



## AUDIT & FINANCE COMMITTEE MINUTES

May 8, 2008

The Audit & Finance Committee of the City of Mesa met in the lower level meeting room of the Council Chambers, 57 East 1st Street, on May 8, 2008 at 9:22 a.m.

### COMMITTEE PRESENT

Claudia Walters, Chairman  
Tom Rawles  
Darrell Truitt  
Christopher Brady, Ex-Officio

### COUNCIL PRESENT

None

### STAFF PRESENT

Bryan Raines

#### 1. Items from citizens present.

There were no items from citizens present.

#### 2. Hear a presentation, discuss and provide direction on the Audit of the Mesa City Court, Minimum Accounting Standards Follow-up.

It was moved by Committeemember Rawles, seconded by Committeemember Truitt, to recommend to the Council that the Audit of the Mesa City Court Minimum Accounting Standards Follow-Up be accepted.

Carried unanimously.

#### 3. Discuss and provide direction on the FY 2008/2009 Annual Audit Plan.

In response to a question from Chairman Walters, City Auditor Gary Ray clarified that when the Audit & Finance Committee addressed this issue last year relative to the FY 2007/2008 Annual Audit Plan, the Committee's recommendation was placed on a subsequent Study Session agenda for Council consideration.

Chairman Walters requested that this item be placed on the May 19, 2008 Study Session agenda for Council consideration.

Committeemember Rawles inquired why this Committee and the current Council is approving the proposed FY 2008/2009 Audit Plan as opposed to the new Council.

Chairman Walters stated the opinion that it would be appropriate for this Council to forward the item to the new Council who will be in transition for a period of time.

City Manager Christopher Brady suggested that when the next Audit & Finance Committee convenes after the new Council is sworn into office, staff could provide the Committee a brief overview of the Audit Plan and solicit their input at that time.

Chairman Walters directed that staff make it clear to the Committee that they have the authority to change the Audit Plan if they so choose.

Committeemember Rawles concurred with Chairman Walters' direction. He added that he simply did not want this Committee to be perceived by the new Audit & Finance Committee as "binding their hands for a full year" with regard to the Audit Plan, particularly in light of the fact that this is only the second year the City Auditor has reported directly to the Council.

It was moved by Committeemember Rawles, seconded by Committeemember Truitt, to recommend to the Council that the FY 2008/2009 Annual Audit Plan be approved.

Mr. Ray offered a short synopsis of the Fraud & Ethics Hotline Program.

Chairman Walters called for the vote.

Carried unanimously.

4. Discuss and make recommendation on adjustments to license fees and requirements as proposed by the Financial Services Operations Department:

a. Transaction Privilege Tax

Financial Services Operations Director Jenny Sheppard and Budget and Research Director Chuck Odom addressed the Committee relative to this item.

Ms. Sheppard reported that subsequent to the March 27, 2008 Audit & Finance Committee meeting, staff conducted an analysis of all licensing activities and services performed in the Business Licensing Office. She explained that such analysis was used to create a new cost recovery model for the costs to process the Transaction Privilege (Sales) and Use Tax (TPT) application and a proposed annual TPT license. Ms. Sheppard stated that staff also met with Deputy City Manager Bryan Raines and Mr. Odom to review the model and advised that as a result of the updated figures, the initial application fee was increased to \$29 from \$25 and the renewal fee remained at \$18 (the actual cost of implementing the new program).

Committeemember Rawles expressed appreciation to staff for their efforts and hard work to reexamine the cost recovery model in this regard. He commented that during the March 27<sup>th</sup> meeting, comparisons were made concerning the fees for 4a and 4b, which caused him concern. He stated that he still has several technical questions relative to the proposed fees, but would prefer to not take the Committee's time to address those matters today. Committeemember Rawles noted that the numbers are "reasonably within range of each other" so that he can move forward with this item. He added that in his opinion, the City of Mesa

should not have a sales tax renewal license and would oppose the motion on that basis, but not because of the proposed fee.

Committeemember Rawles further stated that relative to 4b, he does not believe that “the social cost of alcohol” should be included in the application fee and voiced opposition to the item on that basis. He once again thanked staff for reviewing the numbers and creating “a more reliable” cost recovery model. Committeemember Rawles added that he would like to meet with staff to address his questions regarding the proposed fees.

Deputy City Manager Bryan Raines clarified that at the June 2, 2008 Regular Council meeting, the above-listed fees and charges would be presented to the new Council for approval.

It was moved by Chairman Walters, to recommend to the Council that a Transaction Privilege Tax license initial application fee of \$30 and a renewal fee of \$20 be approved.

Mr. Brady expressed concern whether, with the implementation of a renewal fee, the City would be able to “make up” the anticipated \$300,000 in General Fund revenue that is collected based on the current \$50 TPT license application fee. He explained that the City’s budget is structured per the current existing system and said that although he understands the approach from a cost recovery model, neither 4a nor 4b originated in that manner.

Mr. Raines clarified that by using the revised cost recovery formula, the annual revenue for the initial TPT application (and not the renewal fee) would be \$164,300 (a \$140,000 impact as a result of the fee being reduced to \$28 from \$50). He also stated that because the proposed annual TPT license is a new program, staff made a series of estimates relative to the cost recovery model. Ms. Sheppard added that staff also included in the model for the new renewal process an estimated \$79,720 in revenue recovery.

Committeemember Rawles noted that one of the reasons that Mesa should not have a renewal license is because the City is attempting to impose an annual renewal fee on business owners that report their sales tax revenues in order to gather information on those entities that do not. He stated the opinion that this would not be an effective mechanism.

Committeemember Truitt seconded the motion.

Upon tabulation of votes, it showed:

AYES - Walters-Truitt  
NAYS - Rawles

Chairman Walters declared the motion carried by majority vote.

b. Liquor Licenses

Ms. Sheppard apologized to the Committeemembers for their confusion at the March 27<sup>th</sup> meeting when she made a presentation regarding this item. She explained that in creating the cost recovery model, she inadvertently made a clerical error on the spreadsheet, which resulted in the previously proposed \$510 annual renewal fee.

Ms. Sheppard reported that in response to the Committee's direction at the March 27<sup>th</sup> meeting, staff reexamined the cost recovery model for the costs to process the liquor license application and annual renewal. She explained that staff proposes an initial application fee of \$755 and an annual renewal fee of \$48. (Note: The annual renewal amount is higher than the TPT renewal because staff did not include revenue recovery in the model. There are also additional staff costs associated with the liquor license renewal process as opposed to the TPT renewal.)

Chairman Walters stated that her philosophy with regard to the liquor license fees is different than that of Committeemember Rawles. She explained that her rationale for the fees is that the City incurs "public safety costs" in terms of the General Fund associated with having liquor uses in the community. Chairman Walters acknowledged that staff was unable to calculate those specific costs, but said that for her level of comfort, it is unnecessary that "an exact number" be determined. She also noted that although she is not telling individuals that they cannot drink alcoholic beverages, she is saying that the additional cost of that in terms of public safety should not be borne "by everybody else." Chairman Walters added that she does not object to the proposed fees and, in fact, said that they "do not begin to pick up the additional public safety costs."

Committeemember Rawles expressed opposition to including "the public safety costs of alcohol" into this licensing requirement. He also noted that with regard to the renewal fee, there is no function or service provided by the City with the exception of imposing/collecting the fee. Committeemember Rawles suggested that if Chairman Walters would like to consider imposing an application fee that would recover a portion of "the public safety costs" and that the annual renewal fee be eliminated, he would support such action.

Chairman Walters responded that she would prefer to lower the initial application fee for a liquor license and increase the annual renewal fee.

Discussion ensued among the Committee relative to the purpose of a renewal license; that the liquor licensing fees were set in 1989; and that many Valley communities impose annual renewal fees.

It was moved by Committeemember Rawles, to recommend to the Council that the licensing requirements for a liquor license annual renewal in the City of Mesa be eliminated.

Chairman Walters declared the motion died for lack of a second.

Chairman Walters referred to a document entitled "Liquor Licensing Fees For Other Local Municipalities." (See Attachment 1.) She stated that the Committee is at the juncture of determining what fees to recommend to staff.

Extensive discussion ensued among the Committee and staff relative to possible modifications to Mesa's current Liquor Licensing Fees; that per Attachment 1, Chairman Walters suggested that for License Series #12 (Restaurant), Series #11 (Hotel-Motel), Series #10 (Beer and Wine Store) and Series #9 (Liquor Store), that the annual renewal fees be increased to \$600 from \$500/\$550; that Series #7 (Beer and Wine Bar) and Series #6 (Bar) annual renewal fees be increased to \$800 from \$550; that the issuance fee in all cases be decreased to \$1,000 from \$2,000; that the application fee remain at \$100; that the goal of the suggested modifications would be to meet or increase the \$513,000 in liquor licensing revenue currently included in the

preliminary FY 2008/2009 budget; and that at the May 19, 2008 Study Session, staff is directed to make a presentation to the full Council regarding their analysis of such modifications.

Chairman Walters further recommended that the incoming Council review the above-listed fees next year. She suggested that they might wish to consider increasing, for example, the Series #6 (Bar) annual renewal to \$1,000 from \$550. Chairman Walters added that she would not object to increasing the fees even higher, but was concerned in doing so all at one time.

Committeemember Truitt suggested, as an alternative, the following annual renewal fee modifications: Series #6 and Series #7, increase to \$800; Series #9 and Series #10, increase to \$700; and Series #11 and Series #12, increase to \$600.

Chairman Walters concurred with Committeemember Truitt's suggestion.

It was moved by Chairman Walters, seconded by Committeemember Truitt, that staff be directed to conduct an analysis relative to the above-listed fee modifications, and that at the May 19<sup>th</sup> Study Session, staff make a presentation to the full Council regarding the results of their analysis.

Upon tabulation of votes, it showed:

AYES - Walters-Truitt  
NAYS - Rawles

Chairman Walters declared the motion carried by majority vote.

5. Discuss and make recommendation about adjusting or eliminating the licensing requirements for Fortune Tellers.

It was moved by Committeemember Rawles, seconded by Chairman Walters, to recommend to the Council that the licensing requirements for Fortune Tellers in the City of Mesa be eliminated.

Carried unanimously.

6. Discuss and make recommendation on changing the name of the Residential Development Tax to the Solid Waste Residential Development Tax and adjusting the rate as proposed by the Solid Waste Department.

It was moved by Chairman Walters, seconded by Committeemember Truitt, to recommend to the Council that the name of the Residential Development Tax be changed to the Solid Waste Residential Development Tax, and that the adjustment to the rate, as proposed by the Solid Waste Department, be approved.

Carried unanimously.

7. Discuss and make a recommendation on the Recycle for Reading Campaign.

Chairman Walters stated that this issue was one of the planks in her campaign for Mayor and expressed appreciation to staff for their efforts to move this item forward.

In response to a question from Chairman Walters, Solid Waste Management Director Willie Black clarified that the proposed Recycle for Reading Campaign, which is scheduled to commence at the beginning of FY 2008/09, would be evaluated in the third quarter to measure the progress of the program and also determine its future. He explained that if the program proves to be a success, staff could make a recommendation that it continue the following year.

Chairman Walters stated that it was her understanding that revenues would not be allocated to purchase additional reading materials for the libraries unless recycling tonnage in FY 2008/2009 is higher than it was the previous fiscal year.

It was moved by Committeemember Rawles, seconded by Committeemember Truitt, to recommend to the Council that the implementation of the Recycle for Reading Campaign be approved.

Carried unanimously.

8. Discuss and make a recommendation on revision to the Citywide Schedule of Fees and Charges – Collection Costs.

It was moved by Committeemember Rawles, seconded by Committeemember Truitt, to recommend to the Council that a revision to the Citywide Schedule of Fees and Charges – Collection Cost, be approved.

Carried unanimously.

9. Discuss and make recommendation on Payment in Lieu Amount for Traffic Signals for the Transportation Department.

Transportation Director Dan Cleavenger reported that at the March 27<sup>th</sup> Committee meeting, staff proposed that the standard payment in lieu of construction for a traffic signal be set at \$50,000 per quadrant at an intersection.

Committeemember Rawles stated that the Committee is familiar with the background information and the resulting cost differentials relative to this item. He inquired what has transpired between the time of staff's proposal and a related item that was included on a recent Regular Council meeting agenda.

Deputy City Manager Jack Friedline clarified that within the context of the May 8, 2008 Audit & Finance Committee Report, Acting Deputy Transportation Engineer Alan Sanderson has empirically demonstrated why and how traffic signal projects built by the City are done at less cost. He explained that typically, the projects are not arterial-to-arterial, but sometimes residential streets-to-arterial. Mr. Friedline added that if there was a case where a traffic signal is built at a cost lower than the sum of in-lieu payments, the balance would be refunded to those entities that made the payments.

Committeemember Rawles noted that the only reason this item was brought up was because there was "an untimely juxtaposition of some dramatically different numbers." He thanked Mr. Sanderson for the comprehensive and thorough report. Committeemember Rawles stated that he opposed the concept when it was presented in March, but noted that safeguards are now in

place to protect developers from making a higher in-lieu payment than is necessary. He added that he has no problem relative to the structure of the program or the amount of the program.

It was moved by Committeemember Truitt, seconded by Chairman Walters, to recommend to the Council that the Payment In Lieu Amount for Traffic Signals, as proposed by the Transportation Department, be approved.

Upon tabulation of votes, it showed:

AYES - Walters-Truitt  
NAYS - Rawles

Chairman Walters declared the motion carried by majority vote.

Chairman Walters thanked Committeemembers Rawles and Truitt for their service on the Audit & Finance Committee.

10. Adjournment.

Without objection, the Audit and Finance Committee meeting adjourned at 10:09 a.m.

I hereby certify that the foregoing minutes are a true and correct copy of the minutes of the Audit & Finance Committee meeting of the City of Mesa, Arizona, held on the 8<sup>th</sup> day of May 2008. I further certify that the meeting was duly called and held and that a quorum was present.

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LINDA CROCKER, CITY CLERK