gary Ray reported that this item is the third in a series of audits that his department has conducted of the Mesa Arts Center (MAC). He explained that the audit was performed to determine whether the MAC implemented procedures and controls that are adequate to provide reasonable assurance that: 1.) Event settlements are accurate, complete and consistent with applicable contract terms; and 2.) The City's assets and interests in connection with event settlements are protected from losses associated with errors, fraud or other abuses.

Mr. Ray noted that staff from the MAC provided responses to the audit (contained in the Audit of MAC Event Settlements – Final Report) and concurred with a majority of the recommendations. He added that in 9 to 12 months, his staff would perform a follow-up audit to assess whether the recommended Corrective Action Plans have been implemented.

Chairman Walters thanked Mr. Ray for his presentation.

3. Hear a presentation and accept the City's Comprehensive Annual Financial Report (CAFR) for the Fiscal Year Ended June 30, 2007.

Controller Kathy Pace introduced Sandy Cronstrom and Carter Smitherman of Cronstrom, Osuch & Company, representatives of the Certified Public Accounting firm retained by the City

to perform an audit of the financial statements of the City of Mesa for the year ended June 30, 2007.

Ms. Pace provided a short synopsis of the report as follows:

- The City's total net assets increased by \$103 million during FY 2006/07.
- The City's net assets total \$1.79 billion.
- The City's Governmental Fund ending balance was \$182.3 million, an increase of \$44.3 million from the previous year.
- The unreserved General Fund balance at the end of 2007 was \$57 million, or 15.4% of total General Fund expenditures. (Compared to 8.5% last fiscal year.)

Mr. Smitherman commented that on Page 1 of the Comprehensive Annual Financial Report (CAFR), his firm gave an unqualified opinion regarding the City's financial statements for the fiscal year. He also noted that his firm did not make any new recommendations to submit to City management or the City Council. Mr. Smitherman added that preparations by City staff facilitated a smooth and professional audit process.

In response to a question from Committeemember Truitt, Deputy City Manager Bryan Raines offered a brief explanation of Mesa's district cooling system.

Chairman Walters said she was pleased that the City improved its ending fund balances for the fiscal year ended June 30, 2007. She questioned "how fiscally healthy" Mesa would be in the upcoming year and noted that the City may face some challenges in that regard.

Ms. Pace acknowledged Assistant Controllers Don Miller and Doug Yeskey for their efforts and hard work in preparing the financial statements for the audit.

It was moved by Committeemember Rawles, seconded by Committeemember Truitt, to recommend to the Council that the City's Comprehensive Annual Financial Report (CAFR) for the Fiscal Year ended June 30, 2007, be accepted.

Carried unanimously.

Mr. Raines announced Ms. Pace and Mr. Miller's retirements at the end of the month. He stated that Ms. Pace, who has been with the City of Mesa for 27 years, and Mr. Miller, a 32-year employee, would be greatly missed. Mr. Raines thanked them for their dedication and service to the organization.

Chairman Walters also expressed appreciation to Ms. Pace and Mr. Miller for their contributions to the City of Mesa.

4. Hear a presentation and discuss the current status of sales tax revenue collections.

Deputy City Manager Bryan Raines referred to a document entitled "September 2007 – Privilege (Sales) and Use Tax Revenues" and provided a brief analysis of Mesa's current sales tax revenue collections. (See Attachment 1.)

Mr. Raines highlighted the following information from the report:

- That in September 2007, retail sales revenues were down 6.4% as compared to the same time last year.
- The City collected \$250,000 less in sales tax revenues in September 2007 than in September 2006 and that when compared against budgeted revenue (which staff anticipated would grow by approximately 5%), resulted in \$928,729.77 below budget year estimates.
- That staff's budget year estimates for the first three months of this fiscal year are also down by approximately \$500,000 each month.
- There is a slowdown in contracting and retail sales.

Mr. Raines advised that at the December 20, 2007 Study Session, Budget Director Chuck Odom would make an in-depth presentation to the Council regarding the City's revenues and expenditures to-date. He stated that because the City of Mesa relies heavily on sales tax revenues as one of its major funding sources, staff is now evaluating all new hires and replacement hiring, as well as reviewing all spending requests to determine whether they are justified and accurate. Mr. Raines added that if the current sales tax revenue trends continue, it might be necessary for the City to "tighten" its hiring processes even beyond staff's current evaluation.

Discussion ensued relative to the fact that although retail sales in Mesa were good on "Black Friday," they quickly diminished on Saturday and Sunday; that Internet sales continue to increase and the City does not receive sales tax revenue for such transactions; and that Phoenix is experiencing similar declines as Mesa, if not higher, in terms of a slowdown in retail sales.

Chairman Walters thanked Mr. Raines for the update.

5. Hear a presentation, discuss and make recommendations to staff regarding the formal adoption of financial policies.

Deputy City Manager Bryan Raines reported that this item is in follow-up to the September 13, 2007 Audit & Finance Committee meeting, at which time the Committee recommended various changes to ten Financial Policies proposed by staff. He explained that the changes have now been completed. (The revised document is available for review in the City Clerk's Office.) Mr. Raines stated that with regard to Financial Policy 8 – Long Range Planning and Forecasting, any references to "current level of service" would be amended to read "current level of staffing." (Items 8.2.1 and 8.2.2)

Chairman Walters commented that in reference to Item 4.1, "The City of Mesa will IMPOSE a secondary property tax at a rate necessary to offset General Obligation bond debt," she would suggest that the word "will" be replaced with "shall."

Committeemember Rawles noted that the revised document reflects the Committee's previous input and thanked staff for making those changes.

Mr. Raines informed the Committee that staff intends to bring back the revised Financial Policies to the Council to be adopted by resolution.

Chairman Walters confirmed that the Committee previously recommended that the Financial Policies be adopted by resolution.

It was moved by Committeemember Rawles, seconded by Committeemember Truitt, to recommend to the Council that the revised series of Financial Policies, including the above-referenced modifications, be adopted by resolution.

Carried unanimously.

6. Hear a presentation, discuss and provide direction to staff regarding the investment of City funds.

Controller Kathy Pace introduced Assistant Controller Doug Yeskey, who was prepared to address the Committee relative to this item.

Mr. Yeskey referred the Committeemembers to a document entitled "City of Mesa Investment Report – October 2007 Investment Portfolio." (See Attachment 2.) He reported that the City of Mesa currently has \$372 million invested in various securities, with 78% of those assets invested in the Arizona State Treasurer's Local Government Investment Pool (LGIP). Mr. Yeskey explained that the remaining assets are invested in the Federal Home Loan Bank, Federal Farm Credit Bureau and said that the City also purchased bonds in its own Special Improvement District.

Mr. Yeskey commented that although he is not an expert in investment management, he does analyze and determine when there is excess money in the individual funds and transfers such assets to Federal Home Loan Bank accounts with six months to two-year maturity dates. He stated that as of October 31, 2007, the City's average investment rate was 4.83% as compared to 4.71% for the LGIP.

Mr. Yeskey further explained that staff proposes to utilize a contract already developed by the cities of Scottsdale and Chandler to retain PFM Asset Management (PFM) to manage a portion of the City's assets currently invested in the LGIP. He said that staff would conduct a comparative analysis between the earnings generated by the LGIP with those able to be gained by PFM.

In response to a question from Chairman Walters, Mr. Yeskey clarified that on Friday of last week, he received an e-mail from the State Treasurer's Office informing him that effective November 1st, the State had reduced Mesa's service fee from 8 basis points (.08%) to 6 basis points (.06%). He stated that this action would result in a 25% savings to the City. Mr. Yeskey indicated that such a reduction would be taken into consideration before the City entered into an agreement with PFM.

Discussion ensued relative to the fact that the Town of Gilbert, which has an investment portfolio similar in size to Mesa's, is considering entering into a contract with PFM to manage their assets; the fact that Scottsdale and Chandler have invested all of their funds with PFM; and that PFM charges Chandler and Scottsdale a service fee of 9 basis points for the first \$200 million invested and 6 basis points for any amount over \$200 million.

Chairman Walters noted that by the State Treasurer's Office lowering Mesa's service fee, it would be necessary for PFM to more effectively manage Mesa's assets in order for the City to recover greater earnings.

In response to a question from Chairman Walters, Ms. Pace explained that staff proposes to turn over approximately 50 percent of the City's cash assets currently invested in the LGIP and allow PFM to manage those funds.

Further discussion ensued relative to the fact that the basis points the State Treasurer's Office charges the various members of the LGIP is sufficient to cover its budget and also provide monies to the General Fund; that staff is considering a six-month time period within which PFM would manage the City's investments; and that if staff was directed to proceed with their proposal, upon completion of the comparison period, staff would return to the Audit & Finance Committee to review the results and discuss future options for the investment of the balance of the City's cash assets with PFM.

Chairman Walters stated that she assumes the permitted investment instruments would be part of the package with PFM and that the management firm would be required to adhere to the same policies as the LGIP in terms of investing the City's money.

Ms. Pace confirmed Chairman Walters' statement.

Committeemember Rawles noted that he is not opposed to the proposal, but would prefer that staff provide the Committee with additional historical information relative to Scottsdale and Chandler's long-term performance trends (i.e., two to three years) since utilizing the financial management services of PFM.

Chairman Walters requested that staff also provide data from Scottsdale and Chandler that would align with the period ending October 31, 2007 as depicted on Attachment 2.

Mr. Raines commented that in a spirit of fairness, the e-mail Mr. Yeskey received from the State Treasurer's Office indicated the agency's willingness to lower Mesa's service fee by an additional 2 basis points. He stated, however, that such action would require legislative authority.

Committeemember Rawles said he would be willing to move this item forward to the Council with the understanding that staff would provide the above-requested information to the entire Council prior to their making a decision in this regard. He further suggested that this matter be included on the January 7, 2008 Regular Council meeting agenda to prevent any further delay in the process.

It was moved by Committeemember Rawles, seconded by Chairman Walters, to recommend to the Council that the City invest 50% of its cash assets, which are currently invested in the LGIP, with PFM Asset Management, subject to Council review of Scottsdale and Chandler's long-term performance trends since utilizing the management services of PFM.

Carried unanimously.

Chairman Walters thanked staff for the presentation.

7. Hear a presentation, discuss and make recommendations on initiating a renewal process for Transaction Privilege Tax licenses and the establishment of a Business License and renewal.

Financial Services Operations Director Jenny Sheppard displayed a PowerPoint presentation (A copy is available for review in the City Clerk's Office) and stated that the purpose of today's presentation is to provide general information relative to business licensing requirements that the Council may wish staff to pursue. She explained that the Financial Services Operations Department and the Information Technology Department are in the process of identifying requirements for modifications and system improvements to a Tax and Licensing System.

Ms. Sheppard reported that Glendale, Peoria and Scottsdale have General Business or Business, Occupational and Professional (BOP) licenses for businesses that do not have a Transaction Privilege (Sales) Tax (TPT) liability. She noted that Chandler does not have a BOP, but requires a TPT license even if the business operation is a professional or service-oriented business. Ms. Sheppard stated that Mesa is the only local municipality whose TPT license does not require annual renewal. She also offered a comparative analysis of the fees imposed by various municipalities who issue BOP and TPT licenses. (See Attachments 3 and 4.)

Ms. Sheppard highlighted possible business licensing options for the Committee's consideration as follows:

1.) TPT and General Business or BOP License to be renewed annually

- A. \$0 annual fee; \$50 late penalty fee; program would cost \$442,463 per year. (Cost per license - \$12.64)
- B. \$15 fee to cover costs totaling \$469,795 per year, plus a late penalty fee to cover the cost of enforcement.

OR

2.) Annual Transaction Privilege Tax (TPT) Renewal Only

- A. \$0 annual fee; \$50 late penalty fee; program would cost \$317,682 per year. (Cost per license - \$12.71)
- B. \$15 fee to cover program cost of \$342,886 per year. Additionally, a late penalty fee to cover cost of enforcement.

Ms. Sheppard explained that one of the benefits of a renewable TPT/Business License is that it would provide a means to clearly identify the City's expectations regarding the steps a business owner must take to open a business in Mesa (i.e., permits and requirements). She stated that staff would provide a packet to prospective business owners outlining such requirements.

Discussion ensued relative to the fact that under the Zoning Ordinance, changing from one use to another within a zoning classification is not the same as a change of occupancy; that staff does encounter business owners who change occupancy in a facility and are unaware they must obtain a renewed Certificate of Occupancy; that the Tax and Licensing Department distributes a handout to business owners which identifies those changes in occupancy (i.e., change in floor plan, adding walls or an exit) that require a building permit; that the occupancy in

a facility runs with the property; and that unless the occupancy type changes, it would not be necessary for a business owner to obtain a new Certificate of Occupancy.

Responding to an inquiry from Committeemember Rawles, Ms. Sheppard clarified that when a business owner applies for a license, the information contained on the application would be forwarded to various City departments (i.e., Fire Department, Code Compliance) to apprise staff of the type of business and its location. She noted that the businesses that are taxable entities are captured through the sales tax license.

Chairman Walters advised that subsequent to being approached by representatives of the Chamber of Commerce regarding this issue, she became aware of the fact that Mesa does not have an annual renewal fee for TPT licenses. She stated that as a result, the City does not have a mechanism in place to determine whether businesses have closed or are still in existence.

Ms. Sheppard continued with her presentation and reported that additional benefits of a renewable TPT/Business License include enabling economic planners to accurately track existing businesses within the community and also promoting accountability for the payment of all applicable City sales and use taxes.

Committeemember Truitt inquired what would be the purpose, for instance, of an insurance agent being required to obtain a BOP license in order to operate in Mesa. He stated that in his opinion, the City would just be charging another fee.

Ms. Sheppard clarified that staff is not advocating charging a fee, but noted that there would be a cost for the program if a fee is not associated with it.

Chairman Walters commented that staff has offered several options for the Committee's consideration, including instituting a Business License without a fee being attached to it.

Committeemember Rawles stated that what Ms. Sheppard has enumerated are benefits to the City, but not to the business owners who are issued licenses. He stated that requiring an individual to obtain a license in order to operate a business that is subject to a Transaction Privilege Tax is, in his opinion, "one more step" by the government in interfering with a person's rights and property. Committeemember Rawles also commented that the requirement, with or without imposing a fee, is the wrong message for Mesa to send to the business community. He also expressed opposition to the annual renewal fee for TPT licenses.

Chairman Walters commented that the Committee is being asked to consider the annual renewal process for TPT licenses as well as the establishment of a Business License and renewal.

Committeemember Rawles clarified that everything he previously stated would also apply to the BOP license.

Further discussion ensued relative to staff's effort to research correct business locations, phone numbers and ownership.

Chairman Walters stated that historically, Mesa voters have preferred sales tax to other kinds of taxing methodologies and commented that the City has an obligation to fairly collect those taxes. She noted that an annual renewal would allow City staff to more fairly apply the Transaction Privilege Tax to all businesses operating in Mesa. Chairman Walters stated that for staff to obtain updated information regarding Mesa businesses, even if the process occurred every two years, would be beneficial to the City. She voiced support for a renewal process for the TPT license, but questioned the benefits of the establishment of a Business License and renewal.

Additional discussion ensued among the Committee relative to potential annual renewal fee amounts; that the City currently charges a \$50 initial application fee for a TPT license (or a cost of \$12.71 for staff to process the initial application); that the Committee concurred it would be appropriate to establish a more reasonable TPT initial application fee and implement a \$15 annual renewal fee; that the option for the establishment of a Business License or BOP and renewal be eliminated; and that this presentation be made to the full Council.

It was moved by Committeemember Rawles, seconded by Chairman Walters, to direct staff to conduct further research and return to the Audit & Finance Committee with a proposal for an annual renewal process for the TPT license, with options regarding cost and/or funding.

Carried unanimously.

Chairman Walters thanked staff for the presentation.

8. Hear a presentation, discuss and make recommendations on new fees for services to administer the processing of applications for the recently adopted Planned Community District.

Planning Director John Wesley displayed a PowerPoint presentation (A copy is available for review in the City Clerk's Office) and offered a short synopsis of this item. His comments included, but were not limited to, the following: that the recently adopted Planned Community Zoning District (PCD) is different from all other zoning districts in that an applicant would be required to create their own zoning ordinance for the property to guide its future development; that in this regard, it would be necessary for staff to spend a significant amount of time reviewing the zoning ordinance, modifications to development standards, the overall development scheme and use allocations and the development agreement; that the current zoning fee does not cover the above-referenced staff costs; that the establishment of a PCD would also require the creation of Development Units within the proposed development; and that staff has evaluated the need for fees for the initial zoning to the PCD and processing the Development Unit Plan (DUP) applications.

Mr. Wesley explained that staff reviewed the manner in which Mesa's current application fee for a non-PCD rezoning would be applied to an application for a PCD. He also provided a comparison of the current fees in other communities that have PCDs. (See Attachment 5.)

Mr. Wesley reviewed various PCD zoning fee options as follows:

Option 1 – Seek to come as close as possible to full cost recovery by charging a per hour fee for staff time spent. (A base amount, such as \$20,000 or \$30,000, would be paid upfront and staff would charge their time against that sum. When those funds dropped to a pre-set

amount, staff would ask the applicant to pay an additional fee to bring the amount back up. This would continue until the case is approved. Any remaining funds in the account would be returned to the applicant. **(Staff recommendation)**

Option 2 – Establish a fee amount based on the amount of acreage and approximate a desired level of cost recovery. (i.e., \$40,000 base fee plus \$15 per acre)

Mr. Wesley also highlighted various DUP review fee options as follows:

Option 1 – Establish a fee amount (approximately \$2,000). **(Staff recommendation)**

Option 2 – Take a minimum fee and charge actual staff time.

Committeemember Truitt commented that he has seen a trend of developers moving away from PCDs and back toward a more comprehensive zoning ordinance. He noted, however, that the fees usually charged for PCDs are quite large and said if Mesa was able to cover staff costs, that would be the best approach.

Discussion ensued relative to the fact that the City currently does not recover its costs on large zoning cases; that staff has adjusted their fee structures over time in an effort to come closer to achieving cost recovery; and that last year, the Planning Division was at 50% cost recovery overall for such processes and applications and at 35 to 40% cost recovery this year.

Committeemember Rawles stated that it seems unfair to him that staff is attempting to achieve full cost recovery through the PCD process and yet has not done so through other zoning services.

In response to a question from Committeemember Rawles, Mr. Wesley clarified that staff has met with representatives of DMB Development, the property owner of the Mesa Proving Grounds, concerning the various fee options. He explained that DMB has indicated its willingness to work with the City relative to the fee options that are ultimately approved by the Council.

Committeemember Rawles stated that he would be uncomfortable with staff charging an hourly rate and would prefer the establishment of a reasonable fee. He suggested, for instance, a \$25,000 to \$30,000 base fee plus \$15 an acre, which would be subject to revision as other areas of the Planning Division achieve greater cost recovery.

City Manager Christopher Brady indicated that because a PCD would require extensive staffing “on the front end,” it is essential that the City has sufficient resources in place in order to complete the various processes in a timely manner.

Committeemember Truitt said that Mesa “would be better off” setting fees as opposed to charging an hourly rate. He commented that he could foresee “an adversarial situation” being created between the applicant and the City if an hourly rate was charged.

Chairman Walters stated that because DMB is the only entity interested in applying for PCD zoning at this time and this is a new process for the City, she suggested that staff would have opportunities to negotiate with the developer in terms of how the fees are set and also convey

the message that the City wishes to provide sufficient staff to complete the project in a timely manner. She also proposed possibly establishing a pre-set baseline fee, which could be negotiated as staff proceeds through the various steps in the zoning process. Chairman Walters added that she would prefer an 80 to 90% cost recovery rate.

It was moved by Committeemember Rawles, seconded by Chairman Walters, that staff be directed to bring this item forward to the Council with a flat fee; and that staff provide their best estimate, with DMB's involvement, regarding what would constitute various percentages of cost recovery (i.e., 60%, 70%, 75%, 80% or 90%).

Committeemember Rawles further directed that the flat fee be set higher than what is generally charged for Planning services, but less than 100% cost recovery, and that the fee also include the \$15 per acre cost as previously outlined by Mr. Wesley.

Carried unanimously.

Mr. Wesley confirmed that the Committee's direction applies to the PCD zoning fee and the DUP review fee. He also inquired whether the Committee would prefer that this item move forward to the Council for further ratification or proceed to the Planning & Zoning (P&Z) Board based on the Committee's recommendation.

Committeemember Rawles said that he would prefer that staff follow their normal procedural process. He suggested that staff present all of the fee options to the P&Z and also explain the Committee's input in this regard. Committeemember Rawles added that when the matter is presented to the Council for discussion and consideration, adjustments could be made at that time, if necessary.

Chairman Walters thanked staff for the presentation.

9. Hear a presentation, discuss and make recommendations on proposed revisions to the Mesa Administrative Code and Building Safety Schedule of Fees and Charges.

Committeemember Rawles stated that as members of the General & Economic Development Committee, he and Chairman Walters previously heard a presentation regarding this item. He explained that because the matter includes a fee increase, it was also necessary for the matter to be brought to the Audit & Finance Committee.

In response to an inquiry from Chairman Walters, Committeemember Truitt said that it was unnecessary for staff to make a formal presentation at this time.

It was moved by Committeemember Rawles, seconded by Chairman Walters, to recommend to the Council that staff's proposal for revisions to the Mesa Administrative Code and Building Safety Schedule of Fees and Charges, be approved.

Carried unanimously.

10. Adjournment.

Without objection, the Audit and Finance Committee meeting adjourned at 5:10 p.m.

I hereby certify that the foregoing minutes are a true and correct copy of the minutes of the Audit & Finance Committee meeting of the City of Mesa, Arizona, held on the 3rd day of December 2007. I further certify that the meeting was duly called and held and that a quorum was present.

LINDA CROCKER, CITY CLERK

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attachments (5)