



COUNCIL MINUTES

December 21, 2005

The City Council of the City of Mesa met in a Special Council Meeting in the lower level meeting room of the Council Chambers, 57 East 1st Street, on December 21, 2005 at 5:00 p.m.

COUNCIL PRESENT

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

COUNCIL ABSENT

None

STAFF PRESENT

Mike Hutchinson
Barbara Jones
Debbie Spinner

Councilmember Griswold participated in the meeting through the use of teleconferencing equipment until 6:00 p.m. Mayor Hawker excused him from the remainder of the meeting at the conclusion of Council action on agenda item 5.

Mayor Hawker stated that at the Regular meeting on Monday, December 21, 2005, the Council voted to reconsider a number of issues related to the budget, taxes and election scenarios. He also noted that Monday's meeting included two hours of public comment, and with the concurrence of the Councilmembers, he advised that any member of the audience wishing to address the Council at this meeting would have an opportunity to do so under agenda item 6, Items from Citizens Present.

1. Discuss proposed tax changes, budget and election scenarios.

Budget Director Jamie Warner reviewed a summary (see Attachment 1) of the alternatives discussed at the December 21st Council Meeting. He noted that spreadsheets (copies are available for review in the City Clerk's Office) provide the detail for each scenario.

Mr. Warner outlined the four alternatives as listed below:

Alternative 1: No revenue enhancements and a reduction in the current level of service of approximately \$38 million.

- Alternative 2: The recommendation of the Mesa 2025: Financing the Future Committee (updated to include the Police Department pay range increase), which includes a sales tax increase to \$1.75, a primary property tax, and review of the sale of Pinal County Water Farm property over a 20-year period. Alternative 2 would require a reduction from the current level of service of approximately \$2.4 million.
- Alternative 3: Proposes to increase the sales tax rate to \$1.80 without a primary property tax, and sell a portion of the Pinal County Water Farm property valued at \$224 million over a 10 to 12 year period. This alternative would require a reduction from current service levels in the amount of approximately \$2.0 million.
- Alternative 4: Provides for a sales tax rate of \$1.75, a \$1 primary property tax rate, and the sale of approximately one-third of the Pinal County Water Farm property. Alternative 4 would require no reductions in the current levels of service.

In response to a question from Councilmember Rawles, Mr. Warner advised that the sales tax amount of \$0.30 is projected to generate revenues of \$25.8 million in the first year.

Responding to a series of questions from Councilmember Whalen, Mr. Warner confirmed that the \$0.30 portion of the sales tax dedicated to street projects does not include any funds for Light Rail Transit, buses or "park and ride" lots. He advised that the revenue generated by the proposed \$0.30 sales tax increase would assist the City to meet the matching fund requirement in order to obtain Proposition 400 funds. Mr. Warner added that the City would also utilize future General Obligation bond debt as part of the local match in order to obtain an estimated \$620 million in Proposition 400 funds. He explained that the cap on the proposed primary property tax would be approximately \$30 million, and he noted that the tax rate would decrease each year due to the fact that State law restricts revenue increases to two percent per year at the same time that property values are projected to increase.

Discussion ensued relative to the fact that an individual homeowner's property tax bill could increase if the property's valuation was higher than the average increase; that tax bills for some properties could decrease if the valuation decreased; that the property rate for a current year is established based on the current valuation of the properties that were included in the prior year, after which newly constructed properties would be added to the tax rolls at the current property tax rate; that new construction does not influence the tax rate for the current year; and that new construction in one year becomes part of the base in the subsequent year.

Mayor Hawker suggested that this was an appropriate time for each Councilmember to present their current position on the various issues being considered.

Vice Mayor Walters stated that a number of different scenarios were presented at the Monday night meeting, but none had the necessary four votes to move forward. She advised that "doing nothing" was not acceptable to her. Vice Mayor Walters said that she discussed a compromise with Councilmember Whalen, which includes placing both the primary property tax and a \$1.75 sales tax rate on the May ballot. She advised that a condition of her compromise is that the sale proceeds of Pinal County Water Farm assets should be directed to enabling the utilities to

become true enterprise funds, and she expressed support for allocating \$0.30 of the proposed sales tax increase to streets. Vice Mayor Walters also stated the opinion that the two proposed Charter amendments should be placed on the May ballot, and that the Utility Bond questions should be deferred to a later date.

Councilmember Thom stated the opinion that a May General Election was an unnecessary expense, and she expressed support for a sales tax increase to a rate of \$1.50 that includes a specific expiration date, with \$0.25 directed to streets. She stated opposition to placing a primary property tax on the ballot, and she indicated support for implementing a secondary property tax for future bonds.

Discussion ensued relative to the fact that Alternative 2 reflects the Financing the Future Committee's recommendation, and that Alternative 4 is similar but has a slightly different allocation of the proposed sales tax increase.

Councilmember Griswold advised that he would prefer Alternative 3 if the proposal could be accomplished in two steps, but he noted that this alternative does not have the necessary four votes to move the item forward. He stated the opinion that the citizens of Mesa should have the opportunity to determine the level of taxation to be imposed. Councilmember Griswold said that he would support Alternative 4, and he expressed support for placing the property and sales tax (\$0.30 for streets and \$0.20 for general government) issues on the May ballot and deferring the bond election to a later date.

Councilmember Whalen acknowledged that Vice Mayor Walters cares deeply about the City of Mesa, and he expressed appreciation to her for participating in discussions on these issues. He stated the opinion that dedicating a portion of the sales tax revenues to streets would provide a level of assurance to the citizens of Mesa. Councilmember Whalen noted that although this proposal increases Mesa's sales tax rate, many Valley cities have an array of other taxes that the City of Mesa does not impose, such as a two percent construction tax in Queen Creek, higher telecommunication taxes in Tempe, Chandler and Gilbert, and a seven percent telecommunication tax imposed by the City of Phoenix. He said that voter education regarding the City's finances would be critical, and he expressed the hope that those in support and those in opposition to the proposals would disseminate only factual information. Councilmember Whalen, repeating a recommendation that he made at previous meetings, encouraged the Council to authorize an independent audit relative to the efficiency and effectiveness of City operations. He expressed the opinion that an audit would provide assurance to the community that the City is being operated in an efficient manner. Councilmember Whalen confirmed that he would support the \$1.75 sales tax rate (\$0.30 for streets and \$0.20 for general operations) and a primary property tax (\$1 per thousand) capped at approximately \$30 million. He added that as future utility revenues are directed to enterprise accounts, an effort should be made to maintain or possibly lower utility rates.

Councilmember Jones noted that the Mesa 2025: Financing the Future Committee recommended an audit of operational efficiency.

In response to a question from Councilmember Jones, City Attorney Debbie Spinner advised that the Arizona Constitution includes a provision that enables property values to be frozen for tax purposes. She explained that in order to qualify for the provision, one of the property owners must be 65 years old, the property must serve as the primary residence and the owner must

have resided in the residence for at least two years with a total income from all sources of no more than 400 percent of the Social Security for one person or 500 percent of the Social Security income for two individuals. Ms. Spinner noted that an existing State Statute also provides some property tax protections for widows, widowers or disabled persons. She confirmed that the City could educate the public regarding these exceptions.

Councilmember Jones said that the majority of the Councilmembers understand the City's need to generate additional revenues, but he noted that the dilemma being addressed by the Council is the manner in which to achieve that goal. He expressed concern relative to the fact that a failed ballot proposal for a sales tax in excess of \$1.50 would critically impact the community due to the fact that a \$1.25 sales tax rate would not generate sufficient revenues to meet the City's debt obligation for police stations, fire stations and roads that have already been constructed. He indicated support for selling only certain portions of the Pinal County Water Farm property while retaining most of the property in order to address possible future needs that may result from increased population density. Councilmember Jones confirmed that he supported placing both a sales tax proposal and a \$1 per thousand primary property tax rate on the May ballot and deferring the bond questions to a later election.

Councilmember Rawles stated that his views remain as stated in earlier meetings. He said that he supports the rights of people to utilize their own property as they choose without being regulated by a government or the preferences of their neighbors. Councilmember Rawles expressed the opinion that there is a fundamental difference between believing that the City requires certain things and then forcing others to pay the bill. He complimented Councilmember Whalen for steadfastly fighting for his beliefs. Councilmember Rawles also stated that the concept of a true enterprise fund for the utilities is "nonsense," because the projection for the last year of Alternative 4 indicates a \$68 million fund transfer.

In response to a comment by Councilmember Rawles, Ms. Spinner confirmed that senior citizens who qualify to have their property valuation "frozen" would still be required to pay the tax, and that the valuation would then be "frozen" for future years.

Councilmember Rawles advised that the Mesa 2025: Financing the Future Committee recommended a \$1.00 primary property tax, a \$1.75 sales tax and a review of the Pinal County Water Farm assets. He noted that Alternative 4 also includes \$110 million from Water Farm property sales and a secondary property tax for all future General Obligation bonds. Councilmember Rawles noted that Alternative 4 includes much more than the recommendations of the Financing the Future Committee. He estimated that the citizens of Mesa would have a \$71.5 million tax increase in the first year, and he stated the opinion that Alternative 4 continues to feed the growth of government.

Councilmember Jones noted that the City employs fewer people now than five years ago, and that the City's population has increased by 70,000 in the same time period.

In response to a comment by Councilmember Rawles, Councilmember Jones stated that the budget has increased due to increased costs.

Councilmember Jones advised that although he still has concerns regarding the \$1.75 sales tax proposal, he would reluctantly support the proposal to enable the Council to move forward on the ballot issues.

Councilmember Thom expressed the opinion that a sales tax in excess of \$1.50 would be a disservice to the City's retailers and auto dealers, and therefore she does not support the proposal.

Councilmember Griswold stated the opinion that the citizens of Mesa must pay for the services provided by City government. He noted that the City's streets are deteriorating, and he added that efforts are ongoing to ensure that the City operates efficiently. Councilmember Griswold advised that a recently published book on the price of government identifies Mesa as the third lowest City relative to the cost of City of government per resident in the United States, and he noted that the two lowest cities are Las Vegas and Arlington, Texas, both of which have revenues from other sources such as gambling and oil wells. He expressed support for Alternative 4, which allows the voters to decide on the issues.

2. Discuss, consider and revise a resolution to submit to the Mesa voters the question of increasing the City's transaction privilege tax (sales tax) – Resolution No. 8648.

It was moved by Vice Mayor Walters, seconded by Councilmember Whalen, that Resolution No. 8648 be adopted, which includes a sales tax increase to \$1.75 (\$0.20 to general government and \$0.30 to streets) to be placed on the May 16, 2006 General Election ballot.

Upon tabulation of votes, it showed:

AYES – Hawker-Griswold-Jones-Walters-Whalen
NAYS – Rawles-Thom

Mayor Hawker declared the motion carried by majority vote and Resolution No. 8648 adopted.

3. Discuss, consider and revise a resolution to submit to the Mesa voters the question of authorizing a proposed amount to be raised by a primary property tax (ad valorem tax) – Resolution No. 8649.

It was moved by Councilmember Whalen, seconded by Vice Mayor Walters, that Resolution No. 8649 be adopted, which proposes a \$1.00 per thousand primary property tax to be placed on the May 16, 2006 General Election ballot.

Vice Mayor Walters expressed concern that the sales tax may fail if it is placed on the same ballot as the proposed primary property tax.

Mayor Hawker stated opposition to the primary property tax. He expressed support for the secondary property tax on future General Obligation bonds in addition to selling up to two-thirds of the Pinal County Water Farm property, and he noted that this alternative would require additional service level reductions. Mayor Hawker added that he would not campaign against the property tax due to the fact that this type of tax is stable and predictable revenue source, which provides many benefits to the City, but he expressed concern that the citizens of Mesa are not prepared to accept a property tax.

Mayor Hawker called for the vote.

Upon tabulation of votes, it showed:

AYES – Griswold-Jones-Walters-Whalen
NAYS – Hawker-Rawles-Thom

Mayor Hawker declared the motion carried by majority vote and Resolution No. 8649 adopted.

4. Discuss, consider and revise a resolution ordering and calling a special utility revenue bond election for May 16, 2006.

It was moved by Vice Mayor Walters, seconded by Councilmember Griswold, that the Utility Revenue Bond election not be placed on the May 16, 2006 ballot.

Ms. Spinner advised that no Council action was necessary if the consensus of the Council is that the Utility Bonds would not be placed on the May 16, 2006 ballot.

Vice Mayor Walters withdrew the motion, Councilmember Griswold withdrew the second to the motion, and the Council took no action on this agenda item.

5. Discuss, consider and revise a resolution ordering and calling a General Election for May 16, 2006 – Resolution No. 8650.

Ms. Spinner noted that two options are available for Council consideration:

Option A: Includes a possible run-off election for the council districts, the sales tax increase and the two proposed Charter amendments.

Option B: Includes a possible run-off election for the council districts, the sales tax increase, a primary property tax and the two proposed Charter amendments.

It was moved by Councilmember Whalen, seconded by Councilmember Jones, that Resolution No. 8650, which reflects the language in Option B and corrected to reflect the current date of December 21, 2005, be adopted.

Upon tabulation of votes, it showed:

AYES – Griswold-Jones-Walters-Whalen
NAYS – Hawker-Rawles-Thom

Mayor Hawker declared the motion carried by majority vote and Resolution No. 8650 adopted.

6. Items from citizens present.

Bill and Phyllis Sanderson, 60 North Fraser Drive, completed a card indicating they that did not wish to address the Council, but they expressed support for multiple streams of income including placing a property tax on the May 16, 2006 General Election ballot.

The following individuals thanked the Council for their actions at this meeting, and they expressed support for the property tax proposal:

Earnie Johnson, 1414 North Hibbert Street
Bryan Soller, 11225 East Adobe Road
Charmaine McCleve, 445 North Ash
Pat Esparza, 207 North Macdonald Street
Joseph Shelly, 123 North Centennial Way
Mitzi G. Pearce, 1062 West 5th Street
Bill Everson, 3737 East Hope Avenue

7. Adjournment.

Without objection, the Special Council Meeting adjourned at 6:08 p.m.

KENO HAWKER, MAYOR

ATTEST:

BARBARA JONES, CITY CLERK

I hereby certify that the foregoing minutes are a true and correct copy of the minutes of the Special Council Meeting of the City Council of Mesa, Arizona, held on the 21st day of December 2005. I further certify that the meeting was duly called and held and that a quorum was present.

BARBARA JONES, CITY CLERK

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Attachment (1)