



# COUNCIL MINUTES

December 12, 2005

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 December 12, 2005 at 4:00 p.m.

## COUNCIL PRESENT

Mayor Keno Hawker  
Rex Griswold  
Kyle Jones  
Tom Rawles  
Janie Thom  
Claudia Walters  
Mike Whalen

## COUNCIL ABSENT

None

## OFFICERS PRESENT

Mike Hutchinson  
Debbie Spinner  
Barbara Jones

Mayor Hawker excused Councilmember Griswold from the remainder of the meeting at 5:35 p.m. during the discussion of agenda item number 2.

1. Conduct a joint meeting with the Board of Directors of the City of Mesa Municipal Development Corporation and the Mesa City Council.

Mayor Hawker welcomed the Mesa Municipal Development Corporation (MDC) Board of Directors, and at the Mayor's request, each of the following members introduced themselves:

Martin J. Whalen, President  
Milt Laflen, Vice President  
Howard Godfrey, Treasurer  
Gregg Houtz, Secretary  
James Thompson, Director

Board President Whalen advised that the Board is recommending the appointment of former City Manager Charles Luster to fill a current vacancy on the Board of Directors.

City Manager Mike Hutchinson reported that the MDC was formed in order to fund important City projects, such as the Centennial Center Parking Garage, the Pinal County Water Farm project, the Riverview Golf Course, the Mesa City Plaza Building, and the expansion of Hohokam and Fitch Stadiums. He explained that the MDC maintains control of the properties until the debt is paid, at which time the assets are transferred to the City. Mr. Hutchinson provided a brief history regarding the acquisition and operation of the Pinal County Water Farm,

and he noted that the City is considering selling sections of this property over a period of time. He added that City projections indicate that not all of the Water Farm assets would be needed in the future. Mr. Hutchinson stated that Williams Gateway Regional Economic Activity Area Project Manager Wayne Balmer would provide an update on the status of the property.

- a. Hear an update on the status of Pinal County Water Farms.

Mr. Balmer said that he and Real Estate Services Director Doug Tessendorf developed a proposal titled "Pinal County Land Release Program" (see Attachment 1) in order to address the Council's request for a plan to sell parcels of the Pinal County Water Farm that would generate approximately \$234 million in revenue by 2018. He advised that Commerce Realty Advisors Limited, a firm knowledgeable regarding Pinal County property and previously utilized by the City in the Langley Ranch project, was contacted to conduct a review of the properties and recommend a strategy (see Attachment 2). Mr. Balmer identified the parcels proposed for future sale and outlined various alternatives and timelines available to the City.

Mr. Hutchinson stated that the MDC Board was briefed on this proposal in a meeting held just prior to this Study Session.

- b. Discuss and consider various alternatives pertaining to the disposition of the Water Farm properties.

Board President Whalen noted that the MDC Board did not have an opportunity to discuss the proposal, and he expressed concern that establishing a deadline or timetable on the sale of property would negatively impact the sales price. He also stated the opinion that the Council should be certain that a decision to sell this asset serves the best interest of the City.

Boardmember Houtz noted that the Water Farm could provide 30,000 acre-feet of water in perpetuity, and he suggested that the City set aside a portion of the sale proceeds in the event additional water resources are required to address the needs of future growth.

Boardmember Lafen concurred with the comments of Boardmember Houtz, and he noted that 30,000 acre-feet of water would support approximately 150,000 people.

Discussion ensued relative to the fact that the Council and the Corporation Board have received the same briefing on the status of the City's water supply; that the Water Farm sale proceeds would first be directed to paying bond debt; and that some of the sale proceeds could be set aside to acquire future water rights.

In response to a question from Mayor Hawker, Boardmember Houtz advised that the Board's concern regarding additional water rights is based on the situation in Phoenix where low-density housing areas are changing to high-density areas as a result of high-rise condominium construction. He stated that a similar change could occur in Mesa, and he added that uncertainties continue to exist regarding projections of future water availability.

Responding to a request from Mayor Hawker, Electric Division Director Frank McRae advised that Mesa's water demand is presently less than 100,000 acre-feet. He stated that the City has an adequate supply of water to meet the demand, and he noted that a critical part of the City's water portfolio consists of reclaimed water supplies. Mr. McRae provided a brief overview of the status of the City's water resources.

Additional discussion ensued relative to the fact that the City has reserve supplies of water in excess of current demand; that the City has a number of contingency water sources; and that water conservation is an important factor in addressing future demand.

Mr. Hutchinson stated that the City has aggressively managed the water portfolio, and he advised that staff is confident that sufficient resources are available to meet future demand.

In response to comments from Vice Mayor Walters, Mr. Balmer explained that the City could accept or reject an offer for a specific parcel. He added that staff endeavored to identify the smallest parcels that would be the most attractive to potential buyers. Mr. Balmer noted that the development of certain parcels could result in increasing the value of adjoining properties when they are scheduled for sale at a later date.

Further discussion ensued relative to the fact that the cost was prohibitive to construct infrastructure that would direct water from the Water Farm to the Central Arizona Project (CAP) canal; that the Water Farm water quality is lower than expected due to the presence of soluble salts, nitrates and arsenic; that City staff and the Arizona Water Company have discussed the possibility of a future agreement regarding the Water Farm resource; that the City presently supplies water for agricultural applications; and that utilizing the water for residential purposes would require a conversion to a municipal water right.

Responding to a series of questions from Councilmember Thom, Mr. Balmer reported that Pinal County and Maricopa County are subject to different rules regarding the blending of water. He explained that the Arizona Water Company is required to file an application with the Arizona Corporation Commission in order to expand their Certificate of Need to include additional properties. Mr. Balmer also advised that staff identified parcels of approximately one square mile in size that would be of interest to developers. He added that at the time the properties were acquired, the City was interested in the properties that had the most secure water rights.

In response to a question from Councilmember Whalen, Boardmember Houtz stated that the Board requested that City staff review the water requirements for higher population densities. He explained that the Board has concerns as to whether the City would be able to maintain an assured water supply in the future.

Responding to a question from Councilmember Whalen, City Attorney Debbie Spinner explained that the MDC by-laws state that the Corporation owns the property until the bond debt has been fully paid or provided for, after which the Corporation shall transfer all rights, title and interest to the City of Mesa. She added that Fred Williams, legal counsel for the Corporation, advised that the transfer could be accomplished in parcels.

Additional discussion ensued relative to the fact that upon payment of the bond debt and transfer of the property to the City, the Corporation is no longer responsible for the asset; and that the City has no contractual agreement with or commitment to Commerce Realty Advisors relative to the Water Farm property.

Board President Whalen confirmed that the Corporation Board also has no commitment in place with Commerce Realty Advisors.

- c. Discuss and provide direction regarding the Financing the Future Committee's recommendation to form a study committee to provide recommendations on various Water Farm disposition scenarios.

Mayor Hawker stated that agenda items b and c impact each other and therefore the Council's discussion of these items would be combined. He explained that the Council requires expert advice from an individual or committee in order to identify alternatives under agenda item b.

Councilmember Rawles expressed the opinion that the MDC Board could serve as the study committee recommended by the Financing the Future Committee.

Vice Mayor Walters noted that although the MDC Boardmembers are very experienced individuals, she believes that additional sources of expertise relative to the disposition of the Water Farm properties would be valuable to the Board.

Board President Whalen confirmed that none of the Boardmembers are real estate agents or developers. He explained that the City has a wealth of resources that the Board utilizes, and he added that in the event the City is unable to provide the requested information, the Board seeks assistance from other sources.

Discussion ensued relative to the fact that individuals with real estate expertise would be aware of the proper questions to ask; that the State Trust model for the sale of land generated substantial interest, which resulted in higher bids for their properties; and that selecting parcels that have existing infrastructure in close proximity is likely to generate greater interest and maximize the sale proceeds.

Board President Whalen advised that the MDC has taken steps to increase the number of seats on the Board in order to acquire additional expertise.

Mayor Hawker commented that a recommendation of the Financing the Future Committee was that the Council establish a Board to review the Water Farm properties. He noted that the MDC could serve as that Board or the Council could form another committee for that purpose.

Councilmember Whalen expressed support for the MDC to serve as the review committee, and he suggested that the Council seek real estate expertise to provide assistance in the decision-making process regarding the sale of the Water Farm properties.

Additional discussion ensued relative to the fact that the Council should consider the type of professional assistance that is required and the strategy to be employed by the City; and that staff should present the Council with various alternatives.

Mayor Hawker thanked the MDC Boardmembers for meeting with the Council to address the Water Farm issue.

2. Discuss, consider and provide direction regarding proposed property and sales tax changes, budget and election scenarios.

Financial Services Director Bryan Raines advised that staff continues to modify budget scenarios, and he noted that none of the proposed scenarios replace the budget reductions implemented by the City in the past five years. Mr. Raines and Budget Director Jamie Warner outlined the following proposals:

- Future General Obligation (GO) bond debt would require that both principal and interest be paid each year in order to address the six percent limitation rather than holding the principal payments to the end of the loan period, which would reduce the overall average maturity of the City's bonds and retire the debt in an earlier timeframe.
- The sales tax would be allocated at .30 percent for Street Maintenance and .25 percent for general governmental purposes.
- Short-term debt (four to seven years) may be required in order to address transportation requirements until reimbursement is received from the Maricopa Association of Governments (MAG) under the Proposition 400 Program.
- The ending fund balance shows improvement and eventually reaches ten percent.
- A reduction in the transfer amount from the Enterprise Fund begins in the year 2014/2015.
- Pinal County Water Farm sale proceeds are projected at \$224 million.

Discussion ensued relative to the fact that staff's projections include debt financing interest expense for Proposition 400 matching funds; that excise tax payments have been included; that certain projects could be deferred until a later date; that anticipated land dedications by developers have been factored into the proposal; that Highway User Revenue Fund (HURF) "Maintenance of Effort" funds would be generated by the .30 cent portion of the sales tax; that the bond debt service payments address existing debt and a secondary property tax would address future GO bond debt; that the proposal is based on a sales tax effective date of July 1, 2005; that the projected five percent sales tax growth corresponds to the projected three percent annual cost of living increase and two percent per year population growth; that \$37 million in budget reductions would be required if the sales tax ballot issue failed; that the City could lose \$600 million in Proposition 400 funds by failing to provide the local matching funds; and that State Shared Revenues are forecasted to decrease due to the fact that the current reported growth rate is not projected to continue in the future and other communities are expected to grow at a faster rate.

Mayor Hawker expressed appreciation to Mr. Raines and Mr. Warner for working over the weekend to prepare the information requested by the Council. He noted that the budget scenario presented today is dependent on the sale of a portion of the Pinal County Water Farm property. Mayor Hawker suggested that this discussion continue at the next Study Session and that ballot language be drafted to address the proposed sales tax increase.

Councilmember Rawles expressed concern that only one option was identified and the public has not had an opportunity to comment on the proposal. He suggested that various budget scenarios be presented for public comment at the Regular Council meeting on Monday evening.

Further discussion ensued relative to the fact that the Council could change the language of a proposed resolution at the Regular Council meeting; that the Council should exercise caution to ensure that citizens do not perceive that a decision has been made prior to hearing public comment; that the proposed .30 percent sales tax for streets addresses operations and maintenance expense and GO bonds would fund capital costs; that the proposed budget cuts in City programs and services may not represent the views of the Councilmembers; that alternative budgets should be prepared to address the various possible scenarios; that a discussion of possible ballot language and tax scenarios should be placed on the next Study Session agenda; that all of the proposed budget and tax scenarios address the City's current level of service; that primary property tax revenues can be utilized for operations and debt retirement, but secondary property tax revenues can only be utilized to retire debt; that a Council decision to place a property tax on the ballot would include a maximum dollar amount to be generated by the tax rather than a specific tax rate; and that reaching a consensus may be difficult due to the fact that the Councilmembers and members of the public all have personal preferences.

Mr. Hutchinson advised that this topic would be placed on the December 15<sup>th</sup> Study Session agenda.

3. Discuss, consider and provide direction regarding timing and content of future bond election(s).

Mayor Hawker requested that this item be placed on the Study Session agenda for Thursday, December 15, 2005. He also requested that staff provide updated information on the amount of space that Maricopa County anticipates would be available to the City on the November ballot.

4. Items from citizens present.

Frank Mizner, 2516 West Kiowa, noted that the City faces many difficult decisions, and he acknowledged the efforts of the Councilmembers. He expressed concern that increased sales taxes and the sale of a valuable asset would not provide a long-term solution to Mesa's financial problems.

Earnie Johnson, 1414 North Hibbert, expressed support for a primary property tax, and he urged the Council to follow the recommendations of the Financing the Future Committee.

Sheila Mitton, 1615 West Pueblo, commented on the proposed budget reductions and the City Manager selection process. She thanked the Mesa Police Department for providing Boys and Girls Club memberships to seven Emerson Elementary School students.

5. Adjournment.

Without objection, the Study Session adjourned at 6:07 p.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 12th day of December 2005. 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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Attachments (2)