



## MESA 2025: FINANCING THE FUTURE CITIZEN COMMITTEE

June 29, 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 June 29, 2005 at 5:30 p.m.

### COMMITTEE PRESENT

Kyle Jones, Chairman  
Kirk Adams  
Jill Benza  
Pat Esparza  
Don Grant  
Rex Griswold  
Greg Holtz  
Aaron Huber  
Eric Jackson  
Dennis Kavanaugh  
Robert McNichols  
Scott Rhodes  
Pat Schroeder

### COMMITTEE ABSENT

Robin White  
  
EX-OFFICIO MEMBER  
  
Mayor Keno Hawker

### STAFF PRESENT

Various Members

Chairman Jones excused Committeemember White from the meeting.

1. Approval of minutes from the April 13, 2005 meeting.

It was moved by Committeemember Benza, seconded by Committeemember Huber, that the minutes of the April 13, 2005 meeting be approved.

Carried unanimously.

2. Review of financial forecast scenarios.

Chairman Jones stated that at previous meetings the Council discussed the importance of determining how various scenarios regarding future income would impact the forecast and what type of stability they would provide.

Bryan Raines, Jamie Warner and Chuck Odom addressed the Committee regarding this agenda item. Mr. Raines advised that since the last meeting, Mr. Warner and Mr. Odom have been diligently working on the financial forecast, the one they are going to present this evening. He said that according to direction, they have attempted to provide the Committee with revenue options/scenarios that brings together some financing for the future that has the option of both the sales tax component as well as a property tax component. He added that the forecast also attempts to address the issue of transportation infrastructure that was previously presented by staff, particularly the need to fund approximately \$31 million in transportation needs in current dollars in order to meet the Proposition 400 funding match so they are able to utilize those sales tax dollars in Mesa.

Mr. Raines added that the forecast also outlines some discretionary capabilities for future Councils and said that the Committee discussed the possibility of lowering rate increases, potential future utility rate increases or setting up sinking funds for some capital replacements, etc. in the future. He referred the Committee to a document that was distributed to them entitled "Financing the Future Committee, Financial Forecast, June 29, 2005.

Mr. Warner and Mr. Odom addressed the Committee and provided an overview of the information contained in the forecast by use of a PowerPoint presentation. (For detailed information please refer to the document that was provided.)

Discussion ensued relative to the fact that the forecast did not include potential new revenue sources but does include projections on the current economic streams; the fact that the retirement program that was just concluded will result in an approximately \$1.8 million savings; the fact that staff will reevaluate the stability pay curve since many of the retirees were eligible to receive that benefit; the fact that the figures do not reflect any growth in service; the fact that staff did not address population growth in their forecast; the fact that if the Council voted to institute a secondary property tax to pay General Obligation debt, staff would look to restructure the debt schedule and on average it would be around \$25 million; the fact that the number would increase as new debt was sold (General Obligation bonds); the fact that the reenactment of a 1.5% sales tax on food would generate approximately \$10 million in 2006-07 and a 2% food tax would generate approximately \$12.5 million; staff's opinion that the only way to determine what portion of that amount would be "exportable" would be to conduct a sample survey of the Valley to see how many people shop in Mesa, and staff's intent to talk with Robert Brinton of the Convention & Visitor's Bureau to find out if he has any information on this matter.

Committeemember Griswold stated the opinion that the number of winter visitors is decreasing and they are being replaced by fulltime visitors.

Committeemember Adams recommended that staff contact the Arizona Department of Tourism and/or the Department of Commerce and said that they have conducted financial impact studies broken down by cities.

Committeemember Killian expressed the opinion that a tax on food would not negatively impact the winter visitors but would generate much needed revenue.

Committeemember Rhodes said that the Committee may decide to recommend a tax on food but they need to keep in mind that it would require a vote of the citizens since the citizens voted to eliminate it.

Chairman Jones commented that just about anything that they propose at this point in time is going to require voter approval, even a secondary property tax in his opinion.

Chairman Jones stated that he is not a “cheerleader” for a property tax and does not believe that it is the best form of taxation for the people. He spoke in favor of a tax of food and added that although he would support a tax on services, State law limits them in that area. He stated that as they discuss the various issues this evening, he may not like certain things but understands that he may have to “back off how he feels personally” in order to achieve the desired goal.

Committeemember McNichols commented that he has been impressed with what he has learned as far as the workings of the City and said that there is no expenditure problem, there is a revenue problem. He discussed concerns regarding having the citizens decide how they want to spend monies because of the problems associated with reaching a consensus on the varied issues that must be decided. He stated that the City needs to look for new sources of revenue to “pay as you go” for the things that are used. He expressed the opinion that the most fair way to do that is with a sales tax, which taxes people for the money they choose to spend. He added that a property tax is also a fair way to assess the citizens for their services that fall under City operations. He commented that although he did not come there to recommend a property tax, it is clear to him that it is one of the things that has to be done in some measure because the City cannot depend on sales tax, there is too much competition for that revenue. He said that some form of property tax should be implemented. He added that he believes it is the City Council’s responsibility to “step up to the plate” and impose a secondary property tax because it is going to be essential to have that funding in the 2007-08 Fiscal Year. He said that he will challenge the Council and ask them to exercise authority, use their right to impose a secondary property tax, so that the budget can be balanced and services can be provided.

Committeemember Rhodes stated that on the expenditure side he strongly believes that they should recommend the formation of a separate committee that will continue to exist. He added that between the committee, the “audit” committee and the Council, the determinations on how money will be spent will be made in an efficient, effective manner. He added the opinion that they should not do anything more on the expenditure side.

Committeemember Rhodes commented that he is not opposed to a property tax and said that the City has been imposing a “hidden tax” on the citizens of Mesa for many years, namely, the utility rates. He noted that the rates are not tax deductible and cannot be measured. He expressed the opinion that a property tax is deductible, measurable and predictable and is the basis for growth and revenue for every other city in the State and throughout the country with very few exceptions. He advised that he strongly supports the implementation of a property tax. He added that he would like to see over time, when they fix the current problems and start to gain momentum, giving back benefits to the citizens either by putting the money back into the system so that they have the best infrastructure in the State and/or reducing or at least holding steady on utility rates. He said that he is not prepared to support a freeze on utility rates and does not believe one is feasible, at least until the City gets out of its current position. He stated that he would ultimately like to see a revenue stream that has equal forces and strength from a property tax, a sales tax and the City’s utilities.

Committeemember Esparza commented that she favors a lean government that runs efficiently and she believes that staff has shown the Committee that this is the case during the lengthy presentations. She said that she agrees that the expenditure side needs to be looked at. She added that as far as the revenue side, she believes they need to consider sources and streams of revenue, both stable and static. She said that she would like them to consider recommending the implementation of a property tax. She added that she would also support an increase in utilities if that is what is needed and noted that they cannot rely on sales tax, it is just a component.

Committeemember Adams stated the opinion that it is a statement of philosophy to say that Mesa runs efficiently because the Committee has no way to determine that. He commented on the fact that the Committee has chosen not increase transparency and confidence in City government by hiring an independent auditor and said that he believes this would have been something they could have given back to the citizens in return for more taxes. He advised that he is very hesitant to support a property tax at this time and added that the creation of the proposed committee will be significant and that should be the body that performs more of the "heavy lifting" before they recommend additional revenue sources that ultimately come out of the pockets of the citizens.

Discussion ensued relative to expenditures and a suggestion that they recommend implementing a property tax of \$1 per \$1,000 and that the quarter cent Quality of Life Tax that is due to expire next year be continued.

Committeemember Holtz discussed the possibility of having another quarter cent tax to match the 30% funding for the transportation needs that the voters approved; the fact that the committee would also look at efficiency in government, establishing new budget processes, recommending cuts, etc. He added that the Committee would serve as a voice to communicate with the citizens on what is going on expenditure wise. He said that development activities should focus more on basic industry rather than chasing sales tax dollars and added that the City should be more aggressive regarding impact fees for new development. He explained that he is not talking about increasing fees for infill; there should be more incentives for that. He added that the only incentives they should offer development is the ability to "fast track" because development will occur anyway.

Committeemember Huber said that as far as expenses he agrees that the Committee has not spent enough time with any of the departments to say that the process is completely efficient, but he does believe, from everything he has seen and heard, that the City is being run in a positive manner. He also spoke in support of having the committee look at various issues and said that they should develop a list of things they believe should be looked at, such as outsourcing garbage collection. He stated that all of these ideas should be written down and provided to the committee once it has been formed. He also discussed revenues and believes that spending should be tied to some level of service, population increases, etc. He added that he would support a property tax and emphasized the importance of looking at how best to communicate this to the voters. He said that he is not sure about a secondary property tax and expressed the opinion that if the Council decided to implement one without the vote of the people, there will be negative impacts. He stated that whatever they decide to do should go before the voters. He added that he also supports reinstating the tax on food.

Committeemember Killian advised that he would not oppose increasing the sales tax because part of it is "exportable" and therefore a portion of the burden can be shared by the winter visitors. He said that he has always been strongly opposed to a property tax and said he would only be inclined to act on that if they did something for low-income citizens and the elderly as well. He reiterated that property taxes are levied with no relationship to citizens' ability to pay. He added that he would advocate adding some provision that states that the property tax could be deferred until the property is sold or that provides some sort of deduction for those citizens. He discussed the fact that Mesa does not have enough hospitals and emergency room space and suggested that an additional committee be formed to look at this important issue. He stated that he would also like to strongly pursue the water farm issue and determine whether a "cash cow" exists. He said that he would like to know whether they can sell off some of the water or sell it at different times to help under-write some of the costs to the City so that the property tax rate and/or sales tax rate does not have to increase significantly. He emphasized the importance of not negating the City's ability to attract higher-paying employers and agreed that the City desperately needs more revenue.

Committeemember Benza thanked staff for all of their hard work and pertinent information. She said she does not believe they have an expenditure problem although there is always room for improvement in all areas. She added that she believes they do have a revenue problem and noted that over 70% of the City's revenue is dependent on what someone else does. She emphasized the importance of putting dependable, diversified revenue sources in place. She added that she would support a sales tax and extending the Quality of Life tax. She said that she would like more time to consider the food tax and explained that she does not want to place too large a burden on the citizens. She spoke in support of implementing a property tax and said that it is necessary to maintain a strong financial picture for the bonding companies and other entities. She added that she would also support the establishment of a secondary property tax and said that she knew in the past, when she voted for certain ballot measures, that she was taking a chance at taxing herself with a secondary tax so that has always been a possibility. She expressed the opinion that the City's utility rates should be competitive and market driven and once the City's financial situation has turned around, they should then look at the utility rates and reducing Mesa's dependence on that.

Committeemember Jackson also thanked staff from the various departments for their insight and valuable information. He spoke in support of a combination primary and secondary property tax and agreed that some consideration should be given to lower income citizens and the elderly. He added that they should also extend the Quality of Life tax and taking care of the City's transportation needs. He expressed the opinion that they need to change the way that they operate the utilities and would like them to operate as an Enterprise Fund. He added that he also supports the formation of the committee that has been discussed and said that the implementation of a property tax will allow the City to offer incentives to big businesses such as Boeing that give back to the community. He emphasized the importance of aggressively seeking grants and perhaps implementing an incentive program in that area. He also spoke about increasing revenues in order to pay City employees and utilizing the resources they have with universities and colleges; bringing them in, educating them, to help the City achieve various goals.

Committeemember Kavanaugh spoke in support of taking a fiscally conservative approach that would dictate the need to diversify the City's revenue portfolio. He said he would support a budget process that is focused on community priorities in measurable outcomes and added that he favors an independent audit process that is responsive to the concerns of the Council and the public. He said that he also supports the implementation of a secondary property tax and noted that this is what every other city in Maricopa County has found they needed to do. He noted that voters approve one when they approve bond measures. He stated that it is an issue of political courage and will for the Council to proceed with a secondary property tax despite whatever consequences result.

Committeemember Kavanaugh expressed the opinion that voters would fairly consider a package of measures provided to them and said that he hopes it includes a primary property tax, an extension of the Quality of Life tax plus an increase, as they have discussed, of another quarter to one-half cent. He pointed out that this would leave the City in a competitive position in the Valley in terms of overall sales tax costs, governmental costs. He added that the voters may prefer to have dedicated funding for areas such as police, fire, the courts, etc.

Committeemember Griswold emphasized the importance of educating people on how their money is being spent. He added that he believes in activity-based budgets and said that utility revenues are a regressive tax and not really effective. He said that they should look into the sale of the Utility Department and the consolidation of the Gas Department. He stated that he would like to see an outside auditor or auditing committee be brought on board that is open and transparent and increases

the citizens' trust in government. He said that he believes they could save a lot of money in the Federal government's un-funded mandate area working with the legislature and with lobbyists. He further stated that the quarter-cent tax should be re-enacted and the funds should be dedicated to roads.

Committeemember Grant agreed that the City's sales tax should remain competitive and added that he believes in extending the quarter cent for transportation and roads. He said that he also supports bringing back the tax on food but is not supportive of how the City uses the utilities as a revenue source and spoke in support of a cap at a certain level. He commented that he is not a big fan of a property tax but said that at least it is more transparent than some of the other things that have been done with the utilities and emphasized that it is tax deductible. He added that they should also be stronger as far as impact fees go and said that the water farm is also another good idea in order to keep those rates as low as possible. He commented that the hiring of an auditor would be more beneficial than "capping the City."

Committeemember Esparza said she was excited about the prospect of the committee they have discussed and noted that Mesa has below-average new home values and below average resale home values. She added that the per capita income is below average and Mesa is lower in growth and growing slower. She stated that the quality of life that attracted her to Mesa 30 years ago is slipping away and they have to have faith in the voters to support what needs to be done to ensure that the City is viable and offers a high quality life style to its residents.

Ex-Officio Member Hawker, the only non-voting member of the Committee, thanked everyone for their participation. He spoke in support of brining an auditor on board to look at privatization and a variety of efficiency issues and said even if the auditor reported to the City Manager, that person is still reporting to the City Council because the Manager does and if someone is not doing their job, that would get conveyed to the City Manager to correct. He added that he believes they need the utilities and is not willing to give them up at this time, especially the gas system. He noted that Mesa is actually providing gas service in Pinal County. He said that selling the utilities should be examined but not as a one-time sale to see what they can get; it should be examined as a long-term fix over the 25 to 50-year sustainability. He added that he would like to do a one-time adjustment so they are back level with the rest of the communities and said that a combination of property tax, sales tax and increasing utilities year-by-year are the options as well as a food tax. He stated that the concept of whether to do the other quarter cent or the food tax, the blending of those, still needs to be discussed to determine what is acceptable.

Member Hawker said that personally he would like to go "all property tax" because it can be deducted but added that some people may not feel that way or understand the tie. He concurred that the water farm needs to be further researched but is definitely a positive for the City. He added that he would like to see a property tax, a sales tax or a food tax; whatever they come up with, all placed on the ballot for the citizens to consider. He stressed the importance of letting the citizens to know what it is going to cost to get to where they want to be.

Committeemember Jackson commented that it may be worthwhile to take another look at the Colorado model that was previously discussed.

Committeemember Killian moved that whatever the Committee sends to the Council as a recommendation be in the form of a package to go before the voters on a single ballot. Committeemember Jackson seconded the motion.

Discussion ensued relative to the fact that this would only be a recommendation to the Council.

Additional discussion ensued relative to the motion and Committeemember Killian withdrew it and Committeemember Jackson withdrew his second.

Committeemember Killian moved to recommend to the Council that a primary property tax be implemented with special consideration for those who are disabled, lower income and elderly to the extent possible by law.

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

Committeemember Kavanaugh moved that they recommend to the Council referring to the voters the continuation of the Quality of Life sales tax that is set to expire. Committeemember Esparza seconded the motion.

Committeemember Griswold emphasized that the Committee is voting on items that they believe the City Council should discuss. He said that he would not support the extension unless it is dedicated for roads.

Discussion ensued among the members relative to the motion.

Chairman Jones called for the vote and stated that as the motion currently stands it is without a dedication, just extending the quarter cent tax.

The motion carried with Committeemembers Adams, Griswold and Grant opposed the motion.

Committeemember Holtz moved that an additional quarter-cent tax be implemented and used strictly for the 30% transportation match. Committeemember Killian seconded the motion.

Committeemember Holtz clarified that his motion is just for a quarter percent sales tax. Quality of Life sales tax, for transportation. Committeemember Killian, who seconded the motion, said that that was his understanding as well. The motion carried unanimously.

Committeemember Killian spoke in support of an amendment to the Charter to create an independent City Auditor position and a sunset review process of the agencies so that there is a financial review of how the monies are being spent. Chairman Jones commented that Committeemember Killian was not present when they voted for an internal auditor who would work with the committee.

Committeemember Killian moved to recommend to the Council that the Charter be amended to create an independent City Auditor position and a sunset review process of the agencies. The motion was seconded. The motion failed for lack of a majority vote.

Committeemember Killian moved that they recommend to the Council that they create a City Auditor position that functions like the State Auditor General in assisting the Council in reviewing budgets and activities. There was no second to the motion.

A motion was made and seconded to just review the audit committee recommendation that they already approved and look at adding a sunset review provision in the document. The motion carried unanimously.

Committeemember Killian moved that the City Council or the Mayor create a committee to work over the next twelve months to develop some sort of a recommendation for the Council on a cap on spending, which deals with population and inflation to take into consideration issues of grants, etc. Committeemember Griswold seconded the motion. There was a tied vote (7-7).

A motion was made and seconded to recommend to the City Council that a limitation be placed on future spending (on population plus inflation) with contingencies for emergency expenses. The motion failed for lack of a majority.

Committeemember Holtz moved that the City discourage incentives for common retail and the motion was seconded by Committeemember Adams. Committeemember Holtz said that he has not defined retail but he does not think that the City should offer any economic incentives for common retail to relocate in Mesa (such as grocery stores, drug stores, car dealerships, etc.) He added that if a retail establishment is not going to locate anywhere in the Valley except Mesa, then that business would be considered unique, common means it is in all of the other communities.

Committeemember Killian expressed concerns that it might place the City at a competitive disadvantage.

Discussion ensued regarding the motion, which failed.

Mr. Raines suggested that staff put together a draft report of the concepts they have heard this evening, along with the various comments, and provide them to the Committee for future review. He said that perhaps they could narrow those down to some specific vote items at a future meeting when they are close to closing out.

Chairman Jones concurred with the recommendation in the interest of time.

Committeemember Rhodes moved that they recommend that the City Council consider a secondary property tax. Committeemember Kavanaugh seconded the motion. The motion carried.

Committeemember Rhodes moved that the Committee recommend that the Council adopt as a policy that at the earliest feasible moment the Council reduce the General Fund transfers from the utilities and begin operation of the utilities on a pure enterprise level.

Chairman Jones commented that they could not take money away the first year and Committeemember Rhodes clarified that it is a policy recommendation.

Committeemember Jackson seconded the motion, which carried.

Committeemember Killian moved that the Committee recommend to the City Council that they form a study committee to deal with the revenue potential of the water farm and that they meet as soon as possible and bring back recommendations to the City on potential revenue sources. Committeemember Jackson seconded the motion, which carried.

Committeemember Killian moved that they recommend to the Council that they form a study committee to look at the concept of creating a property tax district dealing with healthcare in relation to hospitals (a special tax district). Committeemember Holtz seconded the motion, which carried.

3. Discuss and consider committee recommendations.

- a. Recommendations related to revenues
- b. Recommendations related to expenditures

See above discussion.

4. Review draft outline of committee report.

See above discussion.

5. Scheduling of meetings and general information.

The next meeting was scheduled for Wednesday, July 20, 2005 at 4:30 p.m.

6. Items from citizens present.

There were no items from citizens present.

Chairman Jones advised that he and Denise would go through what was talked about and incorporate a lot of the information. He encouraged the members to e-mail them if they had questions or suggestions about issues they would like addressed.

7. Adjournment.

Without objection, the Mesa 2025: Financing the Future Citizen Committee adjourned at 8:20 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 29th day of June 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

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