

COUNCIL MINUTES

November 29, 2001

The City Council of the City of Mesa met in a Study Session in the lower level meeting room of the Council Chambers, 57 East 1st Street, on November 29, 2001 at 7:30 a.m.

COUNCIL PRESENT

Mayor Hawker
Jim Davidson
Bill Jaffa
Dennis Kavanaugh
Pat Pomeroy
Claudia Walters
Mike Whalen

COUNCIL ABSENT

None

OFFICERS PRESENT

Mike Hutchinson
Deborah Spinner
Barbara Jones

1. Review items on the agenda for the December 3, 2001 Regular Council Meeting.

All of the items on the agenda were reviewed among Council and staff with no formal action taken. There was specific discussion relative to the following items:

Mayor Hawker declared a conflict of interest on agenda items 4d (Falcon Field Airport Perimeter Road), 4e (Solid Waste Building Remodel. City of Mesa Project No. 01-129) and 4i (Fire Station No. 202. City of Mesa Project No. 00-68) and said he would refrain from discussion/participation on these items.

Vice Mayor Davidson declared a potential conflict of interest on agenda item 5b (Modifying the Electric Rate Schedules) and said he would refrain from discussion/participation on this item.

Mayor Hawker stated that agenda items 6a, 9d and 9g were removed from the consent agenda.

2. Discuss and consider issues associated with the FY 2001-02 Annual Budget.

a. List of proposed reductions in spending

Deputy City Manager Debbie Dollar addressed the Council relative to this agenda item and reported that due to the recent downturn in the nation's economy, staff has been monitoring the City's budget on an ongoing basis. She said that in October, based on a review of the first quarter of the FY 2001/02 budget, staff initially projected an estimated \$16.4 million shortfall, but that as a result of a more recent analysis, the shortfall has risen to \$18.2 million based on current expenditures and revenue projections. Ms. Dollar stated that in an effort to respond to the shortfall, staff has compiled a 13-page document which outlines proposed budget reductions and deferrals from various City departments. She added

that all of the department managers are in the audience to respond to any of the Council's questions regarding this issue.

Budget Director Jamie Warner briefly outlined the Analysis of 2001/02 Fiscal Year Budget. (See Attachment 1.) He also noted that Council support of the Unfunded Mid Year BAR Report for Requests would assist the City in attempting to achieve a \$40 million fund balance by the end of FY 2001/02.

Mayor Hawker acknowledged the efforts of staff to conduct briefings with the Councilmembers on an individual basis regarding this issue.

In response to a question from Mayor Hawker, Mr. Warner clarified that if the City's estimated 2.5% growth each month through June 2002 is reduced to zero percent, the City's financial loss would equal approximately \$1.6 million.

Councilmember Walters thanked staff for their hard work on this important matter. She also emphasized the fact that the Council remains vigilant in its efforts to review all expenditures which are presented to ensure the most cost effective utilization of City funds.

Mr. Warner stressed the fact that the proposed reductions and deferrals of various budget items is only the first step in the process. He explained that with the development of the City's first biannual budget, it will also be necessary to review the FY 2002/03 budget due to anticipated declines in revenue estimates. Mr. Warner added that it is important to remember that although staff has identified specific reductions and deferrals, the need for such projects has not been eliminated.

Councilmember Pomeroy spoke in support of staff's recommendation, but also expressed concerns regarding funding the proposed budget reductions and deferrals in FY 2002/03.

Vice Mayor Davidson voiced appreciation to staff for their efforts and hard work. He stated that the recommended budget deferrals and reductions will not impact staff or vital City services. Vice Mayor Davidson also suggested that the Council review its budget and consider additional reductions to respond to the budget's shortfall.

Councilmember Whalen thanked staff for providing the Councilmembers with individual briefings relative to this matter. He also voiced concerns regarding the temporary deferment of the Police Department's Career Enhancement Program. Councilmember Whalen urged the Federal government to consider economic incentives such as a one-month moratorium on Social Security contributions for the nation's employers and employees.

Councilmember Kavanaugh expressed appreciation to staff for their efforts and hard work regarding this matter. He also stated that although he is supportive of staff's recommendation, it is important to note that the unfunded budget requests are not being eliminated, but merely deferred until a future time. Councilmember Kavanaugh added that it is important that Mesa residents are made aware of the fact that the Council has also significantly reduced its budget.

Councilmember Jaffa expressed a variety of concerns including the deferral of hiring additional fire and police personnel and the City's dwindling fund balance. He stressed the importance of pursuing and identifying alternative options to generate additional revenue streams.

Mayor Hawker commented on the fact that Governor Jane Hull's initial attempt to reduce municipalities' distribution of State-shared revenues by an additional 4% has not received strong support.

City Manager Mike Hutchinson assured the Council that staff will remain vigilant regarding the issue of State-shared revenues.

Financial Services Director Larry Woolf spoke regarding staff's efforts to refinance the Pinal County "water farm."

In response to a question from Councilmember Walters, Mr. Warner clarified that Council support of this agenda item will not result in a reduction of the City's budget. He explained that the Council is being asked to support staff's list of identified expenditure adjustments.

Mr. Hutchinson advised that staff will present monthly updates to the Council regarding this important matter.

It was moved by Councilmember Walters, seconded by Councilmember Kavanaugh, to support staff's recommendation reducing City spending in the FY 2001/02 budget by \$18.2 million.

Carried unanimously.

b. Proposed bond sale

Financial Services Director Larry Woolf, Assistant Financial Services Director Larry Given and Capital Improvement Program Administrator Anthony Araza addressed the Council relative to this agenda item. Mr. Woolf reported that \$121,810,000 was initially included in the FY 2001/02 capital improvement budget for the sale of General Obligation Bonds, Utility Systems Revenue Bonds and Street and Highway User Revenue Bonds, and that after careful review of the 2001/02 bonding program, staff is now seeking Council approval to order the sale of bonds in the total combined amount of \$110,325,000.

Mayor Hawker commented that it is the recommendation of the Financial Services Division that the Council order the sale of \$26,575,000 General Obligation Bonds, \$57,950,000 Utility Systems Revenue Bonds and \$25,800,000 Street and Highway User Revenue Bonds to provide funding for specific projects included in the City's Capital Improvement Program.

Mr. Given provided the Council with a brief overview of the City Council Report and briefly outlined the voter-approved authorizations of the General Obligation Bonds and Revenue Bonds, as well as the projected remaining authorizations. (See Attachment 2.) He also commended Mr. Araza for his contributions to the Council Report including an operational cost analysis of the specific projects.

Discussion ensued relative to the fact that there is currently insufficient Revenue Bond authorization for various wastewater capital improvement programs and that it will be necessary for the Council to address this issue in the upcoming year, and the fact that pending Council approval of this agenda item at the December 3, 2001 Regular Council meeting, the competitive bids are scheduled to be received on January 9, 2002 and presented to the Council at the January 10, 2002 Study Session.

Mayor Hawker expressed appreciation to staff for the operational cost analysis which was included in the Council Report. He also stated the opinion that the City is acting in a fiscally responsible manner and that it is prudent to proceed with the sale of bonds to provide the necessary funding for various capital improvement projects.

In response to a question from Councilmember Walters regarding incurring additional City debt, Mr. Given clarified that the sale of the bonds is part of an ongoing Capital Improvement Program which has been previously approved by Mesa voters.

Further discussion ensued regarding future elections and issues that may be placed on the ballot; the fact that the issuance of bonds is necessary to allow Mesa residents to share in the cost of various capital improvement projects which are of benefit to the entire community, and the fact that the City is not in a financial position to pay for such projects on a "pay as you go" basis.

Councilmember Jaffa concurred with the comments of the other Councilmembers and added that the City's bond rating remains strong despite the current operating budget concerns.

Mr. Given commented that staff will commence the bond rating process in the coming week. He assured the Council that as a result of the nation's current recession, Mesa's financial situation is not as severe as many other municipalities and that this is due in part to Mesa's long-standing conservative fiscal approach administered by the City's financial operations.

Mayor Hawker spoke regarding a disturbing trend occurring across the country in which many city mayors are requesting financial assistance from the Federal government to "bail out" municipalities on water and sewer problems within their communities. He voiced opposition to Federal aid for municipalities that have not acted in a financially responsible manner.

In response to Mayor Hawker's comments, Vice Mayor Davidson advised that he is a member of the National League of Cities committee that approved that recommendation and stated that small communities with antiquated water delivery systems often cannot financially afford to upgrade the systems and do require the assistance of the Federal government to meet such demands.

Mayor Hawker noted that staff's presentation is merely for informational purposes and that the agenda item is scheduled for Council action at the December 3, 2001 City Council meeting.

3. Acknowledge receipt of minutes of boards and committees.

- a. Design Review Board meeting and Special meeting held November 7, 2001 and November 13, 2001.
- b. Finance Committee meeting held November 15, 2001.
- c. Human Relations Advisory Board meeting held October 24, 2001.

It was moved by Vice Mayor Davidson, seconded by Councilmember Kavanaugh, that receipt of the above-listed minutes be acknowledged.

Carried unanimously.

4. Hear reports on meetings and/or conferences attended.

Vice Mayor Davidson commented on his recent attendance at the Williams Gateway Airport Authority (WGA) board meeting. He explained that he participated at the gathering in Mayor Hawker's absence and provided the Council with a recap of a variety of topics which were discussed during the meeting.

Vice Mayor Davidson also stated that he, along with staff and members of the Joint Master Planning Committee (JMPC), met to discuss the proposed timeline of the JMPC with regard to the Mesa General Plan update.

Mayor Hawker commended Vice Mayor Davidson for his efforts in this regard.

Mayor Hawker reported that he recently attended a Maricopa Association of Governments (MAG) Regional Aviation System Plan (RASP) meeting. He also noted that today he will attend a meeting which will address regional governance issues under consideration by MAG, including the proposed extension of the half cent sales tax and also the potential restructuring of the MAG organization.

Councilmember Walters explained that she and Councilmember Kavanaugh recently attended an Area 4 meeting which, as a result of the recent redistricting process, is now represented by Council Districts 1, 3 and 4. She said that the organization, which has been renamed the Mesa Grande Group, has made great strides to improve the quality and character of the surrounding neighborhood.

Councilmember Walters reported on her recent meeting she had with a Phoenix City Councilmember to discuss mutual concerns regarding halfway houses. She said that she would update the Council at a future Study Session regarding this matter.

Councilmember Kavanaugh commented on his attendance at the graduation ceremony of the Mesa Citizens Police Academy. He explained that the innovative program offers Mesa residents the opportunity to learn about the inner workings of the Police Department, and he encouraged citizen participation in the program.

Councilmember Whalen informed the Council that the Arizona Public Service (APS) Power Plant Line Siting Committee recently approved the construction of an 1800-megawatt power plant in Toltec, Arizona which will provide electrical energy to the East Valley.

5. Scheduling of meetings and general information.

City Manager Mike Hutchinson stated that the meeting schedule is as follows:

Thursday, November 29, 2001, 4:00 p.m. – Fire Committee Meeting

Monday, December 3, 2001, TBA – Study Session

Monday, December 3, 2001, 5:45 p.m. – Regular Council Meeting

Thursday, December 6, 2001, 7:30 a.m. – Study Session Cancelled

Thursday, December 13, 2001, 7:30 a.m. – Study Session

Monday, December 17, 2001, 4:30 p.m. – Study Session

Monday, December 17, 2001, 5:45 p.m. – Regular Council Meeting

Thursday, December 20, 2001, 7:30 a.m. – Study Session

Thursday, December 27, 2001 – Study Session Cancelled

6. Prescheduled public opinion appearances.

There were no prescheduled public opinion appearances.

7. Items from citizens present.

There were no items from citizens present.

8. Adjournment.

Without objection, the Study Session adjourned at 9:45 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 Study Session of the City Council of Mesa, Arizona, held on the 29th day of November 2001. I further certify that the meeting was duly called and held and that a quorum was present.

BARBARA JONES, CITY CLERK

pag

Attachments

Analysis of 2001-02 Fiscal Year Budget
Excluding QOL Half Cent Sales Tax and Bond Projects

Issue	Budget 2001-02	Forecast 2001-02	Difference	Explanation
Beginning Fund Balance	\$57.5 million	\$47.3 million	(\$10.2 million)	Expenditures for capital came in higher than forecast.
Prior Year Contingency	\$14.5 million	\$ 9.9 million	\$4.6 million	Because capital expenditures occurred in 2000-01, less was applied in Contingency.
Net Reduction For Beginning Fund Balance			(\$5.6 million)	
Sales Tax Revenue	\$71.5 million	\$70.6 million	(\$0.9 million)	Forecasted growth is now 3.3% with an estimated 2.5% growth each month from October to June. The budgeted growth figure was 4.5%.
State Sales Tax Revenue	\$31.6 million	\$30.7 million	(\$0.9 million)	Reduction because state sales tax receipts are below their forecasted amount.
Building Permit Revenues	\$10.4 million	\$7.1 million	(\$3.3 million)	An approximate 28% reduction in volume is now forecast to occur in building permit related revenues based upon current cash flows. A 5% growth was budgeted in 2001-02 along with an increase in rates that was budgeted to generate \$1,711,000.
Impact Fee Revenues	\$10.2 million	\$7.7 million	(\$2.5 million)	An approximate 29% reduction in volume is now forecast to occur in impact fee revenues based upon current cash flows. A 5% growth was budgeted in

				2001-02 along with an average 19% increase in impact fee rates.
Electric Net Income	\$6.8 million	\$1.1 million	(\$5.7 million)	\$5 million in net income was budgeted for electric resales. Department forecast is for a minimal amount in resales.
Wastewater Net Income	\$11.2 million	\$4.9 million	(\$6.3 million)	Impact Fees are forecast to decline \$2.3 million with the lower building levels. Winter Water Averages declined in April 2001 which is now forecast at \$2.8 million.
User Fee Revenues	\$9.8 million	\$8.1 million	(\$1.7 million)	Engineering inspections are down (\$772K) because of reduced construction. Park and Recreation program revenue are down compared to last year to date.
Various Expenditure Savings			<u>\$10.5 million</u>	Personnel budgets are forecast to be under spent by \$ 7 million plus Capital savings.
Total Net Forecasted Impact To The 2001-02 Budget			(\$16.4 million)	October 15, 2001

Issue	Adjustments Since October 15	Explanation
Site 24 Redevelopment	(\$0.7 million)	Cost estimates have increased for the project At Country Club and Main St.
Sales Tax Revenues	(\$0.9 million)	Sales Tax revenue estimates have been revised down after October receipts.
Other Expenditure Adj.	\$0.7 million	Expenditure estimates have decreased based upon recent cash flow forecasts.
Other Revenue Adj.	(\$0.9 million)	Revenues have been revised down after October receipts.
Total Net Forecasted Impact To The 2001-02 Budget	(\$18.2 million)	November 26, 2001

City Council Report

Date: December 3, 2001

To: City Council

Through: Mike Hutchinson, City Manager
Debra Dollar, Deputy City Manager
Paul Wenbert, Deputy City Manager

From: Jack Friedline, Development Services Manager
Larry Woolf, Financial Services Director

Subject: Series 2002 General Obligation Bonds, Utility Systems Revenue Bonds
and Street & Highway User Revenue Bonds - Citywide

Purpose and Recommendation

The purpose of this report is to seek City Council approval on ordering the sale of bonds in amounts sufficient to provide funding for specific projects included in the City's capital improvement program. The Development Services Department and the Financial Services Division recommend that the Mayor and City Council order the sale of \$26,575,000 General Obligation Bonds; \$57,950,000 Utility Systems Revenue Bonds and \$25,800,000 Street and Highway User Revenue Bonds through competitive sale.

Background & Discussion

The City originally included in the fiscal year 2001/02 capital improvement budget the amount of \$121,810,000 for the sale of general obligation bonds, utility systems revenue bonds and street and highway user revenue bonds in October 2001. After careful review of all components of the 2001/02 bonding program, the City Council is being asked to consider ordering the sale of bonds in the total combined amount of \$110,325,000.

Proceeds received from the sale of these bonds will be used to pay for the design, construction, acquisition and land purchase components of certain capital projects which the City will continue to undertake, or will begin, during fiscal year 2001/02. The bonds represent portions of bond authorizations approved by the City electorate at special bond elections held in 1994, 1996 and 2000. The recommended bond issues fall within the City's current general obligation bonding capacity limitations and meet all of the City's revenue bond coverage requirements and other parity bond tests. The following tables outline the City's current available bond authorizations, the proposed bond sale amounts and the amounts remaining after issuance of the bonds.

GENERAL OBLIGATION BONDS

	Available Authorization	Proposed Sale	Remaining Authorization
Police	23,355,000	6,700,000	16,655,000
Fire	19,269,000	6,100,000	13,169,000
Parks	11,900,000	4,265,000	7,635,000
Storm Sewer	34,198,000	9,010,000	25,188,000
Library	9,904,000	500,000	9,404,000
G.O. Total	98,626,000	26,575,000	72,051,000

REVENUE BONDS

	Available Authorization	Proposed Sale	Remaining Authorization
Natural Gas	6,300,000	600,000	5,700,000
Solid Waste	9,595,000	280,000	9,315,000
Water System	87,182,000	8,300,000	78,882,000
Wastewater	78,660,000	48,770,000	29,890,000
Utility Revenue Total	181,737,000	57,950,000	123,787,000
Street & Hwy Rev Total	74,165,000	25,800,000	48,365,000
Grand Total (All Bonds)	354,528,000	110,325,000	244,203,000

Please find attached a listing of the projects to be funded with the proceeds of the Series 2002 bond issues (Attachment No. 1). If a referenced project is to be accomplished over multiple years, the dollar amounts shown do not include the total cost of such project. The amounts shown on Attachment No. 1 pertain only to the expenditures budgeted for fiscal year 2001/02.

Alternatives

The Mayor and Council may choose not to proceed with the sale of the proposed bond issues at this time and the City could utilize available fund balances to pay for a portion of the capital projects discussed above. This is not recommended, however, as such action would exhaust the City's fund balances during the course of the current fiscal year and prevent completion of certain of the proposed projects.

Fiscal Impact

Set forth in Attachments Nos. 2,3 and 4 are estimated debt retirement schedules for

each of the proposed bond issues. The debt service of these issues is structured such that, when combined with the City's currently outstanding debt, a favorable overall debt service schedule is achieved. Attachment No. 5 sets forth a summary of the City's overall annual debt service requirements following issuance of the proposed Series 2002 bond issues.

Concurrence

The various City departments with projects identified are in concurrence with the amounts of the proposed bond sales.

Anthony Araza, Capital Improvement
Program Administrator

Larry Given, Assistant Financial
Services Director

Larry Woolf, Financial Services
Director

Jack Friedline, Development Services
Director

Debra Dollar, Deputy City Manager

Paul Wenbert, Deputy City Manager

Mike Hutchinson, City Manager