



## MESA 2025: FINANCING THE FUTURE CITIZEN COMMITTEE

April 27, 2005

The Mesa 2025: Financing the Future Citizen Committee met in the lower level meeting room of the Council Chambers, 57 East 1st Street, on April 27, 2005 at 5:30 p.m.

### COMMITTEE PRESENT

Kyle Jones, Chairman  
Kirk Adams  
Pat Esparza  
Don Grant  
Rex Griswold  
Greg Holtz  
Aaron Huber  
Eric Jackson  
Dennis Kavanaugh  
Robert McNichols  
Scott Rhodes  
Pat Schroeder

### COMMITTEE ABSENT

Jill Benza  
Mark Killian  
Robin White

### EX-OFFICIO MEMBER

Keno Hawker

### STAFF PRESENT

Various Members

Chairman Jones excused Committeemembers Benza and White from the meeting and stated that Ex-Officio Member Hawker would join them following a Maricopa Association of Governments meeting.

The Chairman welcomed everyone to the meeting and informed the audience that the City's website contains the documents that the members would be referring to during the meeting.

#### 1. Approval of minutes from the January 26, 2005 meeting.

A motion was made and seconded to approve the minutes of the January 26, 2005 meeting.

Carried unanimously.

#### 2. Continued discussion related to items discussed at the last meeting.

- a. Program accountability and City Auditor activities
- b. Committee's statement on budget process

- c. City expenditures and City Council priorities
- d. Committee recommendations on auditor activities, City expenditures and budget process document; AND

3. Discuss on revenue-related items

- a. Review of revenue options submitted by committee
- b. Distribution of revised financial forecast and comparative revenue data

Chairman Jones noted that at the last meeting the Committee thoroughly discussed the issue of a City Auditor. He encouraged the members to provide additional input regarding the structure of the auditor's position, as far as reporting, and other associated items.

Committeemember Schroeder recommended that, to avoid confusion, all current documents reflect the year 2005 since the Committee has been meeting since 2004.

Chairman Jones commented that a document he worked on with Committeemembers Kavanaugh and Rhodes was e-mailed to all of the members for their review.

Committeemember Adams stated that the second part of the document, entitled "*Prioritization and Revitalization of City Services*" is a good document as it stands and said that it combines the concept of a citizen audit committee with some of the other concepts that he was trying to institute and brings it all together in a committee called The Mesa Citizens for Efficiency in Government. He said that with the Chairman's permission, he would like to move forward with discussion and a vote on this section of the document and added that following this action, they could discuss the auditor's "chain of command."

Committeemember Rhodes MOVED that they change the order of the document and have the section that begins "*Prioritization and Revitalization of City Services*" be the first section of the document. The motion was seconded.

Chairman Jones referred to the beginning of the paragraph that talked about the City Council and reported that the Council does hold an annual retreat in the fall where they prioritize issues. He said that he believes that citizen input should follow that process and stated that following the meeting, the Council should list their priorities, direct staff to publish them in the newspapers, place them on the City's website, etc. and then invite the citizens to attend a formal hearing in the Council Chambers to provide input and discuss the various priorities. He emphasized the importance of being proactive in this area prior to the actual budget process.

Committeemember Kavanaugh commented that the proposal before them would not prohibit that from happening and agreed that once a possible list of priorities has been established, a formal Regular Council Meeting should be held to provide the citizens an opportunity to provide input. He added that this would not preclude the Council from conducting their planning sessions or retreats.

Committeemember Rhodes said that the first sentence is intended to simply state that a list of priorities will be formulated and agreed that a retreat would be a good place to discuss the issues followed by additional discussion and citizen input at a Regular Council meeting.

Committeemember Adams MOVED that the Committee accept the proposed document order and approve it as presented.

Chairman Jones advised that a motion and second had already been made.

Committeemember Rhodes stated that he would accept Committeemember Adams' remarks as a friendly amendment to his motion.

In response to a request for clarification, Committeemember Rhodes advised that the language in the document was intended to reflect that the list is made up of items that the Committee could do, not necessarily things that they would definitely do. He added that if the Committee is uncomfortable with that language, they could remove it and discuss it later when they get into issues involving real property assets.

Committeemember Adams emphasized that anything the Committee decides upon will be merely recommendations that the Council may approve or disapprove. He noted that they are not empowering the Committee, they are simply talking about a review and advise process where recommendations are brought forward.

Committeemember Rhodes referred to language which stated "other duties of the committee shall include but not be limited to" and recommended that the word "shall" be changed to "may." The members of the Committee concurred with this suggestion.

Discussion ensued among the members of the Committee relative to possible names for the committee under discussion and it was decided that they would call the Committee The Mesa Citizens Advisory Committee for Financial Strategy and Operational Efficiency for the time being and discuss the matter in more depth later on.

In response to concerns expressed by Chairman Jones that there may not be enough money to meet the list of priorities, Committeemember Jackson stated that he does not believe that the language in the document limits that. He said that the statement understands that there might not be enough money to meet the priorities and what they are trying to do, with the available money, is make sure that they apply the money in accordance with identified priorities.

The motion to approve the order of the document was approved unanimously.

The Committee also agreed that under "Other Duties of the Committee" (second paragraph, four lines down), the word "may" should replace the word "shall" and that the language should state that "the City Council shall not approve the final budget unless it is consistent with the approved prioritized spending list."

A motion was made and seconded to approve the above stated language and it carried unanimously.

Committeemember Schroeder commented that she wanted the record to reflect that they really haven't named it yet and since there are some concepts that they haven't discussed yet included in it, they will be able to come back and amend it if they want to at a later date.

Committeemember Griswold thanked Committeemembers Kavanaugh, Rhodes and Adams for their hard work.

The Committee moved and seconded a motion to approve the summary of the Committee's consensus reached at the previous meeting and thanked Chairman Jones for his efforts in putting the document together.

Committeemember Adams commented that he has different thoughts regarding who the City Auditor should report to and asked that a roll call vote be taken on this item to reflect each member's opinion. He added that he also supports a Charter change if that is what is required to ensure that the City Auditor reports directly to the City Council. He said that there are a number of things they can do to alleviate some of the political concerns and suggested that they require a super majority vote for termination of the City Auditor.

Committeemember Holtz noted that the Committee has not spoken with the current City Auditor and said that until they know anything different, the Auditor should continue to report to the City Manager.

Committeemember Griswold stated that there are people out there who simply do not trust government for whatever reasons. He added that getting to the point where people believe there is an independent audit run by the people they elected rather than what goes on now (where they have no control) will help increase trust in government. He said he thinks it will be a two-year process and he would be willing to pass this now as a step if their recommendation was to take a hard look at this. He asked whether they wanted to go to the next step, something that would have to be passed by the City Council, and noted that it would take four votes to do so. He stated that he would like to move forward but believes it could be in the form of a recommendation (either in the form of a minority report or a recommendation to try it for a certain period of time) and then consider moving this person and soliciting input from the public as they go through the budget process.

Chairman Jones emphasized that if there are any items that the Committee reviews, discusses and makes decisions on, anyone can request that a minority report also be included in the final report to the Council. He urged anyone interested in doing so to contact Denise Bleyle. He added that the motion, as it stands right now, is to accept the report that states that the Auditor will still report to the City Manager. He clarified that the duties of the audit committee are the duties of the unnamed committee and they are only talking about one committee.

The motion carried by majority vote with Committeemembers Adams and Kavanaugh voting nay.

Bryan Raines addressed the members of the Committee and noted that the Committee was previously provided a copy of staff's forecast. He said that staff is working through the budget process and thought that this was an opportune time to readdress staff's next rendition of the forecast, a picture of what they see coming in the future. He added that staff has provided a few scenarios, one to show where they are currently at, one to show an all funding scenario and one to show what they could afford if they had the average revenue stream.

Budget Director Jamie Warner advised that Chuck Odom would talk about what the baseline forecast is currently showing and noted that they have updated it with the biennial budget the Council is reviewing at the current time. He said that this is based on the preliminary budget that was submitted to Council for their review and is factored into the forecasts. He stated that Mr. Odom would also talk about all of the Budget Adjustment Requests (BARs) identified by the various departments. He added that Mr. Odom would indicate on a broad basis what that equals and show the Committee the numbers that staff has come up with. He further stated that he would then talk

about what the forecast impact would be if they increase their revenues to equal the average amount of revenue that they were short, compared to other cities in the Valley.

Mr. Odom referred to handouts distributed to the Committee and provided a brief overview of their contents. He noted that staff's forecasts have been pretty accurate over the last few years but said that they "get hit" when changes are made to the budget. He explained that forecasting is difficult because staff attempts to take some of the subjective nature out of it and make it as objective as possible using the models in order to develop something that is somewhat defensible.

Committeemember Jackson commented that a number of major sales tax revenue generators are leaving the City and asked whether staff has looked at this issue. Mr. Odom replied that they are working on a new model that will take their GIS information and join that with sales tax information by address. He said that this will allow staff to map over time the history of the contraction and expansion of individual areas and sales tax. He stated that they should be able to correlate historic events such as the opening of an Arizona Mills mall to what happened on the west side. He noted that the model will be pretty sophisticated.

Mr. Odom informed the Committee that the City's revenues are no longer growing at the rate they used to. He said that when they had a population growth that was averaging 4.5% to 5% a year and were the retail hub of the East Valley, their revenue stream was very strong. He stated that now they have more competition and growth and revenues have slowed. He added that when they did the mid-decade census in 1995 they received a significant boost in state shared revenues because of that growth but now, as the mid-decade census for 2005 is approaching, they are hoping that the City will stay even and that they won't lose any state revenues. He pointed out that expenditures are still increasing because they are still a growing community.

Committeemember Adams commented on the \$50 million expense figure, which eventually becomes a \$105 million problem, and asked when the City began to get "off track." Mr. Warner replied that it started in 1991 when the food tax was eliminated resulting in a \$9 million a year loss to the City. He said that the census was then completed and they also took a hit on state shared revenues. He added that the City's utility rate increases have slowed down and are fairly small.

Committeemember Adams said that it would be helpful for him if staff went back 10 years and provided information on the rate of growth in revenues versus the rate of growth in expenditures, in order to obtain a historical perspective.

In response to a question from Committeemember Adams, Mr. Warner advised that the loss of the food tax was definitely a component that impacted the City. He added that they have also witnessed a decline in their sales tax, have gone through a recession and weathered 9-11. He reported that in 2002-03 the City's sales tax actually declined from the previous year and noted that he had never seen that happen during his employment with the City.

Discussion ensued relative to light rail and the receipt of Federal funding; the fact that State law requires municipalities to have a balanced budget, they cannot do deficit financing and cannot appropriate a budget that does not have adequate revenues to cover it by State law; the fact that in 2006-07, the quarter cent drops off and that is the capital portion of the Quality of Life Program; the fact that the other quarter cent is for ongoing operations for the facilities and operating areas that have been added into the future; the fact that the Arts Center is part of the Quality of Life Budget which is handled as a separate budget and balanced as a separate budget because of its limited nature and scope; the importance of gaining a better understanding of just what the Quality of Life

fund covers; the fact that departments were instructed to match their BAR requests for the next five years to what was presented to the Committee for the next five years; and the fact that if everything was funded, it would result in a billion dollar deficit in five to six years.

Committeemember Kavanaugh commented that according to what he is hearing, even if a new money source was identified to bring the City up to the current City average, there is still going to be a significant gap in order to meet what the departments have forecasted as significant needs for the community. He added that they will clear the deficit but still have a significant amount of unmet needs as identified in the report.

Mr. Warner emphasized that the quarter-cent tax enabled the City to provide services that they otherwise would not have been able to provide, such as adding 120 more police officers.

Mr. Warner was requested to come up with the amount of revenue that would have to be increased annually to meet the BARs.

Additional discussion ensued relative to looking into the implementation of a property tax and educating citizens on the City's financial situation; possible increases in utilities to generate additional revenues; the fact that following the last meeting, staff prepared a third option, a beginning point, to allow the members to see how they would manage if Mesa had the same revenue structure on average of the other cities in the community; the fact that if \$42 million was added in 2006-07, they would be able to address the City's need to deal with the debt service costs they are going to experience in 2007-08 and address capital and facility needs but it would leave very little left over to address either expansion or trying to have an adequate ending fund balance; staff's proposal that \$8 million be allocated for capital out of the \$42 million; the fact that the ideal amount would be \$80.7 million by 2007-08 to meet the City's current level of service needs and deal with the debt issue for that year; the fact that if they start with \$42 million, it escalates at basically 5% a year and not only will they address the fund balance and debt issue, they can begin to address capital needs, facility maintenance needs and an adequate fund balance.

Mr. Warner said that he will run additional numbers for the Committee to identify whether \$100 million will meet the unfunded BARs and allow them, with the forecast, to work out to 2025.

Committeemember Griswold said that it is his understanding that 30% of the City's sales tax revenue comes from auto and RV dealers and noted that RV dealers are leaving the City. He added that auto dealers are being told by Detroit to find a location near a freeway or they will lose their franchises so they are flocking to freeway areas. He asked whether staff has programmed any of that into their forecasts.

Mr. Warner replied that the model does not look at geographic impacts and added that there have always been businesses leaving Mesa and new ones coming in. He stated that they don't really identify one significant sales tax generator that specifically hurts or helps the City.

Committeemember Holtz asked whether they could receive something official in writing from the City now that has a final recommendation based on the best available information. He said he would like to know what a property tax would be and Mr. Raines advised that staff would provide that information.

Committeemember Holtz commented that after they have that information they can look at the expenditure side of the equation. He said he realizes that the Quality of Life tax cannot be cut

because of legal requirements but added that when he looks at the total expenditures of the City, he recognizes that the Quality of Life tax has an effect on how he reads the general fund. He pointed out that Quality of Life funds are used for parks, museums and police/fire departments and emphasized the importance of "looking at the big picture."

Mr. Raines stated that staff will provide the Committee with various rates generated in terms of revenue.

Committeemember Holtz noted that the recommendation rate will depend on what the gap is and when it occurs.

Mr. Raines advised that staff has attempted to provide the Committee with some alternatives and identify the various scenarios that are out there and how then can be run so they can move forward. He added that staff can model to different processes. He pointed out that although staff may not be 100% accurate in their forecasts, their modeling/analyses is cutting edge. He expressed appreciation to members of staff for all of their hard work and effort. He further stated that staff will provide the Committee with the best sales tax estimates possible.

Committeemember Adams agreed that it is appropriate to look at the Quality of Life sales tax dollars to see where those monies are going. He added that he does not believe that it would be inappropriate for them to make recommendations on possible programs that could be introduced to the private market as opposed to the City. He said that perhaps there could be multiple early reports that contain multiple suggestions. He stated that they could identify the items that they agreed upon and those they did not but stressed the importance of providing the Council with all possible options. He commented that they have to look at some of the big items and said he does not believe that it is too unreasonable to question whether they really need to forecast out based upon 2 officers per 1,000 residents. He further stated that there are going to be areas they must look at even if they don't want to and said he doesn't want to be in the position of cutting positions/programs or recommending to the Council what they should cut, but believes they must at least look at some of these things.

Chairman Jones agreed that the report needs to include possibilities and said that the whole idea of the Committee was to obtain different ideas. He said that they need to pursue more public/private ownerships if they wish to save money. He added that they also need to include the possible sale of the City's utility. He noted that these are time consuming matters and the committee that they are structuring could provide oversight and determine what makes sense and what does not. He pointed out that the Committee needs to look at what would be the bare minimum they need because that figure could be anywhere from \$42 million to \$100 million a year and they simply cannot generate \$100 million a year. He added that not everyone will agree with the various recommendations, but they need to look at generating the bare bones minimum of \$42 million, how do they raise that. He said that then they need to look at the other items, the unfunded BARs, and make recommendations to address them and include them in their report.

Ex-Officio Member Hawker agreed with the Chairman's remarks and commented that the political reality is that Mesa is not going to be able to have a more expensive city than its surrounding neighbors. He said that the \$42 million is "kind of the upper limit" to match what the other communities are spending and to use their dollars effectively at that level or below that level. He added the opinion that they are not going to be able to fund all of the BARs without looking at other programs to eliminate or cut back. He commented that they need to figure out whether they agree with the \$42 million and, if so, come up with how they would recommend structuring it between

sales tax, property tax, primary, secondary, etc. He added that then they need to look at whether to sell or hold onto the utility, privatization of refuse, meter replacements, etc. – a list of items for the Auditor to be assigned to review. He said that if the Council concurs, then they will have a ready list to forward to the Auditor.

Member Hawker noted that based on \$1 per \$1,000 assessed, approximately \$25 to \$27 million would be generated as a result of a property tax. He added that the quarter cent is approximately \$20 million and if they don't have the transportation component in it and they need it, they are probably going to be at about 1.75% on sales tax that takes care of the transportation and takes care of the \$20 million of the \$42 million. He said that they are going to need a secondary or primary property tax to get up to that level. He stated that this might be one way to bridge the gap but he would like to have full discussion and accurate assessments done because he believes that property valuations have gone up dramatically so the amount may be substantially less than \$1 per \$1,000. He agreed that this would result in substantial cuts to the BARs but said he would like to grow population and inflation and once the limit is set, they must learn to live with it. He stated the opinion that they are currently living with an unrealistic limit and added that a realistic limit would at least be comparable to the surrounding communities and Mesa is way under that amount right now.

Committeemember Rhodes recommended that they break the BAR numbers down into two categories, those that the departments identified as "catch up" dollars and those identified as new services needed to reach a minimal service quality level. Mr. Warner responded that staff could look at how the departments prioritized the items and stated the opinion that there will be much more "catch up" items. He noted that staff cannot look at each of 2,000 BARs but will attempt to provide the Committee with information regarding Committeemember Rhodes' request.

In response to a question from Committeemember McNichols regarding how long it would take to propose, pass and implement a property tax and whether monies could be raised between now and next July, Mr. Warner advised that if the City Council instituted a secondary property tax, it could be implemented by 2006-07. He added that because of State law requirements, he believes that the earliest such as item could be placed on a primary election ballot would be 2007-08.

Committeemember McNichols asked whether it would be possible to raise the money for 2006-07 with a secondary property tax and Mr. Warner responded that at the current time, staff has identified approximately \$30 million in general obligation debt in 2007-08. Committeemember McNichols asked whether the City could raise \$100 million if they wanted to, pulling from every available source. Mr. Warner noted that they would have to seek voter approval since a property tax and/or any adjustment in the sales tax requires a vote by the people. He added that a secondary property tax does not require voter approval because the voters consented to it when they voted for the bond issue items.

Mr. Odom emphasized that the key to that would be the timing of the approval.

Mr. McNichols asked what the last date the City Council could approve a secondary property tax is and Mr. Warner said he would find out the answer and provide it to the Committee.

Mr. Warner reported that if a spring election was held in 2006, the tax could be implemented by August 1, 2006, ninety days.

Committeemember Rhodes asked whether once a property tax is passed the City could borrow in anticipation of receiving the revenue. Mr. Warner replied that they have options in doing short-term leasing with a guaranteed source. He agreed that it would provide some flexibility.

Mr. Odom concurred that a secondary property tax would be restricted to the retirement of the debt and that it would free up some general fund monies.

Chairman Jones stated that revenues will be discussed in depth at the Committee's next meeting.

4. Scheduling of meetings and general information.

Wednesday, May 11, 2005, 5:30 p.m.

Wednesday, May 25, 2005, 5:30 p.m.

Chairman Jones noted that high school graduations will take place on May 25<sup>th</sup> and the Committee decided to change the time of the meeting on that date to 4:00 p.m.

The Chairman encouraged the members to continue to e-mail their suggestions and asked for their ideas on possible cuts or recommendations on possible cuts. He said that at the conclusion of the May 25<sup>th</sup> meeting, Denise will compile a lot of things that they have done, what information they have looked at and what they have learned to date.

5. Items from citizens present.

Mercedes Mercado Ochoa, 724 N. Vineyard, stated that she has been a resident of Mesa for the last five years. She commended Committeemember Griswold and Ex-Officio Member Hawker for remarks made during a recent budget session when the issue of the Police and Fire Department's inability to meet language and cultural service demands was raised. She said that the Mayor and Councilmember Rawles suggested that they go to the bilingual students in areas like Westwood and Dobson. She stated that there are bilingual problems in all City departments and suggested that they send out an interdepartmental memo and locate bilingual employees who could provide the needed services.

Sheila Mitton addressed the Committee and said that she is the publisher of Community Awareness News and founder of West Mesa Rises. She commended Chief Beck on his recent presentation at the budget hearings and also thanked Mayor Hawker and Councilmember Rawles for their comments at the meeting. She also thanked Councilmember Griswold for his work regarding the Riverview at Dobson project. She expressed concerns regarding the productivity of the meeting that was just held.

6. Adjournment.

Without objection, the Mesa 2025: Financing the Future Citizen Committee adjourned at 8:11 p.m.

I hereby certify that the foregoing minutes are a true and correct copy of the minutes of the Mesa 2025: Financing the Future Citizen Committee meeting of the City of Mesa, Arizona, held on the 27th day of April 2005. I further certify that the meeting was duly called and held and that a quorum was present.

---

BARBARA JONES, CITY CLERK

lgc