



## MESA 2025: FINANCING THE FUTURE CITIZEN COMMITTEE

September 7, 2005

The Mesa 2025: Financing the Future Citizen Committee met in the lower level meeting room of the Council Chambers, 57 East 1st Street, on September 7, 2005 at 5:30 p.m.

COMMITTEE PRESENT	COMMITTEE ABSENT	STAFF PRESENT
Kyle Jones, Chairman Kirk Adams Jill Benza Pat Esparza Don Grant Rex Griswold Greg Holtz Aaron Huber Eric Jackson Dennis Kavanaugh Mark Killian Robert McNichols Scott Rhodes Pat Schroeder Robin White Keno Hawker, Ex-Officio	None	Various Members

1. Approval of minutes from the August 24, 2005 meeting.

Committeemember Schroeder requested that the minutes be amended to reflect that a statement had been made by her rather than Committeemember Esparza and a motion was made and seconded to approve the minutes of the August 24, 2005 minutes as amended.

Carried unanimously.

2. Discuss and consider issues related to the final committee report.

- a. Additional suggestions related to City expenditures
- b. Proposal to include section on spending limitation

c. Individual committee member comments

Committeemember Killian commented that included with the materials forwarded to the Committee for their review there was an Arizona Republic editorial entitled "Time To Lead, Time To Make Tough Decisions," that he believes requires a public response. Committeemember Killian read into the record his response to the editorial. (Please see attached for a verbatim of his remarks regarding the editorial.)

Chairman Jones thanked Committeemember Killian for his comments. He said that as the members proceeded through the process, questions were raised regarding the failure of the Committee to address expenditures. He expressed the opinion that this issue has been addressed in various ways at numerous times. He added that the reality is that the City is at a point where severe cuts are necessary, which will affect City services, not just "fluff." He said that although looking at issues such as raising taxes would not be considered a positive political move, the Committee has been charged with a critical responsibility and they have to look at the reality of the situation. He stated that he would like to solicit additional input from the members regarding areas where City expenditures can be reduced.

Mr. Raines addressed the Committee and drew their attention to the suggestion that staff included on Page 10 in the report entitled "Final Draft." He said that concerns were raised regarding the fact that the report may not have sufficiently addressed the issue of expenditure reductions or reviews. He advised that for the member's review, staff has included a bold faced capped paragraph in the report and said that it will be enhanced by Attachment 5, a listing entitled "Summary Report of Committee Suggestions and Proposals." He noted that all of the members submitted input for that report during March.

Chairman Jones noted that all of the information contained in the members' packets is available on the City's website.

Mr. Raines added that in addition to the paragraph calling attention to Attachment 5 and including Attachment 4 as an addendum to the report, staff also suggests that additional and new items identified by both Committeemember Griswold and Committeemember White be added to Attachment 5.

Committeemember Rhodes commented that it was his intention to recommend a similar proposal and he concurred with staff's approach regarding the expenditure issue. He expressed the opinion that throughout the entire process, the Committee stated that the major problem is one of revenues and not expenditures. He added that there is always room for improvement and an opportunity to identify cost-saving measures. He expressed the opinion that staff's proposal incorporates ideas that have been suggested over time, makes them part of the report and memorializes the fact that the Committee would like the Council and the newly created committee to study the ideas on an individual basis to determine their validity.

Committeemember Rhodes moved to adopt staff's proposal with respect to expenditures.

Chairman Jones noted that many of the recommendations that they discussed early on in the process, as well as some that are on the current list provided by Committeemember Griswold, have already been implemented throughout the City. He added that it will be an ongoing process.

Committeemember Huber seconded the motion.

Committeemember Griswold referred to his list of recommended budget reductions and said that he did not need to be identified on the list. He added that if the group is comfortable with the recommendations, they could be included as part of the group recommendation. They can decide at their will what they want to do with them. He noted that he presented them at the very end, and he agreed that a number of them have already

been implemented. He added that the list contains some new areas to explore as well as some older ones that they have already discussed.

Committeemember White concurred with Committeemember Griswold's comments and said she did not necessarily need her name to appear on the list that she provided. She advised that if there are additional items in the list with which the rest of the Committee agrees, they could be added.

Chairman Jones clarified that the fact that the items are on a list does not mean that all of the members are in agreement; it simply means that these are items that are being suggested as areas that an Audit Committee could explore in an effort to arrive at additional reductions.

Committeemember McNichols stated that he would vote against the motion and against including either of the attachments in the report. He added the opinion that the proper way to proceed would be to refer the items for consideration to the future committees. He commented that the Committee was not charged with the responsibility of reviewing every cost item or every item in the budget. He said that although the memos are well thought out, they cover some things but not everything. He added that if they attach anything to the report it should be to review each expenditure on an annual basis rather than just the list and the ones brought up in the two reports. He also added that all expenditures should continue to be reviewed by the Council and should go to the Audit Committee on an ongoing basis, but he said that they should not be included as separate individual recommendations in this report.

The motion carried by majority vote with Committeemembers McNichols and Kavanaugh voting nay.

Chairman Jones requested that the Committee address Item 2a.

Committeemember Rhodes moved to add Item 2a, those that are not repetitive, and he suggested that staff determine which items are duplicative. He said that the additional items would then be added to Attachment 5.

Chairman Jones commented that the items would be added without reference to the two authors, per their request, and Committeemember Rhodes concurred.

Committeemember Jackson seconded the motion.

The motion carried by majority vote with Committeemembers Kavanaugh and McNichols voting nay.

Committeemember Jackson stated that he does not believe the Committee really addressed the mechanics involved in some type of limitation on government spending. He said that Ex-Officio Member Hawker's proposal articulated a policy that would provide targets for spending, be transparent enough for citizens to know what the future budget expenditures are going to be without having to be a CPA and offer flexibility. He stated that the idea is to provide some type of assurance to the citizens that there would be some policy and mechanism in City government to limit government growth. He added that the Mayor's proposal is a policy that he has not seen in place before and it articulates that there will be a limitation on government spending as a matter of policy.

Discussion ensued among the members of the Council relative to Ex-Officio Member Hawker's proposal; Committeemember McNichols' opinion that spending caps and proposals such as this will not work; the fact that in Colorado, anytime the cap is going to be increased it has to go to a vote of all of the citizens of the State while according to the Hawker proposal, the policy makers make the decision as to whether the cap will be changed or not; the fact that the City has been under-funding itself for the last several years; and the fact that

the Council has the authority to impose a secondary property tax, which would provide revenue to pay off bonded indebtedness, and they have chosen not to do so.

Committeemember Killian spoke in support of the proposal and said that he has seen it work at the State and County level. He added the opinion that if they are going to go to the voters and ask them to raise taxes to solve the problems, they also have to give them something in return, educate them about the limitations and explain how the City plans to govern itself in this manner. He also discussed the Economics Evaluation Committee and said that the members would analyze the economy and then make recommendations on where spending needs to occur or where caps should be based on the economic performance of the nation, the County and the State. He agreed that some type of limitation is required rather than an "open check book."

Committeemember Huber advised that he also supports the concept with the caveat that it takes effect only after the other revenue sources are put in place. He explained that this would put Mesa in the same ballpark relative to other cities and provide the same revenue tools that are available. He suggested that the Committee add a paragraph to the report indicating support for the City looking into the proposal and provide an attachment that can be used as a guide.

Ex-Officio Member Hawker commented that there were some questions raised about the "downside" and said that without the one-time base adjustment, the plan doesn't work. He referred to a model that he had staff prepare and he distributed copies to the members. He explained that there are two pages, one is year-by-year for the first five years and the second page projects out to 2025 and models it with a base adjustment (\$1.00 per \$1,000 property tax and also the half-cent sales tax). He added that some other type of combination could also be used, but he emphasized the importance of ensuring that whatever is decided goes through the modeling process to ensure that it makes financial sense and is sustainable. He explained that the Colorado model is based on the prior year's revenues, so if there is a downturn in the economy and revenues decrease but there is still population growth and inflation, they never get the money back. He added that in this model, if there was a revenue shortfall (population and inflation) it would not change the base because they would still receive the population and inflation credit.

Ex-Officio Member Hawker noted that they would not have to go to those levels on population and inflation if the water farm was sold, etc., they could build up reserves or refund money back to the citizens. He pointed out that once they achieve a 20% reserve, they have funded the City the way they want it to be funded, the programs are adequately covered as modeled, and then money should go back to the citizens. He emphasized that without the one-time base adjustment they will never get the reserve funds built back up and this would make the entire process extremely difficult.

In response to a question from Chairman Jones as to how the City will address the replacement of infrastructure/aging stock once the City reaches build-out and population is no longer increasing, Ex-Officio Member Hawker replied that the issue would be addressed by the inflation.

Committeemember Griswold commented that citizens do not trust government, and he stated the opinion that if they are going to ask people to implement a stabilized financing system, they have to inject some type of trust factor into the mix. He added the opinion that they could suggest this proposal as a group recommendation that it be looked at closely and that assurances be identified. He said that he would support the proposal and that he believes, if implemented, it would represent a positive step for the residents of Mesa.

Committeemember McNichols clarified that the Colorado model includes a revenue limit not a spending limit. He explained that in the example, if they received a \$1 million grant from the Federal government, they could not accept it; they would have to turn it down because they could not accept revenue in excess of the limit that was established for them. He added that the other problem he sees with the formula of putting a CPI cap on

population plus inflation is that they cannot deliver any more services because the cost of services is growing with the cost of inflation. He noted that the cost of government is not calculated in the CPI, and that crime does not rise and fall according to the CPI. He said that an increase in crime in the City would require more money to be spent on police and protection in order to maintain public safety. He pointed out that public transportation is also not included in any CPI and if they have to provide more buses, invest in a system or repair streets, they cannot do it if they have a CPI spending cap because the cost of asphalt is going up much higher than the CPI rate. He commented that any index utilized should be one that rates the cost of government. He said he doesn't mind having a spending cap but stressed that basing it on population/inflation would not cover the cost of running the government, and it is the wrong index.

Committeemember Rhodes commented that he is opposed to the idea and any spending cap. He said that this is not the same thing as the Rainy Day Fund (RFD), because the calculations are different. He added that the funding mechanism is different and the track record of the Legislature with the RFD is abysmal because it has been abused and it has not worked. He stated that it was a tremendous idea that could have worked and that there are a lot of very strong, good recommendations to implement it but at the State level it is an entirely different proposal than the one they are looking at.

Committeemember Rhodes noted that the State and every other city has spending limitations imposed by the Constitution, and he questioned why they were not effective. He said that if they want to increase their base and increase spending limitations, they have to take the matter before the voters. He spoke against adding another layer of bureaucracy and noted that super majorities that have been imposed from time to time have been proven ineffective. He added that they actually increase politics instead of decreasing it and said he is against anything that would handcuff future governments. He further stated that after meeting for the last 18 months, the recommendations they are making are not things they want to do, but they are things that they need to do as a community. He spoke in support of allowing the people of the future to govern the City the way they see fit, not the way the Committee does.

In response to a request for information from the Chairman, Budget Director Jamie Warner discussed State-spending limitations and reported that four limitations exist in the State Constitution system, two of which are not really applicable to the City. He said that the one is a capital exemption and another is a one-time adjustment where, due to an extraordinary circumstance occurring in that year, the voters are asked to approve an exclusion and then they go back under the limit. He noted that those two do not fit the situation. He advised that right now the City's limitation is the adopted budget and voters, every four years, are asked to continue that limitation exemption. He added that it has been done two times and the other option is a permanent base adjustment where they would go to the voters and basically say that the City wants to establish a new base and then from that point forward they will be limited by the State, which is basically CPI plus growth. He noted that exemptions are allowed in the State limit.

Mr. Raines commented that most of the cities in the State have either adopted one of the two alternatives outlined by Mr. Warner (Home Rule process) or they have adjusted their base permanently.

Committeemember Adams spoke in support of the proposal and thanked Ex-Officio Member Hawker and Committeemember Holtz for their work in this regard. He added the opinion that the document is a good one that takes into account some of the failings of the Colorado model and improves upon it. He said that if the City Council decides to implement a property tax, for example, the citizens and future citizens will then be obligated to pay a tax that will increase every year, whether through assessed values or tax rates. He added that they would be "handcuffing" them to never-ending tax bills and, in that regard, questioned why it would be unreasonable to provide some sort of "handcuff" on City spending. He noted that much has been said regarding the need to provide a predictable and stable revenue source and added that they should also

provide a predictable spending plan for the citizens. He expressed the opinion that this would strengthen the recommendations of the Committee and provide an element of balance to the majority report.

Committeemember Kavanaugh agreed with Committeemember McNichols comments regarding this matter and said that he would not support the motion. He agreed that the proposal is superior to what was implemented in Colorado and commended the Mayor for studying the pros and cons of the issue. He expressed the opinion that like any proposal, it tends to be too simplistic in the nature of how government works. He emphasized that Mesa is not a business; it is a government that provides services in a different way than businesses. He pointed out that the nature of the population changes is that as the population ages, the needs will change. He also stated that he has a degree of trust in what tomorrow's leaders may do in terms of this type of decision-making.

Committeemember Holtz agreed that the CPI is not the right measure to use and said that he has pointed out that there would be indexes. He emphasized that he left it open ended in order to look at regional and/or national indexes. He reported on a study he conducted approximately ten years ago on Home Rule and stated that Home Rule is so "open ended" that there isn't really any practical limitations to it as far as he can see. He further stated that the other alternative is making the cap so high that they could increase spending by 20% in one fiscal year and not even touch the cap. He expressed the opinion that nothing in the proposal will "handcuff" future leaders because all it does is set a target and that the City Council, as policy makers who are fiscally responsible to the citizens, can make decisions on whether to change that value.

He stated the opinion that Mesa is a business, an economic vehicle, and said that the tax dollars they have are not government dollars, they are the citizens' dollars. He added that government has a fiduciary responsibility to ensure that those dollars are wisely spent and said that the proposal is just a statement of fiscal policy. He advised that it fully places the responsibility on the City Council, the elected officials of the City, to waive for various reasons. He emphasized that the proposal provides better assurance to the citizens that the government is using their tax dollars more wisely than before.

Committeemember Grant expressed the opinion that the spending cap is somewhat unnecessary from the standpoint that they went through and did a large section in the recommendation on how the budgeting process was going to take place, how it was going to be outcome oriented, and that a sunset review process would be put in place to make sure the appropriate outcomes were achieved for the dollars being spent. He said that he views the cap as being nothing more than an additional, unnecessary layer that will restrict future governments and hinder their ability to do the right things for which they were elected.

Committeemember Esparza stated that Committeemembers Kavanaugh, Rhodes and McNichols have already addressed many of the points she had intended to make but said that there is one more thing that needs to be brought out, which is the fact that Mesa has the lowest homeownership cost and cost of living virtually throughout the State. She commented that the City's officials have been doing a tremendous job under a barrier that was put in place a long time ago and they are now trying to figure out how to get around it and over it. She noted that she has conducted a lot of research into the issue and will not vote in support of the proposal.

Committeemember Killian commented that government has to be controlled and noted that when government makes mistakes, particularly on the funding side (taxing, etc.) they are not the ones who pay for those mistakes, the citizens do. He agreed that the Constitution does have some limitations but said in order to be fiscally responsible he believes it is appropriate for the City to find a way to discipline itself. He added that they could move forward with the proposal currently under discussion or go back to the original motion where they talked about asking the City Council to create a committee to look at the issue of spending and limitations comprised of experts from the around the country who can give some direction to the City Council. He added

the opinion that by doing that, it allows everyone to come to the table to discuss the issues in detail in order to determine what works and what does not. He advised that he would support this proposal or something similar to it, and he stated the opinion that it is prudent and appropriate.

Committeemember Rhodes noted that when government makes mistakes and citizens are impacted, a wise electorate then punishes those people in the next election. He added that that is entirely different from establishing a “bulletproof” formula that will take them into the future. He said that he does not believe that the proposal makes economic sense and added that they are talking about restricting the growth of government and disciplining government, but noted that governments are purchasers of services and goods in that they purchase human resources and equipment from the free market. He stated that if they place restrictions on spending and the market outpaces the restrictions, problems will occur. He cautioned against attempting to restrict growth, which ultimately restricts quality.

Committeemember Rhodes said that as others have commented, the draft includes a method for imposing on future City Councils an evaluation mechanism, a decision-making mechanism where they say they want goal oriented, outcome oriented policies in place that can be tracked and results published. He added that they want there to be goals and objectives for each program and measurements/reporting and an annual review. He said that they also added a sunset provision and when they put all of that together, he believes that have done what they need to do. He advised that his concern is when they start playing with the economics, they may get outsmarted by the larger market place and then they may leave the future leaders, their children who are running the government, with a problem rather than an opportunity.

Committeemember Benza expressed appreciation to Committeemember Holtz for his work on this issue and commented that it is an improvement over the Colorado model as she knows it. She added, however, that she has also reviewed the report and on Pages 7 and 8, the Committee stated its principles – i.e. “the intent of the Committee to present a total level of taxation that is commensurate and competitive with the communities in their region” and “it is the responsibility of the City Council to determine the specific extent of necessary revenues and make ongoing adjustments.” Committeemember Benza stated that she agrees with the comments presented by Committeemembers Rhodes, Grant, McNichols and Esparza and everyone else who has said that the draft includes the items that they are recommending to future governments in order to keep spending under control while still meeting the levels of service that are desired by the citizens. She added that she could not support this proposal.

Committeemember Griswold commented that he is very pleased that they did an activity based budget where each department had to prove what they were trying to accomplish and the best way to achieve it – internally, outsourcing, etc. and sunseting. He stressed the importance of determining whether certain activities are still needed in the City and said that they will have to continue to look at things closely.

Committeemember Jackson noted the excellent dialogue that had taken place at the meeting regarding this issue. He stated that he agrees with the importance of having a restricted, disciplined government and commended Ex-Officio Member Hawker on his efforts to “grapple” with the issues. He encouraged him to continue to do so and to experiment somewhat in the process in order to determine the best process. He said that he wanted to give the City Council the freedom to continue to experiment and determine what is best for the City and noted that ultimately the voters will decide whether the members are making the right decisions for them. He added that he believes the document is fine and he does not have any objection to bolding the two paragraphs, as previously discussed, but stated that if the question is called, he would have to vote against it.

Committeemember Holtz expressed the opinion that the Committee has an opportunity to make a bold statement and there is nothing in the document that restricts or “handcuffs” anyone or anything. He reiterated that the proposal is a fiscal policy statement.

Committeemember Holtz moved to adopt the affordability and spending cap with the stabilization fund. Committeemember Griswold seconded the motion.

Chairman Jones stated that the document still contains some language that concerns him and noted that the City will be “stuck” for ten years with the existing census data, and unless they conduct a five-year census, the City will lose a lot of revenue. He said he believes there are many varying degrees on why the members would or would not support it.

Ex-Officio Member Hawker advised that there is a way to adjust population without conducting an actual census; it would just be a policy they would have to write into the proposal.

Committeemember McNichols advised that he would not support the formula that is proposed in the motion but added that the discussion and the proposal has brought to the Council’s attention (three of whom are in the room) the need to create good faith with the public. He emphasized that the passage of a property tax or an increase in the sales tax is going to depend on the Council’s ability to create a feeling of trust with the voters. He added that he hopes that the discussion will be brought to the attention of the other members of the Council and noted that they have the ability to move in whatever direction they deem appropriate.

Chairman Jones asked for a “show of hands” vote on the motion.

The motion failed for lack of a majority (6 to 9).

Chairman Jones emphasized that the whole point of what their efforts is to instill confidence in the residents regarding the wise manner in which their tax dollars are being spent. He recommended that Items 1 and 2 (on Page 8 of the report) be put in italics and placed on the front page so that the Committee’s goals will be more emphasized.

Discussion ensued relative to this suggestion and it was determined that Items 1 and 2 would remain as shown but would be bolded in order to reflect added emphasis.

Committeemember Holtz requested that under VI. A. – Statement of “Principals” (Page 7 of the report) the spelling of the word “principals” in both places be corrected to “principle.”

Committeemember Jackson said that he would still like to incorporate into Paragraph VI. A language to the effect that there should be a restricted disciplined government. Committeemember Griswold concurred.

Committeemember Jackson recommended that a sentence be added after Item No. 2 (top of Page 8) that would state, “it is also emphasized that the City Council implement a fiscally restrictive discipline of government.”

Committeemember Rhodes expressed the opinion that Item No. 2 already says what they want and that the language should remain unchanged.

Chairman Jones stated that the language in the report will remain as is but the minutes of the meeting will reflect discussion regarding this issue.

Committeemember Jackson commented that at the last meeting, Committeemember Adams submitted a minority recommendation that dealt with calibrating employee compensation and benefits to the private market place. He stated that although he wants to make sure that employees are being paid appropriately, he

believes that inconsistencies do exist. He noted that the City of Mesa pays more money to their employees than the private sector does in his industry. He added that if the private industry is losing people to the public industry, a problem exists. He said that he does not want to have to compete with City employees' pay scales and benefit packages and added that some of his employees would "run circles" around some of the people who are making the same salary at the City. He advised that he is not trying to be critical but he believes that wages are being based on cities versus cities instead of looking at private industry. He spoke in support of the language included in Committeemember Adams' minority report and said he would like to review them and include them in the majority report. He added that they also need to look at the City's benefit package and noted that private industry cannot afford to compete with the City in this area. He commented that they cannot afford to do this and questioned why the City is allowed to provide that type of benefit package. He suggested that the Committee look very carefully at the minority recommendation regarding calibrating employee compensation and benefits to the private market place and incorporating it into the majority report.

Committeemember Holtz stated that he would like to echo Committeemember Jackson's comments. He added that he was under the impression that the City had some type of compensation board in place, a citizens' advisory board that looks at salaries. He added that he remembers hearing that Mesa's police force was being paid less than surrounding cities, while certain mid-management positions are higher than surrounding cities. He further stated that there are positions, for example in the library, that are ranked higher than a Police Commander position. He noted that the Committee has been hearing that the City had to increase certain employee's salaries in order to compete with surrounding cities and added that at the same time Mesa's police force has been 5% under other cities for a long time. He stated that even though the City may have a commission in place that looks at benefits and compensation, there are glaring disparities. He expressed the opinion that if such a committee does exist, they have not been performing an effective job.

City Manager Mike Hutchinson advised that there is no such committee in place at this time.

Committeemember Rhodes commented that there has been a lot of discussion about the fact that the City indexes itself basically with its competition, the other cities, so it is a "Catch 22." He questioned how Committeemember Adams addressed this in his report.

Committeemember Adams replied that they can simply state in the report, "that we establish an employee compensation and benefits review board and that board should establish a strategic plan for addressing the growth of benefit entitlements and review and calibrate pay scales and benefits of the private market place."

Committeemember Adams expressed the opinion that the City should be competitive when it comes to public safety employees and some of the critical functions of public safety. He emphasized that the goal is to calibrate pay scales to the private market place. He added that the larger issue is determining the strategic direction of the City's employee benefit package. He stressed the importance of the City taking a really hard look at this issue and being realistic with respect to what the equivalent job receives in the private sector. He pointed out that the average cost of health insurance alone in the State increased over 20% last year and that was on top of 16% the year before and similar percentages the year before that. He stated that this becomes a huge "budget buster" and needs to be addressed. He said that he supports the appointment of a committee that addresses not just pay scales and calibrating salaries where appropriate to the private market place but also "gets a handle" on the growth of benefits and entitlements. He proposed that the committee be named "Employee Compensation and Benefits Review Board."

Chairman Jones stated that he concurs with many of the points made by Committeemember Adams but said that they have to be careful regarding the growth of insurance. He noted that the City is self-insured and has kept costs at a comparative minimum.

Committeemember Adams responded that he did not agree with that statement because the driving cost is not insurance premiums, it is the cost of delivering healthcare. He added that the City has no control over that cost so whether it is a self-insured plan or a plan placed through an insurance carrier, the cost factors still remain.

Chairman Jones advised that he serves on that Committee and has followed the issue very closely. He reported that the City has kept costs comparatively much lower than other cities and other industries but added that the cost of medical coverage is an extremely challenging matter. He added that staff has done a good job at keeping that cost down below the average and said that they deserve a lot of credit for their efforts. He agreed that if they go by the industry standard it will wipe out anything in just a number of years.

Committeemember Huber commented that when expenses increase private industry adjusts to the increases very quickly. He added that they pass on more of the expenses to the employees, reduce employee benefits, etc. He said that when employees hear about it they are horrified but it is a reality for private industry and they have been dealing with the issue for a number of years. He advised that if City governments continue to keep the same level of benefits while everyone else deals with the situation in a different way, the cities are going to have to "catch up" and decide that changes must be made.

Chairman Jones said that he agreed with the concept but wanted to point out that the City has done an excellent job over the last couple of years keeping costs down. He noted that the City of Phoenix pays their employees probably three or four times what Mesa is paying per employee for health insurance and added that this is a scary thought.

Committeemember Holtz stated the opinion that not many people would disagree that there is some disparity in the pay scales, leaving the benefits aside. He said that he would entertain a motion to recommend to the Council that they set up the board, as previously discussed, and that it be subject to the "sunset law."

Committeemember Griswold commented that if they were going to consider a motion along those lines, he would like to add one phrase into the language that touches on a process that employees, the City Manager and the Deputy City Managers have implemented, namely hiring employees and managers "at will" rather than on a tenure system. He added that staff should be commended for moving in this direction.

Committeemember Rhodes asked whether the proposed committee would be broad in scope and look at other issues as well such as terms of employment issues, etc. rather than simply compensation. Committeemember Adams said that he would be open to recommending that the committee's charge be broad in scope to cover a number of those important areas as well. He added that there are many non-economic reasons to work for an organization.

Committeemember Rhodes commented that they should add the word "retention" into the language because they are looking at saving costs but at the same time they want to look at all of the reasons why people remain at the City. He stated that they may be non-economic reasons and they should be identified and enhanced. Committeemember Adams also concurred with these recommendations.

Mr. Hutchinson addressed the Committee and said that the issue is extremely complicated but staff has been dealing with it. He commented that there are no easy answers, as demonstrated by the State. Mr. Hutchinson clarified that staff looks at the police force compensation every year and added that staff constantly reviews compensation issues. He noted that in the public safety area they have expended a special effort because it is a very competitive environment and a high priority for the Council and for him. He stated that they do fall behind at times and said that the Department of Public Safety has fallen behind and now they are desperately trying to catch up and they do that by going to the City agencies and recruiting their people. He said that that is happening to Mesa today and it is because they fell behind. He cautioned the members of the Council to

allow the City to remain competitive, not only in the public safety area but throughout all of the positions. He added that his theory has been that the City hires good people to provide good services to the citizens and to get and retain good people, Mesa must be competitive.

Committeemember Esparza discussed the proposal to calibrate salaries to the private market place and said that her concern is that there would not be flexibility and stressed the importance of ensuring that flexibility be a component of the process to ensure that intelligent, appropriate decisions are made.

Committeemember Adams responded that his proposal provides a lot of flexibility to determine which classes of jobs are appropriate, which would be calibrated otherwise, etc.

Committeemember Jackson recommended that they suggest the formation of a review committee and that the committee ultimately forwards their recommendations to the Council.

Committeemember Rhodes said that if the Committee is going to move forward on this idea, he would suggest that they add another paragraph (6.) after the new one that staff added (5. Expenditure Reviews).

Discussion ensued among the members of the Committee regarding possible language for the motion.

Committeemember Adams moved that the Committee recommend the establishment of an Employee Compensation and Benefit Review Board to establish a strategic plan for addressing the growth of benefit entitlements, retention and to review and calibrate pay scales and benefits to the public and private market places where appropriate.

Committeemember Rhodes seconded the motion.

Committeemember Benza said that those comments are contained in Attachment 5 of their report under Expenditures (Page 4). She added that it reads, "Wherever possible, pay scales and benefits for City jobs should be compared to the private market and not solely to other governmental entities."

Chairman Jones noted that the motion is to form a committee or board to accomplish the goals on a regular basis and goes beyond the recommendation included in Attachment 5.

Committeemember Benza responded that she believes it is included in the attachment.

Committeemember Rhodes commented that one of the reasons he supports this is because the issue is a huge one and deserves a separate committee. He added that the committee should be comprised of individuals who really understand the issues and it would be appropriate that various staff members work with them.

Committeemember Kavanaugh said that he had a question on process now that they are close to the final vote. He asked whether the Chairman will entertain a motion to approve the report as presented here and then ask each member to explain his/her vote.

Chairman Jones replied that that is his intention and stated that each member will be allowed two to three minutes to present comments. He said that if members disagree with specific issues, they should state them briefly so that they are part of the record.

Committeemember Killian advised that the proper process would be to call for a roll call vote. He added that as each person is called upon, he/she can briefly explain his/her vote.

Committeemember Rhodes moved to approve the final report (August 31, 2005) draft as amended. Committeemember Kavanaugh seconded the motion.

Committeemember Huber said that he would vote in support of every section of the document with comment on Item 2, Page 12 (The Committee recommends that the City Council place before the voters a ballot question to adjust the local sales tax rate to 1.75%). He stated that he agrees that they need to be in the ballpark with all of the other cities on a total revenue package and if they are behind by say \$40 million, then they need to hit that number and come up with a package that accomplishes that. He added that he supports the property tax but said that they have looked at the property tax on the low side compared to other cities. He stated that even though they have left it open ended, they may have left that on the low side, but the sales tax is on the high side compared to other cities. He expressed the opinion that that could be calibrated closer to be more palatable. He said that if they are in the ballpark on both issues, they will have a better chance of getting approval. He added that 1.75% puts them at the very high end compared to other cities and if they can bring the property tax up and that down a little bit to come to the same end (in line with other cities) that would be a positive move.

Committeemember Benza advised that she is going to vote in favor of adopting the final report with amendments. She stated the opinion that the report is a good representation of the work that has been conducted by the Committee and added that each of them has learned a lot by going through the process. She added that she too has some concerns about where the property tax should fall and said that she believes a secondary property tax for bonds is something that was voted on by the people when they passed the bonds. She stated that she hopes that the Council will take a look at that and perhaps consider the secondary property tax as part of the total package needed to finance the City.

Committeemember Killian said that he would vote in favor of the proposal and would like to explain his vote. He stated that it has been a pleasure working with all of the members and appreciates the opportunity to serve on the Committee. He added that he has two concerns; the first is that they have not adopted some type of spending limitation but said he believes with the opinions that have been expressed that the City Council will look at that issue. He further stated that the City has a wonderful opportunity as far as the water farm goes and reported that the land down by Arizona City is selling for \$50,000 per acre. He said that Coolidge is a little bit closer to Phoenix than Arizona City and the value of that land is going to be enormous. He expressed the opinion that if the City plans it, zones it and markets it they can create a trust fund for the City to help pay for the cost of government and hopefully buy down the cost of the tax increases that are being proposed.

Committeemember Kavanaugh advised that he will support the motion as well and express his appreciation to the Committee and City staff for their hard work. He commented that it is clear to him in light of their deliberations and looking at City revenues/expenditures that a revenue model crafted during World War II simply does not cut it in the 21<sup>st</sup> century. He also stressed the importance of the processes they are recommending to the Council for expenditures and said that they are key to future decisions. He commented that a document such as this would have been very helpful to him when he first came on the Council in 1996 and added that it provides a good guide for officials to exercise discipline and ask the right questions about a budget process that is often confusing. He said that he hopes that the Council will continue to evaluate issues surrounding the audit position and whether it should be an independent position reporting to the Council or remain as is. He stated that the issue merits further discussion.

Committeemember White also spoke in support of the document and thanked City staff for their efforts. She stated that she has learned a lot serving as a member of the Committee and is grateful that she was asked to serve. She advised that her only concern is that the City will be losing some Quality of Life tax for parks and

said that she hopes that somewhere down the line the situation will improve and that she will see another park developed.

Committeemember Adams commented that his opinions on the report are well known by everyone. He said that in the final analysis it is not what they intend to do but what they actually do that matters most. He too expressed appreciation to the members of the Committee and staff for their efforts over the last 18 months. He stated the opinion that the report intends to do a lot; it intends to control spending, it intends to study ways to cut expenditures and it intends to explore things, many of which will be wonderful if they are ever fully implemented. He said that what they actually do in the report is raise taxes -- that is the actual recommendation, and stated that he finds the report to be too unbalanced. He added the opinion that it doesn't sufficiently address some of the concerns that are going to be raised by Mesa taxpayers and citizens and said that they make a mistake when they don't put some type of control on spending. He agreed that it is important to have an independent auditor who will provide the citizens with a level of confidence and transparency as far as City government. He said that although there are many great things in the report, those are the weaknesses he sees and for those reasons he will not vote in support of the motion.

Committeemember Jackson thanked Mayor Hawker for appointing him to the Committee and said that it has been a privilege to serve. He also thanked Chairman Jones for all of his efforts and thanked staff for their hard work. He advised that he supports the contents of the report as amended and added that it contains wonderful and solid recommendations regarding processes. He said that he believes that their voices have been heard and will be heard by the members of the Council who sit here today as well as the other members. He commented that whether they have a 1.75% sales tax or \$1 pr assessed value for a property tax is not important to him. He added that he believes that when they live in a City, they have a responsibility to pay for the services they receive and to make sure that they are adequately funding their government. He stated the opinion that they should be competitive with other cities and added that he feels very good about the report and will support it.

Committeemember Holtz also spoke in support of approving the report and said that the process was a good one. He added the opinion that all of the right questions were asked and they did a good job of providing the public an opportunity to participate in the process and gain better knowledge of the City, its workings and financial situation. He stated that the report, in his opinion, provides adequate justification for raising taxes but added that he is disappointed that they missed out on an opportunity to talk more about a secondary property tax. He added that he is also disappointed that they did not pass something that would balance the report and restrict government spending or growth in government spending. He said that overall he believes it to be a good report and that he would support it.

Committeemember Schroeder said that she too supports the report and thanked the Mayor and Council for the opportunity to serve along with the other members. She added that the process has been an incredible adventure and expressed the opinion that the report covers very well the discussions that they had. She said that she never thought she would end up voting on something that raises taxes but added as they learned during their journey, there re some imbalances out there that need to be taken care of. She commented that the report sets a standard for accomplishing this goal.

Committeemember Grant thanked the Mayor and Chairman Jones for the opportunity to serve on the Committee and said that he has learned much as a result of the process. He advised that he will vote in support of the proposal but added that he does have a couple of concerns. He said that he believes they missed out on an opportunity by not appointing an independent auditor for the Council and said that he hopes that the entire Council reviews this issue in greater depth. He stated that he also disagrees with raising the sales tax above the continuation of the Quality of Life tax. He added that they had several discussions about how the City's dependence on sales tax has driven them to make some decisions that perhaps are not optimal

for the community and said that they need to drop their dependence on sales tax. He added that to that end, he does not believe that it makes sense to raise the tax above its current level and said that they should just continue it. He clarified that this does not mean that he is not in favor of funding the transportation portion of it, he is simply saying that money needs to come from a more stable source of income, namely a property tax. He further stated that the transportation needs of the City are key to the Quality of Life and to bringing people into the City. He said that it is something people interact with on a daily basis.

Committee McNichols advised that he would vote for the approval of the report and said that he supports it. He noted that his only reservation is that he believes they should have recommended the implementation of a secondary property tax but said he believes that is going to happen anyway without their recommendation. He expressed appreciation to the Council for his appointment to the Committee and to City staff. He stated that he has enjoyed serving as a member and has tried to contribute and appreciates the work and contributions of everyone involved.

Committeemember Griswold said that he supports sending the report to the City Council and noted that there is an entire universe of recommendations contained in the document. He advised that the Council will have to decide what will go before the voters. He pointed out that the Committee has recommended exploring \$3 to \$5 million in potential cuts and added that he is comfortable with the quarter-cent replacement for Quality of Life funds, dedicated to roads. He noted that he is not as comfortable with the extra quarter-cent sales tax and believes in spending limitations and a cap. He indicated his intention to continue to explore this area. He added that the hiring of an independent auditor would require a Charter Amendment and said that he will also continue to work on this issue.

Committeemember Rhodes stated that he supports the document in its entirety. He said that one of the things that impressed him about the Committee is that they did not take what would have been an easier approach – send up a laundry list of ideas and say “here, pick one!” He added that this is a document that works and to appreciate it, you really need to see how the various parts work together. He said that this is particularly important with respect to the sections on the budget process and the audit committee and how the Committee envisions the process of government making financial and fiscal decisions in the future. He commented that what they have done represents much more than a tax recommendation. He stated that the Committee was faced with very dire predictions and numbers that were staggering, and yet they never abandoned their vision of Mesa as a standard of excellence. He added that he hopes that the Council, when they review the report, will recognize the energy that it took to prepare it.

Committeemember Esparza expressed appreciation to her fellow Committeemembers and to Mayor Hawker and the Council for appointing her to the Committee. She also thanked staff, especially Denise for all of her hard work, and the citizens who either attended or watched the meetings from their homes over the 18-month process. She said that if she was asked to serve again with them for another 18 months, she would do so. She advised that she supports the document in its entirety including the recommendation for a property tax. She added that she also supports the implementation of a secondary property tax, which as Jill mentioned has come before the voters and has been approved. She said that she is trusting that the Mayor and Council will take this document again, in its entirety, go through it and then pick and choose the right things for Mesa.

Chairman Jones thanked all of the members for their comments and said that he too supports the document. He commented on the fact that he has had changing views on issues throughout the entire process and said that he has found it to be challenging and interesting. He noted that he has never been comfortable with just saying “let’s have a property tax” because he would prefer more of a service tax to pay for what people use but said that is not feasible at this time. He stated that they have had differing opinions on a number of issues and added that he might change some of his opinions before the report goes to the full Council, but the bottom line is that they are trying to make a full, transparent process so that the public will have confidence in the fact that

their dollars are being used wisely. He commented that they are going to do things that are necessary to make Mesa the City it needs to be as far as public safety, infrastructure (including aging infrastructure that is becoming a real problem) and a variety of other issues that must be addressed. He expressed appreciation to Bryan Raines and Denise Bleyle for their assistance throughout the entire process.

Chairman Jones advised that the report would be forwarded to the full Council and said that he is sure that it will be taken seriously by all of the members. He stated that he is sure there will be discussion regarding the independent auditor issue, on whether or not the sales tax is too high, etc. but added that the ultimate goal is to bring Mesa up to a level where it can remain competitive as a community and to make sure that the City operates efficiently, effectively and does not get out of hand. He said that he has enjoyed working with the entire Committee and thanked them for their long-term commitment to the City of Mesa.

Chairman Jones stated that although Ex-Officio Member Hawker cannot vote on the report, he would like to provide him an opportunity to present some remarks.

Member Hawker thanked Chairman Jones for serving as the Chairman of the Committee and said that he appreciates everyone's perseverance and intellectual discussions that resulted in the final document. He said that what they are really doing is saying to the citizens of Mesa, "Here is our vision and here is what it costs to accomplish that. Are you willing to pay the price to have the type of community you want to live in?" He added that they would find that out in 2006 with some ballot questions that he is sure will be placed on the ballot by the Council.

Member Hawker expressed appreciation to Mr. Raines and the Financial staff for their work on the financial model and added that now they have a control on government spending because they have to model in the expenditures, the one time capital and the operation and maintenance. He added that he really likes the model and clarified that the member's appointments were the result of the entire Council's concurrence with his recommendations. He commented that he really appreciates the independent auditor concept or auditors and said that the various recommendations (including several more sub-committee formations) will be discussed and prioritized by the Council at their Retreat in October. He assured the members that their recommendations deserve some immediate attention and said that it is his intention to make sure that this happens. He again thanked the members for their 18 months of service and said that he is sure that the citizens of Mesa appreciate what they have done on their behalf.

Chairman Jones called for the vote.

The motion carried by majority vote with Committeemember Adams voting nay.

Chairman Jones advised that the report will be presented to the City Council at the September 22<sup>nd</sup> Study Session at 7:30 a.m. and encouraged as many members as possible to attend the meeting. In response to his request for volunteer spokespersons to represent the group, Committeemember Rhodes and Committeemember Jackson agreed to assist in the presentation at the Study Session.

Committeemember McNichols advised that he would be out of town on that date and unable to attend the meeting.

Committeemember Benza indicated her intention as well to attend the meeting and also agreed to assist in the presentation.

### 3. Scheduling of meetings and general information.

Presentation to the City Council will take place on September 22, 2005 at 7:30 a.m. at the Study Session.

4. Items from citizens present.

Mitzi Pearce, a native of Mesa, addressed the Council and said that because she loves the City of Mesa and cares about it, she decided to join an organization called ACORN, which is the largest community organization in the nation. She said that her goal is to do whatever she can to improve what is going on in her community and invited all of the members to attend a Town Hall Meeting on Tuesday, September 13<sup>th</sup> at 7:00 p.m. at 640 N. Mesa Drive. She advised that one of the subjects will be the budget crisis in Mesa and said that they will be hearing from the citizens who live in and around that particular area. She added that she was very impressed with the meeting and thanked the members for their service to the entire community.

Chairman Jones thanked Ms. Pearce for her comments.

Sheila Mitton addressed the Committee and expressed the opinion that an internal lack of communication between departments and the Police Department has resulted in increased crime over the years in West Mesa. She discussed various incidents that have occurred in West Mesa and said that something must be done to correct the problems that exist. She advised that she will be holding a community workshop with a small group of students that will be repeated at various times throughout the year and noted that one of the topics she will be address is "Save a Child's Life, Turn in a Drug Dealer."

Chairman Jones thanked Ms. Mitton for her input.

The Chairman reiterated his appreciation to the members of the Committee and staff and said that he has enjoyed working with everyone on this important project.

5. Adjournment.

Without objection, the Mesa 2025: Financing the Future Citizen Committee adjourned at 8:13 p.m.

I hereby certify that the foregoing minutes are a true and correct copy of the minutes of the Mesa 2025: Financing the Future Citizen Committee meeting of the City of Mesa, Arizona, held on the 7th day of September 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

lgc

Attachment: (Committeemember Killian's response to an Arizona Republic editorial

## ATTACHMENT 1

In the East Valley section of the Arizona Republic under the headings of Opinions, I read an editorial either by Mr. Gary Nelson or Ms Joanna Hensley neither of which have the courage to sign the editorial. In the old days in the Tribune Chuck Walheim or one of the other guys would always sign their editorials so you knew who was writing the editorial. The Editors were critical of the work of the citizens of this Committee and proceeded to lecture the Committee on the lack of political courage and the inability to make decisions to finalize the report. They also suggested that the Committee did not have the will to do the right thing.

First of all this Committee does not need to be defended. The work of the citizens on this Committee has been first rate and there has been a genuine feeling by everyone here to do the right thing as they see the needs of the City. Not every idea expressed and debated was accepted, many were and that what makes the Committee process so effective. To imply the Republic editor suggested only courageous thing to do is recommend raising taxes is just flat irresponsible. It shows a lack of understanding by the Editors of the big picture for Mesa. It truly shows a lack of thinking outside the box, which they suggested that they suggested we should do.

The facts are that Mesa cannot solve all of its ongoing problems from budget cuts alone but how many cities the size of Mesa are sitting on a billion dollar asset like the water farm in Coolidge, which the Republic didn't even bother to talk about. Thinking outside of the box as expressed by Editors was missed by them when they immediately jumped on the old tried political horse of raising taxes to solve all problems for any city such as Mesa.

As for the reason that we did not finish the report at the time is very simple and had nothing to do with our inability to make hard decisions. We had not finished our work and our members of this Committee expressed concern that the report did not include a number of issues including City expenditures. You cannot just look at revenue without looking at spending side of the City options. In tonight's meeting we will finalize the expenditure side of the report. Whatever the Committee decides tonight will create a balanced report to the Council. It is the height of lunacy to suggest as the Editors of the Republic have done in their editorial that this Committee should not concern itself with the people and what they think or what the political ramifications may be. The problem with this attitude is that it will create animosity toward our work product if we bury our heads in the sand and craft a document that is blind to the conservative nature of our community. We create a world map of failure for our City Council if we did that. We want the City Council to be able to be successful and solve these financial problems for the community notwithstanding the lack of common sense expressed by the Republic Editors.

Why hand the naysayers of this community a bat to beat the heads of the Councilmembers and use this Committee's work as a tool to defeat any proposal that the City Council may send to the voters in the near future. I don't understand their reasoning. Political courage is the ability to get things done for the benefit of the people of the community. It's not being a Don Quixote charging in the future hoping that somehow we'll solve these problems without knowing and understanding the political realities of our community. We must succeed. The people of this community are counting on us and it will not happen with the attitude expressed by the Republic Editors. Their idea of political leadership will bring failure and doom our City on the ash heap of history.

Mr. Chairman, I wish to express my appreciation to each of the Committeemembers for the time and effort they've given in this process. Though I may not agree with every detail of this report I have no reservations in signing my name to this document because of the time and effort expended by this Committee in trying to help Mesa make hard decisions that will carry it into a brighter future. There is no sugar coating in this report. It's on target it's on the mark. Mr. Chairman, again I appreciate all the work that these Committeemembers have done and again I was highly offended by the attitude of the Editors of the Republic.