

# COUNCIL MINUTES

January 4, 2007

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 January 4, 2007 at 7:30 a.m.

## COUNCIL PRESENT

Mayor Keno Hawker  
Rex Griswold  
Kyle Jones  
Tom Rawles  
Scott Somers  
Claudia Walters  
Mike Whalen

## COUNCIL ABSENT

None

## OFFICERS PRESENT

Christopher Brady  
Debbie Spinner  
Barbara Jones

1. Review items on the agenda for the January 8, 2007 Regular Council meeting.

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

Conflicts of interest declared: 5e (Hawker-Whalen); 6g (Hawker-Rawles)

Items removed from the consent agenda: None

Items added to the consent agenda: 5b

2. Hear a presentation, discuss and provide direction on election issues related to spending limitation options.

City Attorney Debbie Spinner stated that she and Budget Director Jamie Warner were present to provide information and obtain Council direction relative to a recent change in State law that could affect the City's 2008-09 fiscal year budget. She advised that although several options would be presented, staff would continue to investigate the issue and seek additional alternatives.

Ms. Spinner said that the City of Mesa currently operates under the "Home Rule" alternative, which enables the City to spend the revenues received by the City within the established budget guidelines. She explained that the "Home Rule" alternative, approved by the voters in March of 2004, expires in June 2008 unless renewed by the voters at a "regularly scheduled" Councilmember election. Ms. Spinner said that the State Legislature's action to move the City's election from a March/May timeframe to the September/November election cycle results in the expiration of Mesa's "Home Rule" alternative prior to the City being able to present the issue to the voters. She outlined the fiscal impacts on the City of Mesa and the alternatives available:

- State-Imposed Expenditure Limitation

Following expiration of the Home Rule alternative in June of 2008, the State would impose an expenditure limitation for Fiscal Year (FY) 2008-09 utilizing a formula based on population growth and inflation since FY 1979-80. The formula applied to the FY 2005-06 budget indicates that the City's expenditures would have been \$60.5 million in excess of a State-imposed spending limitation, which would have resulted in the State withholding \$14.1 million of State-shared revenues in FY 2006-07. Budget forecasts indicate that approximately \$23 million in State-shared revenues would be withheld in FY 2009-10 as a penalty for exceeding the State limitation by approximately \$100 million in FY 2008-09.

- Home Rule Expenditure Limitation Alternative

The State Constitution provides for voter consideration of the Home Rule alternative at a "regularly scheduled election for the nomination or election of members of the governing board" by a two-thirds vote of the Council or by an initiative. The recent change to Mesa's "regularly scheduled" election dates from March/May to September/November eliminates the opportunity for Mesa's voters to renew the Home Rule alternative before the June 2008 expiration date. Mesa voters could consider the Home Rule alternative on September 9 or November 4, 2008 for a July 1, 2009 effective date. The Council must call the election by May 12, 2008 in order for the issue to appear on the September 9<sup>th</sup> ballot.

- Permanent Adjustment of Expenditure Base

This alternative enables the voters to consider a permanent adjustment to the FY 1979-80 "base" figure utilized by the State to calculate the current expenditure limitation. The State Constitution requires that this alternative be referred to the voters by a two-thirds vote of the Council or by the initiative process for consideration at a "regularly scheduled" election for members of the City Council, with September 9, 2008 being the earliest election date available. Voter approval would enable an effective date of July 1, 2009.

Discussion ensued relative to the fact that a permanent base adjustment would be subject to the State formula that includes inflation and population growth since 1979; that the City cannot spend the revenue generated by the recent voter-approved sales tax increase when the Home Rule alternative expires; that the City could have referred a permanent base adjustment to the voters on the recent ballot had they been aware of the State Legislature's plans to change the election dates; that grants, interest income, bonds and debt, and the majority of Highway User Revenue Funds (HURF) are not subject to the State spending limitation; and that the State spending limitation does impact the City's ability to utilize Prop 400 funds.

- One-Time Override Alternative

The voters may authorize an override of the State-imposed expenditure limitation for one fiscal year only in order to address the FY 2008-09 budget. The ballot measure must stipulate the specific amount of the override, identify the purpose for the funds and budget the funds separately. This alternative must be approved by the voters in advance of the fiscal year in which the override would apply and may be presented to the voters at either a "regularly scheduled" City election or a "special" election held on the third Tuesday in May.

The Council could refer this alternative to the voters by calling a May 15, 2007 special election no later than January 12, 2007 or a May 20, 2008 election no later than January 21, 2008. The cost for a special election is approximately \$240,000. The Council could then refer the Home Rule alternative or the Permanent Base Adjustment to the voters at a regularly scheduled election in order to address the City budget beginning in FY 2009-10.

Ms. Spinner outlined the penalties that would be imposed on the City by the State for exceeding the spending limitation:

1. Exceeding the limit by less than five percent would result in a penalty equal to the amount of the excess expenditure.
2. Exceeding the limit by more than five percent and less than ten percent, the penalty would be three times the excess expenditure.
3. Exceeding the limit by more than ten percent of the total limitation would result in a penalty of five times the excess expenditure or one-third of the allocation of State income tax, whichever is less.

In response to comments by Mayor Hawker regarding the exclusion of bond debt from the State expenditure limitation, Mr. Warner advised that staff reviewed the option of bonding for additional expenditures and concluded that the City would still exceed the spending limitation.

Councilmember Jones suggested that the City approach the legislature to obtain a one-time exemption.

Ms. Spinner stated that staff would update the Council as the issue is addressed with the State legislators.

Responding to a question from Councilmember Whalen, Mr. Warner advised that Mesa is the only city negatively impacted by the change in the election cycle. He advised that the law applies to cities with a population in excess of 175,000 and that the City of Mesa is the only city in that size range on a 2004-05 Home Rule option cycle.

Vice Mayor Walters noted that the City of Scottsdale implemented a permanent base adjustment last year, and she suggested that the Council study this option in the future.

Mayor Hawker requested that staff pursue a legislative remedy and that a future Study Session address the options for a one-time adjustment and a permanent base adjustment.

Councilmember Rawles noted that the requirement for voters to consider a Home Rule or permanent base adjustment at a "regularly scheduled" election is in the State Constitution. He stated the opinion that it is unlikely that the constitutional requirement could be changed in a timely manner, and he suggested that staff pursue an exemption to enable the next "regularly scheduled" City of Mesa election to occur in the March/May timeframe.

City Manager Christopher Brady noted that Mr. Warner is retiring at the end of the month, and he thanked Mr. Warner for his service to the City.

Mayor Hawker thanked staff for the presentation.

3. Discuss, consider and provide direction regarding the 2007 State Legislative agenda.

Assistant to the City Manager Jim Huling said that he and Government Relations Coordinator Scott Butler were present to provide a preview of the upcoming State legislative session and to seek Council direction regarding issues that affect the City of Mesa.

Mr. Butler displayed a PowerPoint presentation (a copy is available for review in the City Clerk's Office) to provide an overview of the composition of the House and the Senate. He noted that the President of the Senate, Tim Bee of Tucson, plans to emphasize a more "rural Arizona, non-Maricopa County" agenda regarding transportation and other issues. Mr. Butler reported that seven of the eighteen House Committee Chairs represent portions of the City of Mesa and that three members of the Mesa delegation serve as chairmen of Senate Committees.

Mr. Huling continued the PowerPoint presentation by outlining Mesa's priority issues:

- The preservation of State-shared revenues. Mesa anticipates receiving \$148.7 million in State-shared revenues in FY 2006-07, which represents approximately 32 percent of the City's total net revenues.

Discussion ensued relative to the fact that a portion of the tax revenues paid by residents are redistributed by the State to each municipality; that the concept of State-shared revenue was developed and approved by the voters in lieu of individual cities imposing additional local sales and income taxes; and that the State Legislature has the power to adjust the allocation of State-shared revenues.

Mr. Huling advised that an effective argument in support of Mesa's allocation of State-shared revenues is the planned employment center at Williams Gateway Airport (WGA), which provides a benefit to the entire State of Arizona. He noted that a decision to reduce Mesa's share of State-shared revenues could encourage Council action to promote retail development in the WGA area that would more directly benefit the City of Mesa in terms of sales tax revenues.

Vice Mayor Walters advised that the provisions of the *Voter Protection Act* do not apply to issues approved by the voters before the law was enacted. She expressed concern that in recent years the Legislature addressed State-shared revenue allocations as "appropriations," which have the appearance of being a gift. Vice Mayor Walters stated that State-shared revenues are the result of an agreement between the State and the cities that includes a formula to determine the allocations, and she stated the opinion that the Council should direct staff to encourage the Legislature to utilize the formula.

In response to a question from Vice Mayor Walters, City Manager Christopher Brady reported that the total of sales tax revenues and State-shared income tax revenues are not sufficient to fund the costs for Public Safety.

Further discussion ensued relative to the fact that Public Safety accounts for \$185.6 million in the City of Mesa budget; and that the total of \$84.6 million in local sales taxes and \$87.1 million in State-shared revenues are insufficient to address the total cost for Public Safety.

Mr. Huling continued the presentation by advising that the next priority issue to be considered by the Legislature is:

- State Transportation Acceleration Needs (STAN) Account

Last year the Legislature appropriated \$307 million to create this account and the Maricopa Association of Governments (MAG) received sixty percent of that amount. MAG directed \$20.3 million of the allocation to the Williams Gateway Freeway right-of-way preservation.

Mr. Huling stated that the Legislature considers transportation to be a major issue and that Mesa's delegation in the State Legislature supports an annual STAN allocation to MAG of \$200 million per year for each of the next five years. He reported that Senate Bill (SB) 1049 proposes to appropriate \$450 million from the State's "rainy day" fund to the STAN account, which would generate \$270 million for the MAG Region. Mr. Huling said that the Governor is likely to propose extending the life of Highway Bonds from twenty years to thirty years, which would generate additional funds for highway programs through refinancing, but the plan is opposed by the majority in the Legislature. He advised that a minority recommendation to index the gas tax, which has not been increased since 1984, is likely to fail due to lack of support. He further advised that another proposal under consideration is the elimination of the gas tax in favor of a sales tax, which would be revenue neutral in the first year.

Mr. Butler reported that SB 1049 is being "fast tracked" with an emergency clause and would become effective immediately if and when the bill is signed by the Governor.

Additional discussion ensued relative to the fact that although acquiring vacant land for future freeway construction is more economical, State legislators serving two-year terms find it difficult to authorize the purchase of land that would remain vacant until a future freeway is constructed.

Mayor Hawker noted that the discussions regarding the short-term and long-term benefits of purchasing the rights-of-way for future freeways would be ongoing. He expressed support for the proposal to fund MAG transportation issues at \$200 million a year over a five-year period rather than utilizing the "rainy day" funds, and he added that he would like the City to participate in developing a five-year plan for the use of those funds. Mayor Hawker also expressed support for the sales tax as an alternative to the gasoline tax. He advised that although he has some concerns relative to extending the life of Highway Bonds because of the additional debt that would be incurred, he would be interested in learning the amount of the funds that would be available by utilizing that approach.

Vice Mayor Walters said that she concurred with the Mayor's comments. She further stated the opinion that borrowing from the "rainy day" fund would be shortsighted because State-shared revenues are likely to be reduced if such a fund were unavailable to address a future economic crisis. She expressed support for the sales tax approach as a replacement for the gasoline tax.

Further discussion ensued relative to the fact that the MAG region receives sixty percent of the funds in the STAN account; that approximately two-thirds of the State's population resides in the MAG region; and that residents of the MAG region also utilize roadways outside of the region which require improvement.

Mr. Butler continued the presentation on priority issues as listed below:

- Williams Gateway Airport (WGA) Infrastructure Improvements

The Legislature appropriated \$1.1 million during the 2006 session for the North Apron fire suppression system (\$500,000) and for intersection improvements (\$600,000) near the airport.

Mayor Hawker stated that the Council would continue to support staff's efforts to obtain additional State funding for the WGA employment center development.

Mr. Butler reviewed other significant legislation including the Mesa-sponsored sex offender restrictions, the County island fire districts, photo radar enforcement and development impact fees.

Mayor Hawker noted that the Council discussed the possibility of the State Legislature reviewing the practices employed by "payday loan" stores.

Mr. Butler advised that the Legislature plans to review the laws governing "payday loan" operations and that staff will keep the Council informed on activity regarding this and other pertinent issues.

Mayor Hawker thanked staff for the presentation.

4. Acknowledge receipt of minutes of various boards and committees.

- a. General Development Committee meeting held December 7, 2006.
- b. Audit and Finance Committee meeting held December 14, 2006.
- c. Transportation Committee meetings held on October 31, 2006 and December 20, 2006.

It was moved by Councilmember Jones, seconded by Councilmember Griswold, that receipt of the above-listed minutes be acknowledged.

Carried unanimously.

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

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

6. Scheduling of meetings and general information.

City Manager Christopher Brady provided the Council with copies of the Customer Service Value cards (copies are available for review in the City Clerk's Office) developed by an employee group.

Mr. Brady reviewed the format for District Town Hall Meetings, and he advised that staff would coordinate the dates and site locations with each Councilmember.

Mr. Brady stated that the meeting schedule is as follows:

Monday, January 8, 2007, TBA – Study Session

Monday, January 8, 2007, 5:45 p.m. – Regular Council Meeting

Thursday, January 11, 2007, 7:30 a.m. – Study Session

Thursday, January 18, 2007, 7:30 a.m. – Study Session

Monday, January 22, 2007, TBA – Study Session

Monday, January 22, 2007, 5:45 p.m. – Regular Council Meeting

Thursday, January 25, 2007, 7:30 a.m. – Study Session

7. Prescheduled public opinion appearances.

There were no prescheduled public opinion appearances.

8. Items from citizens present.

There were no items from citizens present.

9. Adjournment.

Without objection, the Study Session adjourned at 8:48 a.m.

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KENO HAWKER, MAYOR

ATTEST:

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BARBARA JONES, 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 4th day of January 2007. I further certify that the meeting was duly called and held and that a quorum was present.

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BARBARA JONES, CITY CLERK

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