

FINANCE COMMITTEE MINUTES

October 3, 2003

The Finance Committee of the City of Mesa met in the lower level meeting room of the Council Chambers, 57 East 1st Street, on October 3, 2003 at 8:02 a.m.

COMMITTEE PRESENT

Kyle Jones, Chairman
Rex Griswold
Dennis Kavanaugh

COUNCIL PRESENT

Mayor Keno Hawker

OFFICERS PRESENT

Mike Hutchinson
Debbie Spinner
Debra Dollar
Paul Wenbert

1. Discuss and consider the proposed recommendations for the March 2004 Bond Authorization Election.

Deputy City Manager Debra Dollar addressed the Committee and advised that staff was present to review the proposed March 2004 bond authorization election recommendations based on the financial restrictions for FY 2004/2005 and FY 2005/2006. She explained that the proposal was a two-year program to bridge the gap with the expectation that a larger program could be proposed for 2006.

Capital Improvement Project Administrator Anthony Araza stated that the eight proposed bond recommendations for the March 2004 ballot addressed the City's highest priority capital needs for the next two years and for some programs, three years. He referred to the list at the bottom of the first page of the Council Report that identified each of the bond types and programs with the respective dollar amounts. Mr. Araza noted that Utility Bonds have the highest priority in order to provide the capital infrastructure necessary to maintain essential services for residents. He added that the Utility Bonds comprise approximately 75% of the total \$285,710,000 bond proposal. Mr. Araza explained that some of the cash flow of large projects would move into FY 2006/2007 due to the fact that all funds must be available once the Council awards the contracts. He directed the Committee's attention to an Activity Code, located on the left-hand side of each spreadsheet in Attachment 1 to the Council Report, which represents the phases within a project with the costs listed accordingly.

Mr. Araza provided a brief overview of each of the proposed bond projects as follows:

- Gas Bond projects include the replacement of existing gas lines and infrastructure in older neighborhoods and the extension of new lines for new development.

- Water Bond projects listed on pages 3, 4 and 5 can be funded with current authorizations, and projects that require new authorization are listed on pages 6 and 7. The proposal includes remediation in some wells as required by the Environmental Protection Agency (EPA); security enhancements for the City's water facilities; a trunk line to link the Central Arizona Project (CAP) plant, currently planned for expansion, from the Desert Well Zone in southeast Mesa into District 5 to provide additional water in the peak summer season; replacement of aging lines in subdivisions; and a water storage reservoir in southeast Mesa where a future CAP water treatment plant is being proposed.
- Wastewater Bond projects represent 42% of the total 2004 Bond Election and most improvements are designed to support the growing southeast Mesa area. The projects include: the South Water Reclamation Plant, a large joint project with the Town of Gilbert and Queen Creek, that requires additional authorization and associated with that project are reclaimed water lines that will extend from the South Plant to the Southeast Plant on Baseline Road for conveyance of reclaimed water between the two sites; a shared trunk line on Southern Avenue in Tempe that is cost-shared with Tempe; and annual payments for the City share of the Sub-Regional Operating Group (SROG).

In response to a question from Chairman Jones regarding the sale of Langley Ranch, Mr. Araza advised that the proceeds of the sale are anticipated to be approximately \$40 million and will be used to mitigate Mesa's share of the cost of the South Plant Wastewater Plant. He clarified that the bond proposal lists the amount required in excess of the \$40 million, and he added that if the proceeds of the sale were less than \$40 million, additional funds would be required in the bond proposal.

City Manager Mike Hutchinson advised that staff was in the final stages of negotiation regarding the sale of Langley Ranch and anticipated that the subject would be brought before Council in a few weeks.

Mr. Araza continued with an overview of the bond projects:

- Neighborhood and Street Flood Control Bonds has one project that met the financial restriction, a large project in Southeast Mesa that is a cost-share with Maricopa County Flood Control.
- Emergency Fire Protection and Medical Response includes the renovation of old Fire Station 201 into an Emergency Operations Center and then to move Fire Administration from a leased building into the Emergency Operations Center; Station 218, located at Recker and Adobe.

Mr. Hutchinson addressed the Committee relative to the Public Safety bonds and reported that some changes in plans have been considered within the past couple of weeks. He referred to an aerial map of Public Safety buildings and noted that the neighborhood expressed concern regarding the location of the proposed Police Department Crime Lab. Mr. Hutchinson stated that rather than moving forward with a plan to add two floors to the existing Court Building, a more prudent plan might be to build a new Court building at Site 7 (Hibbert & Main Streets) on two acres south of the Pomeroy Garage and then remodel the existing Court building for use by the Police Department crime lab and records storage. He stated that the preliminary analysis

indicated that the alternative plan could be accomplished at the same cost in the early years. Mr. Hutchinson added that this change in plans might enable the City to defer expansion of the parking garage, which is an expensive project, and expansion of the substation. He stated that the neighborhood would continue to be concerned about the holding facility in the Main Police Department, but traffic flow improvements would meet with their approval. Mr. Hutchinson informed the Committee that staff would provide additional information to the Council in the next few weeks. He noted that staff established a target date of early November for approval of the bond program so that the proposal can be placed on the March 2004 ballot.

Discussion ensued relative to the fact that the relocation of the Court could be a matter of concern to the neighborhood that consists of older residential and multi-family housing; that input from the neighbors would be solicited; that staff expected the neighborhood to support the plan; that economic development in the form of an office building could result from the plan; and that the future alignment of the Light Rail Transit should be incorporated into the decision making process.

Mr. Araza provided additional information on the proposed bond projects:

- Parks, Open Space, and Recreation Bonds are basically land acquisition for neighborhood parks and community parks as outlined in the recently completed Parks *Master Plan*.

In response to a question from Chairman Jones as to whether the 2004 bond funds enabled purchase of all the properties designated for parks, Mr. Hutchinson answered that the bond proposal did not include all properties. He explained that the remaining properties would be scheduled in a proposed 2006 bond election.

Parks and Recreation Director Joe Holmwood advised that the Parks Department 2004 bond proposal focused on critical land acquisitions in the west and southeast, but the 2004 proposal would not address the entire Master Plan. He noted that although land acquisition in West Mesa would be difficult, the City would continue to look for land and partnerships to obtain additional space. Mr. Holmwood explained that the higher priorities of the *Master Plan* are being addressed with the bond proposal. He stated that the approach of the Parks Board was to focus on acquisition of land for future use, which did not require the immediate expenditure of any operating costs.

Further discussion ensued relative to the possibility that the acquisition and demolition of old motels on the west side might provide land for use as parks; that the owners of boarded up properties might be anxious to sell; that the Parks Department has not considered this approach to land acquisition; and that this approach might be viewed favorably by neighbors in the area.

Committeemember Kavanaugh commented that the Parks bond proposal was modest. He noted that a minimum amount of land was available in West Mesa and suggested that the former Costco property on Broadway adjoining the East Valley Institute of Technology (EVIT) campus could be a park. He stated the opinion that the City should consider the issue of bonding for the City's cultural tourism assets, and he advised that business leaders serving with him on a regional arts and culture task force emphasized the importance of the acquisition and development of cultural assets as destinations in terms of tourism and economic development. Committeemember Kavanaugh identified two such projects in Mesa that few citizens may be aware of and that may require improvements: the Botanical Gardens at the Park of the Canals

and Mesa Grande. He noted that these types of assets generate income for the City, create jobs and provide enrichment for youth.

Chairman Jones expressed the opinion that the 2004 bond proposal was very conservative, but stated that the bottom line was that the City must exhibit fiscal restraint in order for a bond proposal to be approved by the electorate.

Mayor Hawker reported that during a recent address to the Parks and Recreation Board, he emphasized the importance of acquiring land when the land is available and he advised the Board that the Council would be reviewing all *Master Plans* to determine methods of financing. He expressed the opinion that financing options should be discussed with the community prior to installing the amenities recommended by the Parks Board in the *Master Plan*. Mayor Hawker noted that the City was developing a *Transportation Plan* with regional and local funding. He stated that the construction of the Red Mountain and San Tan Freeways might present an opportunity to acquire additional land due to the difference between a full and a partial take. Mayor Hawker suggested that the City and the Arizona Department of Transportation (ADOT) might jointly acquire the remnant parcels that are likely to appreciate and then trade that real estate for parkland. He noted that this action would raise the topic regarding the advisability of the City acquiring real estate. Mayor Hawker expressed the opinion that this approach to land acquisition for parks might be beneficial for the City.

Mr. Araza continued his overview of the bond proposal:

- Transportation Bonds that are being proposed in 2004 are very modest compared to previous bond elections and the proposed funds are to provide leverage for joint projects. The funds would also enable cost participation with developers for street improvements and, most importantly, the maintenance and reconstruction of existing roads.

In response to a question from Chairman Jones in reference to #22 on page 19 of Attachment 1 to the Council Report, Mr. Araza advised that the funds represent an existing contract that is near completion and the balance is for a new construction project.

Mr. Hutchinson advised that the amount designated for road reconstruction would remain at approximately \$5 million per year or possibly less. He noted that the City is waiting for the regional determination regarding funding. Mr. Hutchinson estimated that in approximately one year, staff would be able to provide the Council with information regarding transportation maintenance issues as part of an overall financial review.

Committeemember Griswold expressed concern regarding the proposed investment of \$21 million in the gas business when discussion is ongoing as to whether the City should be in the gas business. He questioned the advisability of expanding at this time.

Mr. Araza advised that a project-related item regarding improvements to the Mesa Centennial Center (MCC) did not fit within the financial restriction for the bond proposal and requires discussion by the Council. He noted that the Centennial Center has short-term critical issues relative to compliance with the Americans with Disabilities Act (ADA) and safety issues that require immediate attention as well as long-term needs.

Ms. Dollar stated that there has been discussion in the community and interest on the part of the management of the nearby hotel regarding the future of the Centennial Center and improvements that the City planned for the facility. She noted that \$17 million is the amount required to maintain the facility, and the other figures represent short and long-term improvements. Ms. Dollar added that staff was presenting the subject for discussion to ascertain if there is any desire on the part of the Committee to package the MCC item with the bond program.

Convention and Centennial Hall Director Rhett Evans explained that the \$17 million covered the renovation of the existing facilities to address ADA issues, safety issues, faulty electrical systems, cooling towers and the mechanical systems that are 25 years old.

In response to a series of questions from Chairman Jones, Mr. Araza noted that \$17,265,000 was strictly for renovation and the long-term investment totaled \$40,820,000 in 2006/2007 and 2007/2008. He advised that the \$40 million included a proposed facility expansion of approximately 130,000 square feet at the current estimated cost of \$252 per square foot. Mr. Araza confirmed that staff was requesting Council consideration relative to including the MCC renovations in the proposed bond election.

Chairman Jones expressed the opinion that Mesa Centennial Center has to be maintained and renovated to meet ADA requirements or the alternative would be to abandon the facility.

Committeemember Kavanaugh stated the opinion that renovation of the aging MCC was a matter of public safety, and that the structure must be brought into conformance with ADA and other safety standards. He also stated that the basics must be accomplished now, and he added that further expansion appeared to be feasible at a future date based on previous reports provided to the Council. Committeemember Kavanaugh commented that private investment in the Marriott Hotel and on the property to the east warrants moving the proposed renovations forward for consideration by the Council.

Chairman Jones noted that while attending a recent conference at the MCC, the noise of the air conditioning unit was disturbing, and he expressed support for moving the proposed renovations forward to the full Council for further discussion.

Committeemember Griswold cautioned that the Council risked credibility on other issues, such as transportation, by moving this item forward due to the fact that citizens may not trust their decision making process. He requested additional information on the plans for the Marriott Hotel prior to the Council taking any action on the MCC.

Mr. Hutchinson advised that the staff recommendation was to allocate funds for renovation in the short term. He added that staff would provide the Council with additional information on the critical issues pertaining to the MCC within the next few weeks. Mr. Hutchinson noted that if the proposed renovations were approved, the decision for the Council would then be to determine the source of funding: fund the renovation out of the general operating budget, which would be difficult, or place the item in the proposed bond election.

In response to the request of Chairman Jones that the Council be provided with information regarding what the Marriott Hotel expects from the City, the status of the MCC plan and the possibilities or alternatives to consider, Mr. Hutchinson noted that some of the information may

be available by early November, but staff will provide a more complete analysis within the next few weeks.

Chairman Jones emphasized that the Council requires specific information in order to address the critical issues.

It was moved by Committeemember Kavanaugh to accept staff's recommendation to move the March 2004 Bond Authorization Election forward for discussion and consideration by the full Council, with the added direction that staff provide the Council with specific information on improvements required for the Mesa Centennial Center.

Committeemember Griswold asked if the maker of the motion would be willing to modify the motion to separate the Gas item from the bond proposal and have two separate motions.

Committeemember Kavanaugh declined to modify the motion.

Chairman Jones stated that although he understood Committeemember Griswold's reservation, he would second the motion and call for the vote.

Motion carried by majority vote of 2 to 1 with Councilmember Griswold voting nay.

2. Hear an update on the new Citywide telecommunications systems and telephone services.

Deputy City Manager Debra Dollar advised that this item required no formal action by the Committee and that staff was present to provide an update on proposed changes to the City's telecommunications systems in advance of presenting the topic to the full Council. She stated that staff has made a significant effort in developing the telecommunications Requests for Proposals (RFP).

Materials Management Director Sharon Seekins reported that staff has been developing this proposal for almost two years and expects to make a presentation to the full Council in the near future.

Acting Communications Director Michael Brown advised that the City's contract with Qwest for the lease of telephone switching services would expire in December 2003 and that MCI/Worldcom currently provides the out-of-state long distance service. He noted that the outdated telephone equipment and systems presently used by the City are no longer supported by the original equipment manufacturers. Mr. Brown reported that a local telecommunications consultant, TRI, retained by the City to assess the existing equipment and services, concluded that the City could significantly upgrade the telecommunications equipment and services for less than the cost to maintain the current system. He explained that two Requests for Proposals were developed: one for telecommunications equipment (system) and the other for local and long distance telephone services.

Ms. Seekins noted that the telecommunications market is extremely volatile and, for that reason, staff opted for a pre-qualification process on the System RFP in late 2002. She reported that the System RFP resulted in 20 inquires of which 11 firms were pre-qualified and invited to submit proposals. Ms. Seekins stated that 4 proposals were received in February 2003 and 3 of the proposals were placed on the short list.

Ms. Seekins explained that the Services RFP did not require any prequalification and 6 responses were received, 3 of which were placed on the short list. She stated that the evaluation process included: a demonstration of the systems; checking of references; and review by different departments such as Communications, Information Services, and Materials as well as the consultant. Ms. Seekins advised that the results of both RFP's have been released to all participants in order to provide the companies an opportunity to review the ratings and an opportunity to provide comments or protests. She reported that no comments or protests were received on the Systems RFP and that the Service RFP is still in process, but protests are not anticipated.

Ms. Seekins stated that the new telecommunications system is a major project and will involve every City employee with a desktop telephone. She reported that the recommended vendor is Norstan Communications, a company with an excellent reputation in the telecommunications industry. Ms. Seekins said that contract negotiations are in process and staff hopes to present the contract at the October 27, 2003 Council Meeting.

Ms. Seekins noted that the Service RFP negotiations have yet to begin as the award to Mountain Telephone, Inc. was just recently announced. She anticipated that the award of the services contract would be scheduled for the December 1, 2003 Council Meeting.

Ms. Seekins advised that once both contracts have been awarded, the implementation process would take approximately eight months to complete. She referred to Exhibit C in the Council Report, which indicates the phases of implementation of the project. Ms. Seekins noted that priority in implementation was assigned to those areas with the highest expenses in order to maximize the savings under the new system.

Ms. Seekins referred to Exhibit A of the Council Report that provides a recap of the costs associated with the new system. She noted that the \$3.27 million figure does not include financing costs, which would increase the figure to \$3.6 million. Ms. Seekins explained that staff proposes to finance the agreement over a five-year period and the financial impact at the end of a six-year period in 2010 is a savings of approximately \$800,000, as shown on page 3 of the Council Report.

In response to a series of questions from Chairman Jones, Ms. Seekins stated: that the figure for current service includes all costs that staff was able to identify, including what is paid to Qwest for Centrex service, third party service contracts, and all costs for maintaining the current technology; that the new Norstan system offers a two-year warranty, which was more than the one-year warranty offered by the other firms; and Erickson is the manufacturer of the equipment to be installed.

In response to a question from Committeemember Kavanaugh, Ms. Seekins reported that the life cycle of the equipment was estimated to be 10 years, but staff realized that the City normally retains equipment beyond the normal life cycle.

Ms. Seekins responded to Committeemember Griswold's request for information on Norstan's financial records and market share by stating that the Finance Department provided assistance in this area. She also noted that the pre-qualification process required financial records for two years and a Dun & Bradstreet report. Ms. Seekins reported that Norstan passed the evaluation.

Committeemember Griswold noted that replacement parts are often difficult to obtain. He asked if staff had investigated the comparative costs of leasing equipment rather than purchasing the equipment due to the rapid development of new technology. Committeemember Griswold noted that the City does not enjoy the advantage of depreciation such as that of a private business and therefore leasing provides the same level of service without the investment of equipment.

Ms. Seekins expressed the opinion that leasing would probably be more expensive as the equipment would be turned over more frequently. She added that staff would make an effort to provide more information on leasing in the next report.

Committeemember Griswold noted that investing money in equipment is not worthwhile as service is the key issue.

In response to a question from Chairman Jones, Mr. Brown reported that the City has been replacing copper at the various campuses and this will facilitate the installation of the new system. He noted that except for a few switches in certain buildings that require upgrading, the City's infrastructure is up to date. Mr. Brown added that in some cases fiber optics will be installed, but replacement of copper would be at a minimum.

Ms. Seekins reported that Norstan was presently in the process of physically checking the equipment rooms in all City buildings to estimate the costs associated with the change out. She noted that the change out costs were outside of the scope of the RFP. Ms. Seekins stated that after staff reviews the costs, the expense would be included in the amount requested for project contingencies.

In response to a question from Chairman Jones regarding redundancy, Mr. Brown noted that the same system is presently being used by the City of Phoenix. He explained that rather than one master PBX, smaller switches would be located throughout the City and provide the necessary level of redundancy.

Committeemember Griswold thanked staff for their efforts and asked if the system provided any secure phone lines.

Mr. Brown responded that PRI trunks would be used, but he was unsure if that provided any increased security beyond the level that presently exists. He noted that City of Phoenix staff members were positive regarding their level of satisfaction with the service provided by Norstan.

Ms. Seekins noted that implementation of the new service would significantly reduce the amount of revenue to Qwest, a monthly estimate of almost \$87,000. She added that Qwest might exert pressure on members of the Council as implementation of the new system proceeds.

3. Adjournment.

Without objection, the Finance Committee Meeting adjourned at 8:58 a.m.

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I hereby certify that the foregoing minutes are a true and correct copy of the minutes of the Finance Committee meeting of the City of Mesa, Arizona, held on the 3rd day of October 2003. I further certify that the meeting was duly called and held and that a quorum was present.

BARBARA JONES, CITY CLERK

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