ITEM P2
DATE 9-19-05
~~STUDY SESSION~~

MESA 2025: FINANCING THE FUTURE COMMITTEE FINAL REPORT

September 2005

I. Committee Statement

The following report represents the culmination of 18 months of work by the Mesa 2025: Financing the Future Committee. As members of the Committee, we appreciate the opportunity to present this report to the Mayor, Council and citizens of Mesa.

Included in this report are recommendations that will address the City of Mesa's current and long-term financial challenges. The process through which these recommendations were created was lengthy and comprehensive. During the presentations, we had the opportunity to ask the hard questions, scrutinize documents and financial forecasts, and examine many facets of the City's operations. We appreciate the financial forecasting and planning efforts that the City has undertaken. These efforts will allow Mesa to address the City's financial challenges in a comprehensive, proactive manner, rather than reacting to future, unforeseen deficits.

After thorough review of all information received, analysis of the City's financial figures and forecasts, and extensive discussions/deliberation, we have generated the following report. Included in the report are recommendations that, if implemented, will ensure the City of Mesa's ability to become a financially sustainable community through 2025.

II. Committee Background

In fall 2003, the City Council conducted its annual retreat and review of its established work plan. During this review, the Council began a more formal discussion on the City's financial forecast and related financial concerns. Acknowledging the future financial challenges faced by the City of Mesa, the Mayor and City Council created a 16-member Financing the Future Committee in January 2004. Chaired by City Councilmember Kyle Jones, the committee is composed of 12 dedicated citizens, members of the City Council's 2004 Finance Committee and the Mayor, who serves as a non-voting member. Members of the Committee were recommended and appointed by all six councilmembers and represent each of Mesa's six council districts and various community and business interests. (See Attachment 1, Committee Membership)

In February 2004, the Committee began meeting twice a month to learn more about the City's operations and financial processes. The Committee spent nearly a year hearing presentations from every City department, touring various City facilities, and reviewing the City's financial programs and documents. Each department presented a detailed overview of current operations, an explanation of their future challenges through 2025 and an estimate of the costs required to meet those challenges. When applicable, departments benchmarked their services with other comparable cities locally and nationwide. (See Attachment 2, Meeting Schedule and Work Plan)

To achieve a high level of awareness and public participation in the Committee's process, all meetings were broadcast live and rebroadcast on Mesa Channel 11. The City of Mesa Web site (www.cityofmesa.org) was used to publicize meeting agendas, minutes, presentations and other meeting materials. Additionally, more than 100 concerned citizens attended a public hearing on Feb. 9, 2005, with more than 30 attendees making comments.

III. Committee Mission

The committee was charged with studying and evaluating current revenue and expenditure models and challenges, and subsequently making recommendations to the City Council on how to finance the City through 2025, which is the approximate forecasted year Mesa will reach build out.

IV. City Background and Current Challenges

Mesa is currently the 40th-largest city in the nation and the third largest in Arizona with an estimated population of 451,223 and an area of approximately 132 square miles. At build out, Mesa's population is estimated to be more than 636,000. In 1990 the Census showed Mesa to have the highest growth rate of any city with a population of more than 100,000 in the United States. Over the last decade, Mesa grew by 38 percent, compared to the national rate of 13 percent, with a population larger than cities such as Atlanta, Miami, Minneapolis and St. Louis.[1]

This tremendous growth, coupled with Mesa's historical financial model, presented both opportunities and challenges for the City of Mesa. In 1945, City leaders made a change in the City's financing structure by reducing the property tax levy to zero. During the following decades, Mesa was a growing community and was collecting the revenues necessary to develop infrastructure and provide increased services through utility profits, sales tax revenues, state-shared revenues and user fees.

During Mesa's tremendous population and housing growth from the 1970s to 2000, the City generated significant sales tax revenues and utility profits. However, the increased focus on conservation coupled with more efficient appliances and new technology have caused a per-capita reduction in the use of City utilities and consequently, a decrease in net utility revenues.

In 1998, City of Mesa voters approved a 1/2-cent Quality-of-Life (Q-of-L) sales tax increase to fund items such as additional police officers, firefighters, swimming pools, parks and recreation programs, and the Mesa Arts Center. One-quarter of the tax increase is dedicated to capital expenditures related to these projects while the remaining 1/4 cent will fund operations and maintenance expenses. As of June 30, 2005, this tax has generated approximately $236 million.

In 2000, voters approved an initiative to repeal the sales tax on food for home consumption, making Mesa and Phoenix the only major Valley communities without a tax on food. The elimination of this revenue source represents a current reduction of approximately $9 million annually and a compounded reduction of more than $43 million in revenue since the removal of the tax in 2000.

As the City moves toward the future, it faces significant financial challenges. In addition, as the City continues to grow, Mesa must guard against economic inefficiencies and continue to seek reasonable and practical ways to avoid waste. Therefore, to ensure Mesa's future financial sustainability, the Committee identified the following challenges that need to be addressed:

A. Growth-Related Issues

A significant amount of infrastructure developed by the City over the last several decades is aging and reaching (in some cases exceeding) its lifespan. Mesa's housing

[1] Sources: www.cityofmesa.org - Planning Division and The City of Mesa Library's Mesa Room

stock constructed in the 1970s and '80s is maturing. The maintenance needs of the City have grown significantly. These increased maintenance costs coupled with the continued requirement to meet the needs of new development throughout the City has become a financial challenge that currently cannot be met.

Additionally, as Mesa has grown, the scope and complexity of City services also have continued to expand to meet citizen demands, technological change and service mandates. Activities such as the City's shared responsibility for the operation of the Williams Gateway Airport as well as costs associated with federal mandates such as arsenic remediation were not anticipated even as little as 20 years ago.

B. Decline of Sales Tax Revenues

One of the challenges with a financial structure dependent upon such elastic revenue sources as sales taxes and utility profits is the potential ebb and flow of funds over time as consumers react to economic cycles. During the1980s and '90s, following periods of economic downturns, the economy rebounded strongly and Mesa reaped the benefits with large sales tax collections. Although there were economic downturns during this time frame, the City was able to generate enough revenues through the substantial population and development growth it experienced as the economy improved.

However, a fluctuating economy and increased competition from neighboring cities have caused a decline in sales tax revenues per capita. This decline illustrates the inherent problems Mesa faces with a heavy reliance on sales tax revenues, which now do not keep pace with growth as they have in the past. Mesa is no longer the retail hub of the East Valley and portions of the sales tax revenues generated by the City in the past now are being collected in surrounding communities such as Chandler, Gilbert and Tempe.

Another significant impact to the City's revenue stream is the expiration of a portion of the Q-of-L sales tax approved by Mesa voters in 1998. Of this 1/2-cent tax, 1/4 cent will expire in July 2006. After the 1/4 cent is eliminated, Mesa's sales tax rate will decrease from 1.50% to 1.25%, by far the lowest rate of any major city in the Valley. This lower tax rate represents approximately $20.7 million in reduced revenues.

C. Transportation Needs

With its current and future financial challenges, the City is facing significant funding and program shortages throughout the organization. One of the largest areas in the City for which funding is lacking is the City's transportation program. This unfunded need includes both improvements to and the expansion of street maintenance and street capital. Originally developed in 2002, the City's Transportation Plan included recommendations to address these issues. However, recognizing the lack of financial resources, implementation of the plan was delayed.

Over the years, the cost to maintain the City's streets has increased as the system has aged. However, funding for street maintenance has not increased to keep pace with the costs required to maintain a more mature and ever-expanding street system. As a result, the condition of the city's streets has deteriorated greatly in recent years and will continue to do so without added funding to maintain them.

In November 2004, voters in Maricopa County approved Proposition 400 to extend the countywide sales tax for transportation. This initiative included $385 million in regional funding for more than 50 street capital projects in the City. This represents approximately 70% of the total funding; however, a local funding match is required to make up the remaining 30%. The estimated cost for Mesa's local match for the Regional Transportation Plan is \$170 million (2002 dollars), which when inflated over 20 years grows to approximately \$253 million. If the City is unable to meet the local match requirement stipulated in the proposition, it will lose its share of the tax revenue to other Valley communities. Currently, Mesa does not have the revenues needed to provide those matching funds.

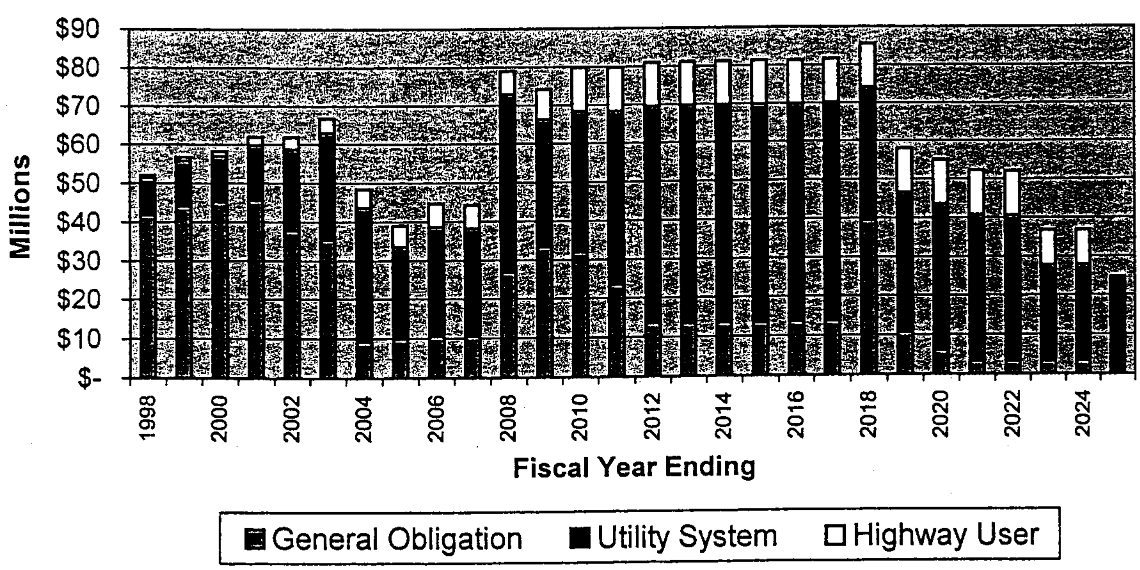
D. Reliance on Utility Profits

Another concern is the City's continued reliance on a significant percentage of its utility profits to fund City operations. Within the current fiscal system, the City adjusts utility rates to provide sufficient revenues needed to address the increased costs of utility services but also to offset Citywide revenue shortfalls and fund many operational expenditures in the General Fund including police, fire, street repairs, and parks and recreation programs. As this revenue transfer continues over time and more money is transferred out of the utility enterprise, a smaller portion is available to maintain and enhance the utility infrastructure and equipment. Thus, many items are beyond their lifespan and require replacement. The Committee also believes that the current system lacks sufficient transparency, such that Mesa citizens cannot easily determine how their utility payments are being used. Specifically, the General Fund transfers are not separate line items on utility bills, which results in an overall process that is difficult for citizens to understand or track.

E. Resumption of Debt Service Payments

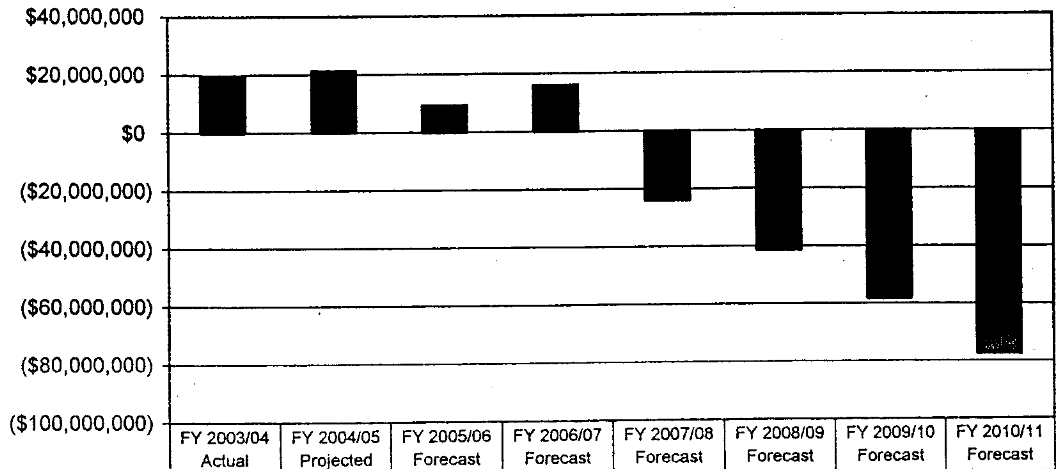
Although the City currently is facing considerable financial challenges, they are minimal compared to the impending financial crisis that will impact the City beginning Fiscal Year (FY) 2007/08. At that time, debt service payments will return to the levels experienced prior to 2004. The return of debt payment amounts to these previous levels represents a significant increase over the last several years when the City was able to structure its debt amount to allow for lower payments. Commonly referred to as Debt Valley, this programmed reduction in debt payments delayed the City from having to make even more drastic cuts to services and programs by as much as four years.

DEBT VALLEY



Consequently, in FY 2007/08, total bond debt payments will return to previous levels of nearly $79 million, up more than $35 million from FY 2006/07. This change, coupled with continued increases in operational costs, is forecasted to drive the City's ending fund balance towards a deficit of nearly $24 million. In FY 2010/11, that deficit grows to $77.6 million.

Actual, Projected & Forecasted General Fund - Ending Fund Balances



	FY 2003/04 Actual	FY 2004/05 Projected	FY 2005/06 Forecast	FY 2006/07 Forecast	FY 2007/08 Forecast	FY 2008/09 Forecast	FY 2009/10 Forecast	FY 2010/11 Forecast
General Fund Balances	$19,368,430	$21,391,836	$9,288,988	$16,051,249	($23,894,558)	($41,278,040)	($58,142,226)	($77,584,561)

In the event of a significant economic emergency, maintaining a strong fund balance and sufficient contingency funds are essential for the City's ability to deal with any financial need or crisis that may arise. Additionally, bond rating agencies view an organization's fund balance as an important factor when establishing that city's bond rating. An insufficient fund balance could result in a lower bond rating, thus making it more expensive for the City to issue bonds.

When the voters approve General Obligation Bonds, ballot language includes a statement that a secondary property tax could be levied if necessary to repay the debt services. The committee recognizes the legal right of the City Council to levy a secondary property tax to pay for bond debt.

V. Financial Impact of Challenges

The following breakdown illustrates the financial implications of the challenges facing the City of Mesa now and in the future:

- Elimination of the sales tax on food — Currently $9+ million reduction in revenue annually; approximately $43 million since 2000
- Expiration of the 1/4-cent portion of the Q-of-L tax (on June 30, 2006) — $20.7 million reduction in revenue annually
- Prop 400 match requirement — $170 million (in 2002 dollars – the fully inflated amount over 20 years is approximately $253 million)

- Increase of debt service payments in FY 2007/08 — $35 million annually (approximately)

In addition to these financial implications, the City must address the inherent structural problem it has with its current financing model. As a comparison, when the revenues generated by property taxes, utilities and sales taxes of the comparable Valley cities are evaluated against the same revenue sources for the City of Mesa, Mesa's existing structure generates on average $40 million less in revenue per year than its comparable neighbors in the region. (See Attachment 3, Comparison of the City of Mesa's Revenue Structure)

Although Mesa continues to be the most affordable community in the region and one of the most affordable nationwide[2] in terms of the direct costs of government to the average citizen (see Attachment 4, Average Homeowner's Charges Survey), this low cost has created financial challenges impacting the City's ability, during periods of continually rising costs, to continue to provide expected services.

If the City is to continue providing the services and maintaining the infrastructure it has developed, it must develop a comprehensive, sustainable and stable revenue structure. The anticipated lack of revenue growth precludes the City from funding expenditures related to capital replacement, general infrastructure and the ongoing operations of various services. The impending financial crisis is unavoidable unless the structure of Mesa's revenues, expenditures or both is modified significantly to reflect the large, maturing city that Mesa has become.

VI. Committee Recommendations

After through consideration of all factors and projections presented to it, the Committee determined that, in order to achieve financial sustainability through 2025, the City must adopt a long-term multifaceted approach. Recognizing this, the Committee has developed the following recommendations to address improvements in operational efficiencies and expenditure-related items as well as additional revenue measures. While some of the recommendations did not receive unanimous support by committee members, all of those included below represent a majority of the group.

A. Statement of Principles

The Committee has developed several recommendations that revolve around the following guiding principles:

1. **It is the intent that the proposed recommendations present a total level of taxation that is commensurate and competitive with the communities in the region.**

2. **It is the responsibility of the City Council to determine the specific extent of necessary revenues and make ongoing adjustments as necessary to ensure that the City operates at the least expense possible while providing the levels of service desired by its citizens.**

[2] David Osborne and Peter Hutchinson, *The Price of Government* (New York: Basic Books, 2004), p.57.

B. Budget Process and Service Efficiency Recommendations

1. Prioritization and Revitalization of City Services

The City Council shall annually formulate a list of city spending priorities, and discuss and approve this list in a regular meeting. Each priority must be result oriented and paired with specific indicators of success, consistent with the parameters set forth in this document. The City Council should not approve the final budget unless it is consistent with the approved prioritized spending list.

The City Council shall create the Mesa Citizen's Advisory Committee (final committee name TBD; should allude to or include the words "setting financial priorities," "financial strategy" and/or "operational efficiency"). The members of this committee shall be appointed by the City Council. Working with the City Auditor, the committee shall develop a recommended annual audit plan, review audits conducted by the City Auditor or any independent auditor retained by the City, and make recommendations to City Council as appropriate. Other duties of the committee may include, but not be limited to: identifying possible public-sector providers, public-private partnerships, intergovernmental relationships and other economic opportunities to transfer services, where appropriate, to the private sector or other governmental entities; contracting management oversight of private/ governmental providers of city services; evaluating all departments and services relating to continued usefulness and making recommendations to sunset programs or services; and evaluating the acquisition, management and recommended disposition of City real property assets. The committee shall be considered a part of the City government subject to the State's open meeting, public records, and conflict of interest laws and the City's Ethics Code. The committee shall forward any recommendations to the City Council for public review and final approval. Staffing and any other resources necessary for the proper functioning of the committee shall be provided in the City Auditor's budget allocation.

2. Outcome Orientation and Program Accountability

Under the direction of the City Council and in accordance with the goals and objectives set by the Council, each City department, agency, office and program shall have clearly articulated and specific, long- and short-term goals. Goals shall be stated in relation to relevant Citywide goals and objectives. The statement of goals and objectives shall be accompanied by performance standards and benchmarks for measuring success. These objectives, standards and benchmarks shall be reviewed and approved by the City Council and published on the Internet. The goals and objectives shall include a section detailing the history of the department, agency, office or program that allows the public and Council to understand when and why the City undertook the particular governmental program, and its evolution in terms of budget, programs, employees and scope of purpose. The objectives also shall include a report on available non-governmental providers of the same or similar services.

Each Department, either directly or through the City Manager, must periodically report to the Council. Such reports shall:

(a) be organized to reflect and respond to the program's Council-approved goals and objectives and expressed in terms of the original, Council-approved measurement benchmarks (no self-fulfilling prophecies);

(b) the goals and objectives shall directly refer, wherever possible, to the strategic plan, which may be adopted and amended from time to time by the City Council, and to the department's presentations to this Committee referencing its long-term objectives and challenges;

(c) suggest and defend modifications and amendments to goals and objectives and/ or success benchmarks (with modifications and amendments subject to Council approval);

(d) describe efforts toward improving efficiency and reducing cost; and

(e) describe efforts to engage in possible public-private partnerships where reasonable.

The role of City government shall be to provide the best possible service for the least amount of money. The City Council shall review, critique and approve all proposals and periodic reports based on these two criteria.

3. Sunset Review Process

The City Council should establish and implement a Sunset Review Process. This process should be derived from models (including the one used by the Arizona State Legislature) that have been determined to be successful in providing a thorough method to evaluate the efficiency, effectiveness and continued viability of City programs.

4. City Council Budget Process

The Council shall annually review and approve the budget only after inquiring into the success measures of each City department and program. Specifically, the Council shall inquire into (1) significant failures to achieve or move toward achievement of goals and objectives; and (2) efficiency efforts. Council is responsible for assuring that programs and business practices are not repeated or continued into perpetuity. It is not sufficient to make budget decisions based on comparisons with previous years. While such comparisons are essential, they beg the essential question: is the program working?

Council shall demand that staff provide the highest possible quality of services in the most efficient manner possible based on existing knowledge and technology. Both staff and Council shall look for reasonable opportunities to transfer non-essential services to the private sector or to public-private partnerships.

The budget shall not be seen as the City's report card for public consumption. The budget is an essential business tool, but it is too complex to use to educate the citizens as to the City's success at achieving key goals. The City's goals, objectives and benchmarks on a program-by-program basis, along with the periodic reports (described above) are the best way for the public to know: (1) what the City is trying to achieve, and (2) how well the City is doing its job.

5. Expenditure Reviews

Using the list of potential programs, activities and issues developed by committee members during their 19 months of deliberations and included as Attachment 5, the

City, in association with the committee defined in Section VI.B.1 of this report, should undertake a thorough review of the listing to determine the viability of each identified recommendation.

6. Establish Committee to Examine City Employee Compensation and Benefits

The City Council shall establish an Employee Compensation and Benefits Review Committee to institute a strategic plan for addressing the growth of benefit entitlements, retention, and review and calibrate pay scales and benefits to the private marketplace where appropriate.

C. Revenue-Related Enhancements

Through recommendations that address a property tax, sales tax and enterprise revenues, the City will have a more diversified, balanced and dependable revenue portfolio. To bring stability and balance to the City's revenue streams, the City Council and Mesa voters should approve the following proposals:

1. Institute a Primary Property Tax

The Committee recommends that the City Council place before the voters a ballot question to institute a primary property tax on all classes of real property.

To sustain itself through 2025, the City needs a dependable revenue source to continue to provide the high level of service residents, businesses and visitors have come to expect. Unlike utility rates, property taxes are tax deductible and are not a hidden tax. Additionally, the lack of a property tax precludes the City from receiving an in-lieu property tax from quasi-public entities such as Salt River Project. An in-lieu tax is a tax paid by entities that cannot legally be subject to taxation. This payment is in place of standard taxes. Using the average property tax rates of Valley communities against Mesa's assessed valuation, Salt River Project's in-lieu payment could generate more than $818,000 annually.

The Committee is not recommending a specific tax rate. A primary property tax rate would be determined by the City Council and included in the ballot language proposed to voters. Examples of the impact of a $1.00 rate is outlined in the following table:

	Commercial Property	Private Residence	Agricultural Property
Primary Value	$100,000	$100,000	$100,000
Assessment Ratio	25%	10%	16%
Primary Net Assessed Value	$25,000	$10,000	$16,000
Various Examples of City Primary Property Tax Charges at each of the following Rates:			
$0.01	$2.50	$1.00	$1.60
$0.05	$12.50	$5.00	$8.00
$0.10	$25.00	$10.00	$16.00
$0.25	$62.50	$25.00	$40.00
$0.50	$125.00	$50.00	$80.00
$1.00	$250.00	$100.00	$160.00

Primary Value = Also known as the limited cash value (LCV) or limited primary value. Determined by the County Assessor.
Assessment Ratio = As defined in A.R.S. 42-12001-12008,12011 & 12101.
Primary Net Assessed Value or Primary NAV = Primary Value x Assessment Ratio
Charges = Primary NAV / 100 x Rate

* The table illustrates only the City's portion of an overall property tax bill. Property taxes already being collected for entities such as schools and Maricopa County are not included.

This recommendation includes the provision that special consideration (within established legal parameters) be given to people or groups who may be severely impacted by the institution of a property tax, specifically the poor, disabled and elderly populations. Relief measures already are established in the state constitution for use by taxing authorities and may include exemptions, property valuation limits and other related provisions.

2. Adjust the Local Sales Tax Rate to 1.75%

   The Committee recommends that the City Council place before the voters a ballot question to adjust the local sales tax rate to 1.75%.

   Currently, the City of Mesa's sales tax rate is 1.50%. Of this, 0.50% represents the voter-approved Q-of-L sales tax instituted in 1998. In July 2006, half of the Q-of-L tax expires (.25%), leaving the City with a local sales tax rate of 1.25%. To provide needed operational funding, the Committee recommends the City Council ask voters to adjust the sales tax rate to 1.75%. This rate would be comparable with other major Valley communities.

   Of this proposed .50% tax adjustment, .31% would be dedicated to addressing the City's transportation construction, operation and maintenance needs. This amount would generate approximately $25.6 million annually. The funds received from this sales tax increase would be used to satisfy a portion of the match requirement as stipulated in Proposition 400 and fund necessary street maintenance expenses.

   The remaining portion of the recommended half-cent sales tax adjustment (.19%) will be dedicated to the General Fund and used to help maintain and expand the City's current operational needs for public safety (police, fire, courts), neighborhoods, and parks and recreation. This amount would generate approximately $15.7 million annually.

   Combined, in FY 2006/07 this half-cent adjustment to the City's sales tax rate would generate approximately $41.3 million.

3. Adopt a Policy to Establish Transfer Limits from the Utilities Enterprise Fund to the General Fund

   If voters approve both recommended new revenue sources (property tax and a sales tax adjustment), it is recommended that the current policy of transferring funds from the Utilities Enterprise Fund to the General Fund be revised. This would be accomplished through the establishment of transfer targets as soon as practical. The adjustment would not be immediate, but would occur at the earliest time possible once both new revenue sources have been realized and the City's overall revenue picture has stabilized. Allowing the various enterprises to retain a more significant portion of their revenues would permit them to better address maintenance concerns, provide infrastructure and equipment enhancements, and function as true enterprises while retaining regionally competitive rates.

4. Evaluate the Options Related to the Pinal County Water Farms

   Acknowledging the enormous revenue potential that exists with the City's ownership of the nearly 12,000-acre water farm, it is recommended that the City Council establish a study committee to evaluate all options related to the status of this property while maximizing the long-term benefits to the City.

VII. Conclusion

This report includes recommendations that will address the City's current financial challenges and improve Mesa's financial future. These recommendations will be forwarded to the City Council who, with input from City management and subject experts, should decide how to present them to the citizens of Mesa. We appreciate the opportunity to provide these recommendations and to have participated in this very important process that will shape the future of our community.

NOTES:

In addition, all meeting minutes and copies of each department presentation (with supporting materials) will be retained as supplementary data for the report.

ATTACHMENT 1

MESA 2025: FINANCING THE FUTURE
CITIZEN COMMITTEE

Membership Roster

Councilmember Kyle Jones – District 4. Chairperson of the City Council Finance Committee. Councilmember Jones will chair this committee.

Councilmember Rex Griswold – District 5. Member of the City Council Finance Committee.

Kirk Adams – District 5. Mr. Adams is an insurance broker and a 2002 Mesa Leadership, Training and Development (Mesa LTD) program graduate.

Jill Benza – District 5. Ms. Benza is an Assistant Superintendent for Business and Support Services with Mesa Public Schools. She is also a member of the Mesa Baseline Rotary group and a United Food Bank board member.

Pat Esparza – District 4. Ms. Esparza serves on the Mesa Planning and Zoning Board and is a past member of the Economic Development Advisory Board. She is an investigator and former loan officer for Wells Fargo and Citibank. She is a 2000 Mesa LTD program graduate.

Don Grant – District 1. Mr. Grant is the chair of the Mesa Transportation Advisory Board and he is an Engineering Section Manager for Freescale Semiconductor.

Greg Holtz – District 1. Mr. Holtz is a financial analyst for the Boeing Company. In the past, he served as the chair of the Mesa Housing and Human Services Advisory Board and a member of the Community Housing Task Force. He is a 1997 Mesa LTD graduate.

Aaron Huber – District 1. Mr. Huber owns his own business development company, ACH Business Development. He has served on the Greater Phoenix Chamber of Commerce Public Affairs Committee and the Arizona Quality Alliance Board of Examiners.

Eric Jackson – District 1. Mr. Jackson is a local attorney, vice president of the Mesa Rotary Club, Mesa United Way board member, and served on two City bond committees.

Dennis Kavanaugh – District 3. Former Vice Mayor and Member of the City Council Finance Committee.

Mark Killian – District 6. Mr. Killian is a real estate broker. He is a former director of the State Department of Revenue, former Speaker of the Arizona House of Representatives, and former Majority Leader in the House. During his years in the legislature, Mr. Killian served on many committees including Ways and Means, Public Institutions, and Banking and Insurance.

Robert M. McNichols - Mr. McNichols is the General Manager of Daedalus Real Estate Advisors, LLC, developer of the Longbow Business Park and Golf Club. He is also a member of the Mesa Chamber of Commerce Board of Directors.

Scott Rhodes – District 1. Mr. Rhodes is an attorney, a member of the State Bar of Arizona Ethics Committee, a board member and past president of Mesa Community Action Network (CAN), a member of the Executive Committee for Arizona Town Hall, and a 2002 Mesa LTD program graduate.

Patricia Schroeder – District 2. Ms. Schroeder serves on the Economic Development Advisory Board. She is an economic development consultant with Practical Solutions and is a former official with the Arizona Department of Commerce.

Robin White – District 2. Ms. White is chair of the Mesa Parks and Recreation Board. She is a 1990 Mesa LTD program graduate.

Keno Hawker – Mayor. Ex-Officio (non-voting) Member.

ATTACHMENT 2

MESA 2025: FINANCING THE FUTURE
CITIZEN COMMITTEE

2004-2005 Meeting Schedule and Work Plan

2004 Meetings

February 11	Initial meeting – establish committee guidelines and schedule
February 25	Discussion of general City financial data
March 10	Additional general City information/financial data
March 24	Police Department tour
April 14	Police Department presentation
April 28	Utilities tour
May 12	Utilities presentation
May 26	Community Services presentation
June 9	Community Services tour
June 23	City Attorney and City Manager presentations
July 14	City Court and Financial Services presentations
July 28	City Court tour in the morning
August 11	Committee discussion
August 25	Transportation tour
September 8	Transportation presentation
September 22	Development Services presentation
October 13	General Services Department presentation and employee salary and benefit issues
October 27	Fire Department tour
November 10	Fire Department presentation
November 24	HOLIDAY BREAK – NO MEETING
December 8	Neighborhood Services Department presentation and nonprofit/human services support
December 22	HOLIDAY BREAK – NO MEETING

2005 Meetings

January 12	Citywide Technology and CIP issues
January 26	Revenue and Tax Issues (local/national rate comparisons, restricted funds and mandates, economic development incentives, impact fees, utility revenues, sales tax, etc).
February 9	Public Meeting
February 23	Begin revenue and expenditure option meeting series and introduce financial forecast
March 9	Revenue and expenditure options; budget processes
March 23	Budget processes, structure and priorities
April 13	Operational efficiency and City Auditor functions
April 27	Budget process document and audit functions; begin revenue discussion
May 11	Review of financial forecast, utility enterprise funds and development impact fees
May 25	Transportation Plan financing; potential revenue recommendations
June 29	Discuss and vote on recommendations; begin report
July 20	Review draft report/Executive Summary
Aug. 24	Review and consider committee report; discuss and consider minority comments
Sept. 7	Finalize report

Comparision of the City of Mesa's Revenue Structure

- All Revenues Expressed as Differences from Mesa-

Updated August, 2005

	Mesa's Revenues			At Chandler's Rates		At Gilbert's Rates		At Glendale's Rates	
Property Tax: Using FY'04/05 valuations	Assessed Valuation	Rate	Revenue	Rate	Revenue	Rate	Revenue	Rate	Revenue
Primary	$ 2,505,946,314	0.0000	$ -	0.3800	$ 9,522,596	0.0000	$ -	0.3273	$ 8,201,962
Seconday	$ 2,648,163,284	0.0000	$ -	0.9000	$ 23,833,470	1.1500	$ 30,453,878	1.3927	$ 36,880,970
In Lieu Property Tax: Salt River Project	$ 58,529,519	0.0000	$ -	1.2800	$ 749,178	1.1500	$ 673,089	1.7200	$ 1,006,708
Net Difference - Property Tax			$ -		$ 34,105,243		$ 31,126,967		$ 46,089,640
Sales Tax: Using FY'04/05 Sales @ 1.50%	Sales Tax Base								
Utilities	$ 445,623,133	1.50%	$ 6,684,347	2.75%	$ 5,570,289	1.50%	$ -	1.80%	$ 1,336,869
Communications	$ 215,849,200	1.50%	$ 3,237,738	2.75%	$ 2,698,115	1.50%	$ -	5.00%	$ 7,554,722
Publishing	$ 104,167,333	1.50%	$ 1,562,510	1.50%	$ -	1.50%	$ -	1.80%	$ 312,502
Printing & Advertising	$ 24,458,933	1.50%	$ 366,884	1.50%	$ -	1.50%	$ -	1.80%	$ 73,377
Contracting	$ 804,003,733	1.50%	$ 12,060,056	1.50%	$ -	1.50%	$ -	1.80%	$ 2,412,011
Retail	$ 4,279,504,600	1.50%	$ 64,192,569	1.50%	$ -	1.50%	$ -	1.80%	$ 12,838,514
Restaurants & Bars	$ 564,926,333	1.50%	$ 8,473,895	1.80%	$ 1,694,779	1.50%	$ -	2.80%	$ 7,344,042
Amusements	$ 71,336,867	1.50%	$ 1,070,053	1.50%	$ -	1.50%	$ -	1.80%	$ 214,011
Rentals	$ 957,592,067	1.50%	$ 14,363,881	1.50%	$ -	1.50%	$ -	1.80%	$ 2,872,776
Miscellaneous	$ 7,863,800	1.50%	$ 117,957	1.50%	$ -	1.50%	$ -	1.80%	$ 23,591
Sub - Total	$ 7,475,326,000		$112,129,890		$ 9,963,183		$ -		$ 34,982,416
Food Exemption (FY'04/05 estimate)	$ 606,095,400	0.00%	$ -	1.50%	$ 9,091,431	1.50%	$ 9,091,431	1.80%	$ 10,909,717
Net Difference - Sales Tax					$ 19,054,614		$ 9,091,431		$ 45,892,133
Net Difference - Property Tax + Sales Tax					$ 53,159,858		$ 40,218,398		$ 91,981,773
Utilities: Using FY'04/05 rates									
Water - Residential					$ (4,388,720)		$ (13,511,333)		$ (11,601,246)
Water - Commercial					$ (3,214,092)		$ (9,367,817)		$ (8,691,396)
Wastewater - Residential					$ (4,268,070)		$ (192,340)		$ 1,667,683
Wastewater - Commercial (excl industrial)					$ (7,684,298)		$ (8,674,587)		$ (3,965,263)
Solid Waste - Residential					$ (9,480,051)		$ (6,747,263)		$ (5,666,859)
Net Difference - Utilities					$ (29,035,231)		$ (38,493,340)		$ (28,257,081)
Total Difference - Property Tax + Sales Tax + Utility Revenues					$ 24,124,627		$ 1,725,058		$ 63,724,692

	At Phoenix's Rates		At Scottsdale's Rates		At Tempe's Rates		Average (excl Mesa)	
Property Tax: Using FY'04/05 valuations	Rate	Revenue	Rate	Revenue	Rate	Revenue	Rate	Revenue
Primary	0.8500	$ 21,300,544	0.4518	$ 11,321,865	0.5293	$ 13,263,974	0.4231	$ 10,601,824
Seconday	0.9700	$ 25,687,184	0.6184	$ 16,376,242	0.8207	$ 21,733,476	0.9753	$ 25,827,537
In Lieu Property Tax: Salt River Project	1.8200	$ 1,065,237	1.0702	$ 626,383	1.3500	$ 790,149	1.3984	$ 818,457
Net Difference - Property Tax		$ 48,052,965		$ 28,324,490		$ 35,787,598		$ 37,247,817
Sales Tax: Using FY'04/05 Sales @ 1.50%								
Utilities	2.70%	$ 5,347,478	1.65%	$ 668,435	1.80%	$ 1,336,869	2.03%	$ 2,376,657
Communications	4.70%	$ 6,907,174	1.65%	$ 323,774	1.80%	$ 647,548	2.90%	$ 3,021,889
Publishing	1.80%	$ 312,502	1.65%	$ 156,251	1.80%	$ 312,502	1.68%	$ 182,293
Printing & Advertising	0.50%	$ (244,589)	1.65%	$ 36,688	1.80%	$ 73,377	1.46%	$ (10,191)
Contracting	1.80%	$ 2,412,011	1.65%	$ 1,206,006	1.80%	$ 2,412,011	1.68%	$ 1,407,007
Retail	1.80%	$ 12,838,514	1.65%	$ 6,419,257	1.80%	$ 12,838,514	1.68%	$ 7,489,133
Restaurants & Bars	1.80%	$ 1,694,779	1.65%	$ 847,389	1.80%	$ 1,694,779	1.89%	$ 2,212,628
Amusements	1.80%	$ 214,011	1.65%	$ 107,005	1.80%	$ 214,011	1.68%	$ 124,840
Rentals	1.80%	$ 2,872,776	1.65%	$ 1,436,388	1.80%	$ 2,872,776	1.68%	$ 1,675,786
Miscellaneous	1.80%	$ 23,591	1.65%	$ 11,796	1.80%	$ 23,591	1.68%	$ 13,762
Sub - Total		$ 32,378,247		$ 11,212,989		$ 22,425,978		$ 18,493,802
Food Exemption (FY'04/05 estimate)	0.00%	$ -	1.65%	$ 10,000,574	1.80%	$ 10,909,717	1.38%	$ 8,333,812
Net Difference - Sales Tax		$ 32,378,247		$ 21,213,563		$ 33,335,695		$ 26,827,614
Net Difference - Property Tax + Sales Tax		$ 80,431,212		$ 49,538,053		$ 69,123,294		$ 64,075,431
Utilities: Using FY'04/05 rates								
Water - Residential		$ (11,566,788)		$ 5,552,003		$ (9,547,116)		$ (7,510,533)
Water - Commercial		$ 769,737		$ 5,301,065		$ (8,964,274)		$ (4,027,796)
Wastewater - Residential		$ (3,658,172)		$ (423,846)		$ (8,480,985)		$ (2,559,288)
Wastewater - Commercial (excl industrial)		$ (1,198,105)		$ 218,679		$ (8,058,615)		$ (4,893,698)
Solid Waste - Residential		$ 3,611,908		$ (6,353,233)		$ (5,171,144)		$ (4,967,774)
Net Difference - Utilities		$ (12,041,420)		$ 4,294,668		$ (40,222,134)		$ (23,959,090)
Total Difference - Property Tax + Sales Tax + Utility Revenues		$ 68,389,792		$ 53,832,721		$ 28,901,160		$ 40,116,342

ATTACHMENT 4

Updated: 8/22/2005

AVERAGE HOMEOWNER'S CHARGES SURVEY

	CITY PROPERTY TAXES (1),(6)		CITY SALES	SOLID WASTE	WATER	WASTEWATER	ANNUAL	PERCENTAGE OF
	PRIMARY	SECONDARY	TAXES (2)	CHARGES (3)	CHARGES (4)	CHARGE (5)	TOTAL	MESA'S CURRENT
MESA - Current								
Rate (9)	$0.0000	$0.0000	1.50%	$20.55	$31.59	$16.22		
Annual Cost	$0.00	$0.00	$399.07	$246.60	$379.03	$194.62	$1,219.31	
CHANDLER								
Rate (7)	$0.3800	$0.9000	1.71%	$15.07	$27.28	$14.26		
Annual Cost	$76.76	$181.81	$542.84	$180.84	$327.39	$171.12	$1,480.76	121.4%
GILBERT								
Rate (8)	$0.0000	$1.1500	1.50%	$14.05	$20.50	$17.56		
Annual Cost	$0.00	$232.31	$476.42	$168.60	$245.97	$210.73	$1,334.02	109.4%
GLENDALE								
Rate (7)	$0.3064	$1.4136	1.97%	$14.90	$20.80	$17.71		
Annual Cost	$61.89	$285.56	$625.52	$178.80	$249.65	$212.47	$1,613.90	132.4%
PHOENIX								
Rate (7)	$0.8584	$0.9616	1.93%	$23.20	$21.56	$17.04		
Annual Cost	$173.40	$194.25	$513.16	$278.40	$258.68	$204.43	$1,622.32	133.1%
SCOTTSDALE								
Rate	$0.4440	$0.5999	1.65%	$14.79	$35.93	$16.35		
Annual Cost	$89.69	$121.18	$524.06	$177.48	$431.21	$196.24	$1,539.87	126.3%
TEMPE								
Rate (10)	$0.5227	$0.8773	1.80%	$16.74	$22.57	$10.30		
Annual Cost	$105.59	$177.22	$571.70	$200.88	$270.89	$123.55	$1,449.83	118.9%

Notes:

1. Single family home with a value of $237,655 Figured in $100 units based on 85% of the value.
   $237,655.00 X .85 X 10% / 100 X the tax rate. Source: Arizona Real Estate Center, ASU East website for 2nd Qtr 2005
2. Annual Maricopa County income of $58,600 Source: Median Family Income - Phoenix-Mesa - HUD 2/05, HUD website
   The cities of Phoenix and Mesa do not collect sales tax on food sales.
3. Charge for biweekly garbage (and recyclables where applicable) collection using 90 gallon barrels.
4. Based on Mesa's average monthly residential water use for the most recent twelve months.
5. Winter Water Average formulas are applied in cities where known. Changes in fees are due to both rate and formula changes.
6. Primary and Secondary Tax Rates reflect the 05/06 FY (updated as of 8/15/05 posting on Maricopa County web site).
7. Sales Tax Rate is a weighted average rate, based on the City of Mesa tax base as of 6/04.
8. Gilbert's water calculation uses the rate effective as of September 1, 2005.
9. City of Mesa utility rate changes were approved June 20, 2005. Changes are effective August 1, 2005 for the first billings on Sept. 1, 2005.
10. Tempe solid waste rates go into effect November 1, 2005.

ATTACHMENT 5

MESA 2025: FINANCING THE FUTURE COMMITTEE
SUMMARY REPORT OF REVENUE AND EXPENDITURE SUGGESTIONS
MARCH 2005

This report includes the revenue and expenditure suggestions submitted by committee members and discussed at the March 9, 2005 meeting. Also included are suggestions submitted by committee members during the creation of the committee's final report in September 2005. To keep the report manageable, duplicate items have been deleted and related suggestions have been combined.

I. REVENUES

A. Revenue Generating Proposals

- Extend the 1/4-cent Q-of-L tax (with either dedicated or non-dedicated funds)
- Institute a property tax (primary or secondary).
- Reinstate the sales tax on food.
- Increase the bed tax.
- Add an additional 1/4-cent sales tax increase with funds allocated to public safety.
- Institute an impact fee for streets and roads.
- Sell all or part of the City's utility system.
- Sell all or part of the water farm.
- Add a mandatory $1.00 tax-deductible charge to all fees and charges for City services, and all City fines to be used for social services.
- Transfer the Mesa Amphitheatre to the Mesa Arts Center. Proceeds from the Amphitheatre should be used to defray the maintenance and operations costs of the Mesa Arts Center.
- Sell the Mesa Convention Center either at a reduced rate or at fair market value.
- Add a small surcharge for event parking at the Mesa Arts Center to help defray the operation and maintenance costs of the MAC and City museums.
- Aggressively lobby the legislature for authority to impose a franchise fee on SRP.
- Generate a revenue return to the City of at least $0.50 per user per recreational activity. Half of the return should go to the General Fund, the other half to retirement of recreation bonded indebtedness and/or improvement or enhancement of recreational facilities.
- Place advertising on City vehicles.
- Charge $200 per ambulance/fire truck medical dispatch (27,000 dispatches per year; 3,300 hospital runs). Also, charge auto insurance companies $200 for each time the Fire Department has to extricate motorists from bad collisions.
- Lease all of Falcon Field – redo the leases so banks are able to loan with long-term leases. Also open the north side of the runway to businesses.

B. Revenue-related Suggestions

- Market the City's Police Academy to other agencies and make it a revenue producer.
- The utilities should continue as an enterprise effort with additional development in this area.
- User fees, utility rates and developer fees must be appropriate and competitive. The fees that the City charges for services should be relative to the cost of producing those services and the value placed on those services by the consumer. This includes finding a way to get the setting of utility rates out of the City Council's hands and into the hands of either the Corporation Commission or attached to some index that accounts for what others are charging.
- Make developers pay their own way while still remaining competitive in attracting development to our city.
- Expand the City's natural gas service area by pursuing condemnation of Southwest Gas's distribution system.
- The sales tax on food should not be reinstated.
- If a property tax is instituted, utility rates should remain the same while a number of special, dedicated funds are created and funded. These funds would address needs of utilities, public safety, street maintenance and parks land acquisition. These funds would supplant some of the current general fund transfers. General fund transfers would be reduced on a dollar-for-dollar basis with revenue from the property tax and deposits into the new funds.
- Eliminate the City's irrigation service.
- Aggressively pursue management of its current and future real property portfolio.
- Privatize garbage collection to eliminate vehicle maintenance and reduce staff.
- Require class attendance and fee for a third false alarm per year.

C. Revenue-related Questions and Requests for Additional Information

- If we had a property tax, how much revenue would be generated? How would this affect our bond rating? Could we then refinance present bonds at a lower rate? Would the savings be worthwhile?
- What would the projected revenues be from reinstituting the sales tax on food?
- What revenue would be produced by a tax on services? Is there precedence for this?
- How can the City shift from the current focus of recruiting retail businesses to more emphasis on bringing other industries and higher wage jobs to Mesa?
- How much money would be generated by a revenue package consisting of: (1) a property tax; (2) sales tax on food; (3) continuation of the 1/4-cent Quality of Life Tax; (4) Additional 1/4-cent sales tax increase for public safety; and (5) instituting an impact fee for streets and roads? Would it be enough for the 30% match for Prop 400?
- Can staff update the figures from the last time street impact fees were considered and present to the committee?

- If the bed tax were increased, what rate would be competitive and what revenue would this generate?
- What revenue could be generated if the City sold parts of the utility system? What impact would this sale have on anticipated capital expenditures?
- How much on-going revenue could be created by imposing a franchise fee on utilities much like cable companies?
- Explore name change and focus of Mesa Southwest Museum to "Arizona Museum of Natural History" to allow for expanded membership opportunities and state grants.

II. EXPENDITURES

A. Cost-Cutting Proposals

- Maintain 10-20% of City headcount as contract employees.
- Eliminate the fixed wing planes from the Police Aviation Unit.
- In the areas that require multiple fire stations, have some smaller response units (i.e. paramedic trucks) that can be housed in smaller stations.
- Contract out wastewater operations, which could save 20% or more.
- Use local attorneys to assist for the City Court in a pro bono capacity.
- Combine the management of Falcon Field and Williams Gateway airports.
- Merge the Community Services and Neighborhood Services departments.
- Reduce the Code Compliance division by two inspectors.
- Reduce the Park Ranger program by two positions. The City also should explore contracting out the Park Ranger function to a private company.
- Obtain Federal funding of the control tower at Williams Gateway Airport.
- Have Maricopa County fully open and staff the County Jail.
- Replace a City litigation attorney with a negotiation attorney to reduce litigation costs and facilitate business transactions.

B. Suggestions for Efficiency Improvements and Expenditure Options

- Use an outside consultant to evaluate the operation of the Information Services Division (staff and equipment). What is the impact of outsourcing the desktop computers and associated support?
- Evaluate the City communications process and possibly centralize the process into a public relations department that would oversee all communications.
- Implement processes to help potential businesses and increase economic development.
- Keep police staffing levels per capita at current levels.
- Keep firefighter staffing levels per capita flat.
- Examine each City service to determine if we can partner with private industry or outsource completely, certain services in a cost-effective manner.
- Review our current competition with other local cities with respect to staffing (compensation packages) and sales tax incentives.

- Whenever possible, pay scales and benefits for City jobs should be compared to the private market and not solely to other governmental entities.
- Reorganize management by reducing where possible mid-level management and supervisor positions.
- Limit the use of earmarked funds and revenues.
- Explore sharing Downtown Library expenses with new Mesa Community College downtown campus.
- Explore using actual Video C.D. of City Council to replace time-consuming council transcripts.
- Explore allowing City employees to opt out of expense mailing of paper Insurance claim notices (Explanation of Benefits) and instead receive these notices by e-mail if they choose.
- Explore involving City of Phoenix Sky Harbor Airport as a minority interest partner in Williams Gateway Airport.
- Eliminate Public Art Director part time position (funding is already discontinued).
- Explore reducing jail costs by utilizing Home Monitor Devices for low risk offenders.
- Explore combining Historic Preservation Office with Mesa Historic Museum.
- Eliminate traffic speed vans and substitute traffic calming devices (speed humps, red light cameras, etc).
- Explore structure and staffing of Mesa Main Library. Change from a research model to a resident utilization model.
- Explore involving Mesa Community College in teaching arts classes at the new Mesa Arts Center-reduce class cost for residents.
- Explore requiring all Fire Department applicants to be EMT certified.
- Explore trading Mesa's Gas customers in Pinal County for Southwest Gas customers in Mesa.
- Explore subcontracting required business fire safety inspections to the private sector as we now do with fire hood inspections. Require Companies to contract with a certified fire inspection Company and provide a yearly proof of safety inspection.
- Explore operations of new Arts Center be by a private Board instead of City employees.
- Explore utilizing technology (cell phone, lap top links, etc) to reduce number of city staff required to be at City Council meetings and Study Sessions.
- Explore with Arizona Department of Environmental Quality the concept of well water averaging to meet new Arsenic remediation levels.
- Explore charging convicted DUI felons for testing of blood alcohol.
- Explore outsourcing additional plan checking and inspection loads to temporary contractors to allow for ebbs and flows of Building Department work demands.
- Explore savings of a Centralized City Public Information office vs individual departments public relations personnel model.
- Explore outsourcing some Real Estate Department services.
- Explore redeveloping Escobedo Subsidized 1941 housing with partnership of Habitat for Humanity.

- Work with Legislature to allow publishing on Web site as alternative legal method to publishing Public Notices in back pages of Newspapers.
- Explore reducing one position from City Manager Office.
- Explore eliminating a portion of the Marketing budget and reducing overlap in this function between various departments.
- Explore discontinuing old Tank water dispensing facility that competes with private water haulers and provides water to non-Mesa residents in far northeast.

C. Expenditure-related Questions and Requests for Additional Information

- What can the City do to be more price competitive in the area of commercial trash collection?
- What is the percentage of "out of City" fire calls by station? Is there an even exchange for the neighboring cities responding to calls in our City?
- Can we streamline the applications for new business to encourage business development in Mesa?
- Are there any revenues spent by any City department in excess of the City budget? Does the City Council have purview over these funds? What is the total amount by department?

III. MISCELLANEOUS COMMENTS, PROPOSALS OR SUGGESTIONS

- Utilize community facilities districts for capital improvements.
- Study alternatives to bonded indebtedness or, within the realm of bonded indebtedness, alternatives to revenue bonds, such as general obligation bonds.
- Examine the current debt structure, not only in terms of the financial terms of the existing debt and debt ratios, but also to determine whether the entire community has benefited equitably from the use of debt proceeds.
- Identify State-imposed unfunded mandates and develop a working strategy to solicit support of the East Valley legislative delegation to eliminate them, or provide required funding.
- Study the potential of partnering with Phoenix Sky Harbor Airport. This could generate savings and spur new revenues for growth for new business and also passengers.