CITY OF
MESA
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MESA 2025: FINANCING THE FUTURE CITIZEN COMMITTEE

May 25, 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 May 25, 2005 at 4:00 p.m.

COMMITTEE PRESENT	COMMITTEE ABSENT	STAFF PRESENT
Kyle Jones, Chairman	Mark Killian	Various
Kirk Adams	Keno Hawker (Ex-Officio)	
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		

1. Approval of minutes from the March 23, 2005 meeting.

A motion was made and seconded to approve the minutes of the March 23, 2005 meeting and the motion carried unanimously.

2. Presentation and discussion on Transportation Plan financing.

Assistant Development Services Manager Jeff Martin addressed the Committee regarding this agenda item and highlighted a slide presentation relative to the City's Transportation Plan and financing. (For detailed information, please refer to information distributed.)

Mr. Martin noted that the City is at a crossroad in terms of transportation and noted that staff has been studying the issue for approximately six years. He said that half of the projects earmarked for Mesa in the 20-Year Regional Transportation Plan were in the last five years of that plan and logistically the City cannot build and design 26 projects in five years so they need to move a number of those projects up and finance the cost, which means issuing bond debt. He said that this will "smooth out" the program so that there are a consistent number of projects built over the 20-year program. He noted that in developing projects and procedures, the Maricopa Association of Governments (MAG) Regional Council has chosen to inflate the amounts of money that they have set aside for street capital projects per the Consumer Price Index. He stated that staff is concerned that the Consumer Price Index is not going to track with what the costs are going to reveal in time for construction and right-of-way acquisition. He reported that the City has been informed that local costs on the projects will be 30% but said that in terms of real costs, it could be 50 to 60% because of the way the inflation factor is being employed and so many projects are in the last five years of the Plan.

Jeff Kramer addressed the Committee and, as part of the presentation, discussed various scenarios depicted on the slides.

Mr. Martin said that based on the extensive study and evaluation of the City's transportation programs over the last six years and looking at the financial needs, staff has concluded the following:

1. A dedicated local funding source is needed.
2. The City should be addressing both capital and Operations & Maintenance needs (O&M).
3. Time is critical. The regional funding starts in January of next year and it is important to move forward with something in order for the City to match what has been set aside in the region for Mesa.

Mr. Martin added that in order to address the above conclusions, staff recommends that the Committee consider recommending to the Council that an election be held in the Spring of 2006 to consider a .35 cent local sales tax dedicated to transportation.

Chairman Jones thanked Mr. Martin and Mr. Kramer for their input.

In response to a question from Committeemember Rhodes, Mr. Kramer stated that because they had a couple of years that were a little odd, they can only issue bonds for capital and they cannot issue them for O&M. He noted that staff financed a little more than possibly needed earlier and banked a little bit of cash to cover the shortage the following year. He added that any bond that they issue to cover this program would be retired with a 20-year window. He noted that staff did everything they could in formulating the program to minimize bond sales. He explained that in each of the scenarios covered during the presentation, staff minimized the bond issuance for each program to what they feel is the least they can do. He stated that from a revenue generation standpoint they are not advocating a sales tax, they are advocating a funding level. He added that they used a sales tax because it is easy to equate a sales tax number to a funding level in order to have discussion that makes sense. He said that they did not look at the possibility of doing improvement districts for some of the specific capital projects that might benefit one area more than another.

Committeemember Rhodes asked whether funding for matching dollars can come from any source (i.e. if a bond was approved and dollars came in for the bond, would that qualify as matching dollars?) and Mr. Martin advised that the money could be used for that purpose. He added that revenues from an improvement district would also qualify.

Discussion ensued relative to the fact that the funding level staff is seeking in today's dollars is $28.7 million, which the tax would generate; the fact that if no funding source is dedicated to this area, within ten years Mesa's streets are going to be unusable, there will be no funding for transit service in almost half of the City and they would have to return $455 million to the County, which would be reallocated among other Valley cities; and staff's opinion that land acquisition costs will increase more than 3% a year.

Chairman Jones again thanked Mr. Martin and Mr. Kramer for their presentation.

<u>3. Continued discussion on utility revenues and enterprise funds</u>.

Utilities Director Dave Plumb addressed the Committee and referred to a memo distributed to the Council and the Committee regarding the pros, cons and costs associated with developing the water at the Pinal County Water Farm.

Committeemember Adams asked Mr. Plumb to explain the value of the water farm to the City and Mr. Plumb responded that at this point the value is in the land depreciation. He said that it was financed by the Municipal Development Corporation and therefore the returns from that investment are unrestricted in terms of their use. He added that at one point they determined that the City would need the water but several things have happened since that time. He said that the Gila River Indian Community settlement has given the City access to some additional CAP water and they have banked an excess of three years of average use for ground storage credits. He advised that the City no longer has as much need for the water but the value is now in the land itself. He concurred that the City cannot sell the rights to the water; they would have to sell the land.

Discussion ensued relative to the Enterprise Funds; the fact that cities own their own utilities to preserve local control so that the rates, the capital improvement programs, and the level of service is determined by people who are elected or locally appointed; the fact that an investor owned utility basically operates at a profit and returns some of that profit to the shareholders (the shareholders in the case of a municipal utility being the citizens of the community) and the funds are transferred back into the General Fund to pay for other City services such as police, fire and libraries; abatements and the fact that they are really payments for services; the fact that when there are funds left over from operations, they go into reserves and the City Council or Board has the opportunity to look at those funds and decide whether to go out for less debt and use some of the reserves or forego a rate increase and drop down those reserves; staff's opinion that from the standpoint of growth, the City is keeping up with infrastructure and putting money back into the system; and the fact that this year's transfer to the General Fund will be $70 million and $72.2 million is projected for 2005-06; the Gain Sharing Program implemented in San Diego County and staff's opinion that such a program would not benefit the City.

In response to a question from the Committee, Bryan Raines stated the opinion that the water farm would not add any benefit from a bonding statement for either General Obligation or Revenue bonds. He added, however, that the land is a long-term asset for the City and if the acreage is sold, the City will benefit from that revenue.

Committeemember Jackson said that it is his understanding that the present source of security for bonds is the secondary property tax and asked for input on this issue. Mr. Raines explained that on the Utility bonds, the City basically pledges its utility revenues and on the General Obligation bonds, they pledge General Fund assets. He noted that the ballot language currently states that if the Council deems it necessary they can levy a tax to cover that.

Committeemember Jackson asked whether the water farm could represent substitute collateral for that security and Mr. Raines responded that he was unsure. He added that if they did pledge it as collateral, they will potentially lock themselves into the sale of the land in the future.

Committeemember Adams asked whether any discussion had taken place regarding a legislative remedy to allow Mesa to sell the water rights. Mr. Plumb replied that research has determined that it would require a legislative change.

Committeemember Griswold commented that if a legislative act was passed to sell the water, the land becomes worthless because there is no water under it and it could not be used. Chairman Jones said that the land that would have the water taken away is not going to have a value.

Committeemember Rhodes commented on the fact that Mesa has other water rights and asked whether they could use that water and those water rights and sell other water from the City. He said that he understands there might be transfer issues but pointed out that water and water right exchanges do occur. He questioned whether instead of looking at an outright sale they could look at some alternatives along those lines. Mr. Plumb advised that the possibility certainly exists.

Chairman Jones thanked Mr. Plumb for his remarks and discussion ensued relative to scheduling the next meeting for June 29th.

4. Continued discussion on potential revenue recommendations.

a. Actions and timeline required for implementation of potential revenue recommendations.

Mr. Raines discussed the contents of a document that was distributed to the members and noted that the report contained four different options and the revenue streams as described under the recommendations. (See handout for detailed information.) He explained that the first option is to adjust utility rates and said that Council action is required but not a public vote. He said that the second option listed is an increase in sales tax and noted that the last time they did this was with the Quality of Life election. He added that the following two options pertain to a primary property tax and a secondary property tax. He noted that a primary property tax would require Council and voter approval to move forward. He added that the Council could impose a secondary property tax to pay off General Obligation bond indebtedness and noted that the bonds are typically for parks, police, fire, libraries, storm water retention and things of that nature. He referred to a copy of a legal opinion rendered by Fred Rosenfeld, the City's Bond Counsel, which states the opinion that a public vote would not be required on a secondary property tax. He reported that the average primary tax rate in the Valley is .42% and the average secondary rate is .97%. He added that the rates and revenues generated (as reflected in the report) include the current rate for commercial property.

Committeemember McNichols commented that the only thing the Council can do under its own authority, without a vote of the people and without "gouging" people on utility rates, would be to implement a secondary property tax. He added, however, that he has concerns regarding the fact that there might be limitations on either the amount of increase on an annual basis or that they might have to wait until 2007-08 to implement it in order to start servicing the debt that jumps to the

$24 million category. Mr. Raines said that staff believes they could “flatten the debt service” if they had the ability to restructure the debt. He added that it would probably be a 90-day process to align what they would need to do and go to the City’s financial advisors. He concurred that they would be bringing debt service forward on the schedule and accelerating payments in the earlier years by restructuring. He added that they would then “flatten” the higher years by bringing them down.

Committeemember Griswold asked whether the City pays a penalty or higher rate when it issues GO bonds since they do not have a tax rate to guarantee them. He added that they have the promise of a tax but wanted to know whether they pay a higher premium. Chairman Jones commented that the City pays insurance. Mr. Raines added that in the last election they may have had a slightly higher amount for the GO bond debt than for the Utility bond debt, but said that it was not significant. He stated that they purchase insurance to raise the bond rating.

Committeemember Griswold requested more information on the numbers and what the City is paying currently, the premium because of the current structure. He also questioned whether staff has worked in-lieu payments into the process. Mr. Raines advised that staff figured out the in-lieu payments when they figured out the comparisons of revenue between the cities and incorporated the in-lieu in there. He said that he will provide the Committee with this information.

Discussion ensued relative to Special Improvement Districts; Community Facility Districts and the fact that they are typically square miles of development; administrative costs associated with CFDs; the fact that staff has not determined what the average increase would be for commercial property (property that is not in the special districts, but are taxed at 25% assessment); the fact that staff has looked at taking specific examples of business types and working from that, but has not looked at a composite average for all of the commercial tax and staff’s intent to see if that information is available from the Assessor’s Office.

Chairman Jones brought up the issue of possible revenue sources to present to the Council and stated the opinion that based on citizen input, the first thing that can be eliminated is a possible income tax, which very few cities impose. He asked whether anyone wanted to comment on utility rates at this time.

Committeemember Rhodes commented on the stress that has been created on the infrastructure of the General Fund transfers and said that over time he would like to see a consistently reduced reliance on General Fund transfers. He stated that for this reason he would support a property tax and commented that a property tax is not a hidden tax like a General Fund transfer and it is a deductible tax as well. He added that he wished they could look into an immediate reduction in the City’s utility rates themselves but said that he believes they are going to have a time period where they need to catch up on some infrastructure needs in the utility areas and start to build up a reserve fund. He further stated that over time he favors a system whereby they would reduce General Fund transfers and get to a percentage of base General Fund transfer with a reserve account for utilities. He agreed that they need to replace the revenues that they lose by reducing the General Fund transfers.

Committeemember Jackson concurred with Committeemember Rhodes’ comments and added that the City will ultimately have to create other sources of revenues that can be relied upon. He stated the opinion that ultimately this would provide the general public with a greater comfort level.

Committeemember McNichols asked whether the Enterprise Fund should be tasked with operating for a profit at rates which are competitive with other Valley communities or should the rates be dropped in order to avoid the “hidden tax.”

Chairman Jones responded that the City wants to be in the mainstream when it comes to utility rates and added that they still want to have the transfers available. He added the opinion that the stability comes with the percentage approach that they are looking at. He noted that there is a payback to the shareholders, or residents, and it is much more predictable and stable that way.

Committeemember Rhodes commented that the General Fund transfers actually skew market base and said that consumers don’t know whether they are paying a reasonable rate for the utilities. He stated that a pure Enterprise Fund would allow citizens to know what it costs to run the utilities and would generate a reasonable amount of return back to the City.

Committeemember McNichols expressed the opinion that if the City had a fixed transfer amount and market place, a surplus could result and either they could lower rates or put the excess funds into a reserve account. Committeemember Jackson added that they could also utilize the reserve to make capital expenditures and lower the amount that would have to be bonded.

Discussion ensued relative to the fact that the rate would not be fixed but the amount of transfer would be consistent so there might be a 5% transfer but the rates may have to come up for review and perhaps changed; the fact that rates are reviewed annually so the City and the Utility can negotiate in the rate process to determine that year’s return to the City; the fact that Mesa’s water rate is only second to Scottsdale’s, in wastewater the City is mid-range, in electric the City is slightly higher than SRP (although they are in the process of implementing increases that will make the City more competitive), and Mesa’s underlying natural gas rate is competitive with Southwest Gas.

Committeemember Rhodes asked whether the City was competitive because they have put off infrastructure improvements and necessary maintenance in order to give the City what it needed (and did not put money aside for reserves). He questioned whether the City’s rates would be much higher if they were given what was needed to take care of the utilities.

Mr. Plumb responded that they certainly could spend additional revenues if they were available but added that he did not want to give the impression that the system is falling apart around them and that people are receiving poor service. He reiterated that they do a very good job of staying up with growth and said there are funds they would prefer to spend for renovation/rehabilitation purposes.

Chairman Jones commented that in the interest of time he would like to know whether anyone believes they should continue along the same path as they are now in terms of utility rates, the way they are structured and the way they are operating the utilities at the current time and for the past 60 years. He said he wants to know whether anyone thinks they can continue along that path using that structure and doing the transfers.

In response to a question from the Committee as to what would be necessary legally to change the way the utilities are operated, Chairman Jones said that the City Charter specifies that only the Council can determine the rates. He stated that they could forward a recommendation on to the Council saying that they want to restructure but added that they would need to identify other sources of revenue in order to make that work.

Committeemember Kavanaugh commented that part of their recommendation might be a whole package of issues relating to sales tax, a property tax and a secondary tax. He said they might make recommendations to the Council on the transfer to explore a fixed percentage or a range of percentages. He noted that that can be implemented by a Council decision itself or it could be part of a package that they present to the voters to empower them to decide if they want to have a range or a transfer. He added that they could build in a mechanism such as if there is a fixed percentage and they want to increase it by a certain percent, they can require a vote of the Council. He expressed the opinion that an infinite amount of possibilities exist that they could do in terms of recommendations on Council action alone or as something that is presented to the voters as part of the whole package.

Chairman Jones stated that by the June 29th meting he will have prepared a list of items that the members can review and vote on. He encouraged the members to e-mail Denise with any suggestions/requests for information they may have. He said that he will work with Denise and get some preliminaries out as quickly as possible so that there will be a lot of feedback and they can move quickly through the items at the next meeting.

Mr. Warner commented that if the Committee can provide direction to staff on changes they want proposed financially, they will try to load them into the forecast model and show the Committee what the results would be. He pointed out that one of the key elements is trying to figure out how much of a transfer should be made from the Enterprise Fund to the General Fund. He added that if it is a set package, the work will be fairly easy but if it is going to be a range, staff will need to know what the ranges are so they can work up a high and low. He said that staff will need direction as to what would be the maximum amount that they could look to for a transfer.

Committeemember Jackson advised that they need to find out what the new revenue sources would generate and based on that number, they would either adjust up or determine necessary fund transfers. Mr. Warner commented that staff will factor in the average on the property taxes, the primary property tax and a secondary property tax and determine what that generates. He noted that the forecast did not include the Transportation Master Plan that was presented and added that there would be costs in addition to what is in the forecast. Committeemember Jackson stated that they need to have that as part of what they are doing and emphasized that Mesa is not going to give $455 million back to other communities, they are going to use it in Mesa.

Chairman Jones thanked staff and the members of the Committee for their valuable input and discussion.

<u>5. Items from citizens present.</u>

Ernie Johnson, a resident who lives in the area of Brown and Mesa Drive, said that he had provided Denise with copies of the remarks he had intended to make but in view of the time restrictions he would ask that the members read his notes. He noted that he has attended the Committee's meetings for over a year but was now leaving for Pennsylvania. He said that one thing that is crystal clear is the fact that Mesa faces a severe financial crisis. He stated that if they are able to succeed in financing Mesa's future, the City will thrive but if they resort to "government on the cheap," Mesa will no longer be a desirable place to live. He wished them the best of luck and said that he has high hopes for Mesa.

Members of the Committee expressed appreciation to Mr. Johnson for his interest, enthusiasm and support.

5. Scheduling of meetings and general information.

The next meeting of the Committee will take place on June 29th.

6. Adjournment.

Without objection, the Mesa 2025: Financing the Future Citizen Committee adjourned at 6:05 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 25th day of May 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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