



MESA 2025: FINANCING THE FUTURE CITIZEN COMMITTEE

January 19, 2011

The Mesa 2025: Financing the Future Citizen Committee met in the lower level meeting room of the Council Chambers, 57 East 1st Street, on January 19, 2011 at 6:30 p.m.

COMMITTEE PRESENT

Kyle Jones, Chairman
Jill Benza
Rex Griswold
Keno Hawker
Dennis Kavanaugh
Robert McNichols
Scott Rhodes
Pat Schroeder
Robin White

COMMITTEE ABSENT

Kirk Adams
Pat Esparza
Don Grant
Greg Holtz
Aaron Huber
Eric Jackson
Mark Killian

STAFF PRESENT

Various Members

1. Welcome and introductions from Vice Mayor Kyle Jones.

Chairman Jones welcomed everyone to the meeting. He stated that since he only had a few days remaining in his term on the City Council, he wanted the Committeemembers to meet one last time in order to receive a status update concerning their 2005 recommendations and the City's efforts to implement such recommendations.

The Committeemembers introduced themselves and provided a brief overview of their professional background.

Chairman Jones noted that per his request, former Deputy City Manager Bryan Raines, who retired from the City of Mesa last October and actively participated in the Mesa 2025: Financing the Future Committee meeting process, graciously agreed to make tonight's presentation.

2. Hear a presentation and discuss the status of the Mesa 2025: Financing the Future Committee's recommendations from 2005.

Mr. Raines advised that Executive Manager Chuck Odom and Acting Budget Director Candice Cannistraro were present in the audience and prepared to respond to any questions the Committee may have.

Mr. Raines displayed a PowerPoint presentation (**See Attachment 1**) and reported that between February 2004 and September 2005, the 16-member Mesa 2025: Financing the Future Committee held 36 meetings. He stated that in his estimation, the Committee had the highest level of participation of any Council-appointed committee and expressed appreciation to everyone for their hard work and diligence throughout this arduous process.

Mr. Raines noted that during their meetings, the Committee reviewed the operations of every City department and considered various financial challenges facing the City as follows:

- Growth driven costs.
- Per capita sales tax declines.
- Escalating transportation infrastructure needs.
- Continuing reliance on utility profits.
- Exiting "debt valley." The resumption of higher debt service payments.

Mr. Raines remarked that in September 2005, the Committee presented recommendations to the City Council in two general areas: 1.) Budget Process and Service Efficiency; and 2.) Revenue-Related Enhancements. He outlined the Committee's recommendations and the current status of each recommendation as follows:

A. Budget Process and Service Efficiency

1. Prioritization and Revitalization of City Services.

- The City shall formulate a list of City spending priorities and correlate the formation and approval of the City's annual budget to this list.

Mr. Raines reported that each year, beginning with the Council's budget status briefings, a list of spending priorities are developed/aligned with available revenues for the upcoming budget adoption.

- Establish an audit committee composed of citizens and Councilmembers to review the City's operational/financial efficiency.

Mr. Raines explained that revisions to the organization have been implemented and the City Auditor now reports directly to the City Council, primarily through the Council's Audit & Finance Committee. He said that there are no citizens on the Committee, but noted that the City Manager serves as an ex-officio member. Mr. Raines added that the Audit & Finance Committee meets on a frequent basis not only to review the results of City audits, but also to consider all aspects of the City's financial operations.

2. Outcome Orientation and Program Accountability

- Each City department and program shall have clearly articulated and specific long and short-term goals with performance standards and benchmarks for measuring success.

Mr. Raines advised that the City established a formalized activity reporting process known as MesaStat, in which each department meets on a quarterly basis with City management in an effort to update long and short-term goals. He said that such measures are reviewed by the Council and published on the City's website.

3. Sunset Review Process

- A sunset review process should be created to provide a thorough method to evaluate the efficiency, effectiveness and continued viability of City programs.

Mr. Raines explained that the City has not developed a formalized sunset review process. He stated that the downturn in the economy has virtually eliminated the creation of any new, City-funded programs. Mr. Raines also commented that in recent years, the City has initiated Federally-funded economic stimulus projects and programs (i.e., infrastructure, streets, and waterlines) and said those items do include sunset provisions and significant auditing measures.

4. City Council Budget Process

- The Council shall annually review and approve the budget only after inquiring into the success measures of each City department and program.

Mr. Raines further remarked that adoption of the City's budget follows a number of Study Sessions in which the Council reviews the current successes and future activities of the various City departments. He stated that the Council determines the level of detail of the reviews based on the department, known issues and the projects to be addressed.

5. Expenditure Reviews

- The City Council and/or the Audit Committee shall review the list of potential expenditure and revenue suggestions from individual committeemembers during their 19 months of deliberations.

Mr. Raines reported that included as an attachment to the original report, many of the non-contradictory items have been implemented as a result of economically driven budgetary adjustments or in conjunction with the City's reorganization. He added that the Council also reviewed, acted on or rejected other suggested changes.

6. Establish a Committee to Examine City Employee Compensation and Benefits

- The City Council shall establish an Employee Compensation and Benefits Review Committee to address the growth of benefit entitlements, retention and to review and calibrate pay scales and benefits to the private marketplace where appropriate.

Mr. Raines commented that the Council has not established a formal committee and noted that for more than two years, employee pay and benefits have been frozen. He also advised that retirement pensions are controlled by the State. Mr. Raines further remarked that last year, the City conducted an extensive analysis of employee/retiree health care plans and implemented a program to increase premium costs over the next three years.

B. Revenue-Related Enhancement Recommendations

1. Institute a Primary Property Tax

- The City Council should ask the voters to decide on whether to institute a primary property tax.

Mr. Raines reported that the initiation of a primary property tax was placed on the May 16, 2006 ballot by the Council. He stated that Mesa voters rejected the item with 60% opposed to the measure and 40% in support.

2. Adjust the Local Sales Tax Rate to 1.75%

- The Council should place before the voters a ballot question to adjust the local sales tax rate to 1.75% once the quarter-cent Quality of Life tax expires in July 2006. Of the half-cent, a portion will be dedicated to transportation and the remaining portion to the General Fund to maintain and expand such items as public safety, neighborhoods, and parks and recreation.

Mr. Raines explained that the May 16, 2006 ballot included a question to increase the City's sales tax rate by .3% for Streets and .2% for the General Fund, to an overall level of 1.75% (Note: After a portion of the Quality of Life tax expired.). He noted that the ballot measure was approved by Mesa voters and said that between August 2006 and June 2010, an estimated \$153.2 million in new revenue has been generated.

3. Adopt a Policy to Establish Transfer Limits from the Utilities Enterprise Fund to the General Fund

- Establish transfer targets and allow the various enterprises to retain a more significant portion of their revenues to address maintenance concerns, provide infrastructure and equipment enhancements and function as true enterprises while retaining regionally competitive rates.

Mr. Raines reported that for FY 2006/2007, transfer targets were established and have been maintained ever since. He stated that the Council reviews the transfer amounts on an annual basis and noted that pending any adjustments, the targets are incorporated into future budget forecasts. Mr. Raines added that the utility rates for the City's enterprises are forecast five years into the future, which not only allows for planning by the enterprise operations, but also the rate payers.

4. Evaluate the Options Related to the Pinal County Water Farms

- The City Council should study all the options related to selling the City's nearly 12,000-acre water farm.

Mr. Raines remarked that subsequent to a review of the City's water portfolio and the impact of the Pinal County Farms as it relates to the City's long-term water plan, the City Council now allows the sale of the land based on market conditions and timing. He explained that the proceeds from the sale of these non-productive capital assets have been designated to offset the cost of other capital assets, either through a reduction in bond principal balances or offsetting financing costs for the acquisition/construction of other capital assets. Mr. Raines also stated that the proceeds from the sale of such assets cannot be used to offset operational expenses. He added that the proceeds from the sale of these assets would be used to help finance the new Chicago Cubs spring training facilities.

Chairman Jones stated that it was important to note that the City of Mesa has retired the debt on the Pinal County Water Farms and is, in fact, leasing some of the property to farmers in the area.

Mr. Raines further highlighted additional significant financial accomplishments that have taken place at the City of Mesa since 2005 as follows:

- The City's General Obligation (G.O) Bond ratings by Moody's Investors Service and Standard and Poor's were upgraded to "Double A" investment grade.
- Mesa's first property tax (secondary property tax) in more than 60 years was implemented. The tax, which was approved by Mesa voters in the 2008 General Obligation Bond election, marked the initiation of a new standard that requires all future G.O. Bond debt be supported by a secondary property tax rather than General Fund revenues. To date, Mesa voters have approved G.O. Bond debt for the construction of Police and Fire facilities and various Street projects.

Chairman Jones remarked that the current Council made a policy decision that any future G.O. bond debt put before the voters would be supported by a secondary property tax. He stated that the two most recent General Obligation Bond elections were successful due to the fact that the voters had a clear understanding that the bonds were dedicated for specific projects and supported the measures.

Responding to a question from Committeemember Hawker, Mr. Raines clarified that although the bond rating agencies do not delineate the specific causal factors that contribute to upgrading the City's G.O. bond rating, in his opinion, the recent upgrade was most likely due to the formal Financial Policies adopted by the Council and staff's quick response to declining economic conditions in recent years.

Mr. Raines continued with his review of additional significant financial accomplishments as follows:

- The replacement of the City's Financial System (CityEdge).

- Mesa was awarded millions of dollars in Federal stimulus funds which has enabled the City to undertake major infrastructure projects.
- The City leveraged available funds to advance the purchase of land and the design of the freeway interchange in southeast Mesa for the 202-Santan connection with what was initially known as State Route 802.
- Adoption of Formal Financial Policies. Initially reviewed by the Audit & Finance Committee and subsequently adopted by the Council, Mesa now operates under an established list of Financial Policies (i.e., bond ratings, capital acquisitions, utility transfers).

Committeemember Kavanaugh thanked staff for their aggressive approach throughout the years in developing different mechanisms to accelerate freeway construction. He stated that the City has seen dramatic impacts as a result of such efforts along U.S. 60 and the Red Mountain Freeway, which not only has benefited the City of Mesa, but the entire region as a whole.

Chairman Jones expressed appreciation to Mr. Raines for his informative presentation and reiterated that significant financial changes have taken place at the City as a result of the Committee's efforts and hard work. He stated that he was especially pleased when the City's bond ratings were upgraded which, in his opinion, was "a major accomplishment."

In response to a question from Committeemember McNichols, Mr. Raines clarified that the amount of G.O. bond debt supported by the secondary property tax and the General Fund has increased overall. He noted, however, that the debt supported by the General Fund would continue to dwindle until FY 2017/2018 when it is paid off.

Responding to a question from Committeemember Hawker, Executive Manager Chuck Odom indicated that the City expends approximately \$3.6 million annually for those employees who receive stability pay. He noted, however, that the rate of retirement has far outstripped previous forecasts and added that there was "decreased pressure" on the City's budget with respect to this matter.

Mr. Raines also advised that by 2017, in his estimation, the last of the employees that are eligible to receive stability pay would most likely retire.

In response to a question from Committeemember Hawker, Mr. Odom explained that a consultant was hired by the City to conduct a cost analysis of Mesa's Electric Utility with respect to upgrading outdated facility systems by converting from 4Kv to 12Kv. He stated that such a conversion would allow the system to handle future loads and also reduce operations and maintenance costs. Mr. Odom also noted that the City utilized the analysis to develop its plans with regard to Capital Improvement Program (CIP) replacement and various bond amounts.

Discussion ensued relative to the fact that build-out in Mesa may no longer be in 2025, but could be extended to 2040; that when the Committee considered build-out occurring in 2025, Mesa had a 6% growth curve; that under current economic conditions, the City's growth curve is a quarter of a point to one percent; and that if economic conditions improve, that scenario could change.

Committeemember Hawker expressed concern regarding the current public safety retirement package for Police and Fire employees with 20 years of service. He stated that the issue has "always been somewhat of a sacred cow," but commented that with current life expectancies, an ongoing funding source will be difficult to maintain. Committeemember Hawker also suggested that the years of service be increased, at a minimum, to 25 and possibly even to 30.

Mr. Raines responded that although the City handles retirees' medical benefits, the 20-year public safety pension is a State program that would require State law to change.

Responding to a question from Committeemember Griswold, Mr. Odom explained that the City of Mesa is currently conducting an energy audit of various City facilities. He said that Mesa was awarded grant funding for the project through the American Recovery and Reinvestment Act (ARRA).

Committeemember Griswold urged that the City implement a sunset review for its Fire Inspection Program. He commented that during his tenure on the Council, the program was established for a one-year trial period and required that business owners be assessed a fee for the City to conduct such inspections. Committeemember Griswold stated that he has received complaints from business owners concerning the program and suggested that it would be appropriate for staff to conduct a follow-up review of the matter.

Mr. Odom assured Committeemember Griswold that staff has addressed his concerns and "tweaked" the Fire Inspection Program as it moves forward.

Additional discussion ensued relative to the installation of the CityEdge system, the City's new consolidated governmental business system; that the process will take 34 months to complete, with the installation of the budget system occurring first, followed by the financial system, Human Resources management system, Purchasing and procurement; and that July 1, 2012 is the target date for the system to "go live."

Chairman Jones once again thanked the members of the Committee for their service to the community and wished everyone well in their future endeavors.

3. Adjournment.

Without objection, the Mesa 2025: Financing the Future Committee meeting adjourned at 7:28 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 Council of Mesa, Arizona, held on the 19th day of January 2011. I further certify that the meeting was duly called and held and that a quorum was present.

LINDA CROCKER, CITY CLERK

Status Report – Mesa 2025: Financing the Future

January 2011



The Process

- ▶ 36 separate meetings of the 16 committee members, various City staff and interested citizens
- ▶ Over a 19 month period from February 2004 thru September 2005

Pressing Issues at that Time

- ▶ Growth driven costs
- ▶ Per capita sales tax declines
- ▶ Escalating transportation infrastructure needs
- ▶ Continuing reliance on utility profits
- ▶ Exiting “debt valley.” The resumption of higher debt service payments

Final Recommendation Categories

- ▶ Budget process and service efficiencies
- ▶ Revenue related enhancements

Budget Process and Service Efficiencies

Prioritization and revitalization of City service

- ▶ Correlate the annual budget to spending priorities
 - Priorities are established during a series of budget status meetings each spring where revenue projections are discussed

- ▶ Establish an audit committee consisting of citizens and councilmembers
 - The City organization was revised to have the City Auditor report directly to the City Council.
 - The Audit and Finance Committee now includes the City Manager participating as an ex-officio member along with the three appointed councilmembers.

Budget Process and Service Efficiencies

-continued -

Outcome Orientation and Program Accountability

- ▶ Each City department and program shall have clearly articulated and specific long- and short-term goals with performance standards and benchmarks for measuring success. These items will be review by the City Council and published on the internet.
 - The City has established a formalized activity reporting process named MesaStat wherein every City department review their performance against adopted benchmarks periodically throughout the year. The most significant measures are compiled monthly, distributed to the Council and published on the internet.

Budget Process and Service Efficiencies

-continued -

Sunset Review Process

- ▶ A sunset review process should be created to provide a thorough method to evaluate the efficiency, effectiveness and continued viability of City programs.
 - With the exception of federally funded economic stimulus projects and programs along with volunteer initiatives, the economic conditions have virtually eliminated the creation of any other new, city-funded programs. All related stimulus funded initiatives have as part of their funding authorization a mandated sunset provision.

Budget Process and Service Efficiencies

-continued -

City Council Budget Process

- ▶ The Council shall annually review and approve the budget only after inquiring into the success measures of each City department and program.
 - Adoption of the City's budget follows a series of Council Study Sessions designed to review the status of the budget and the successes and future activities of departments. Reviews occur at different levels of detail depending on the department, the known issues and projects to be addressed.

Budget Process and Service Efficiencies

-continued -

Expenditure Reviews

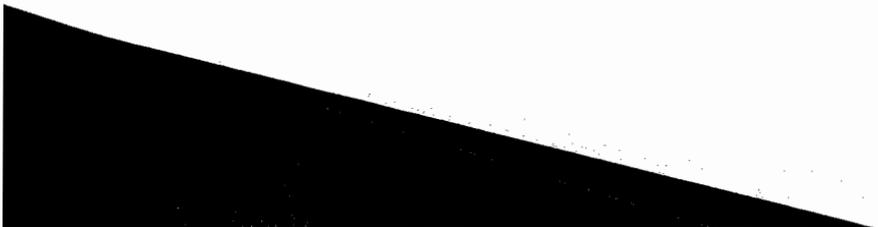
- ▶ The City Council and/or the Audit Committee shall review the list of potential expenditure and revenue suggestions from individual committee members during their 19 months of deliberations.
 - Included as an attachment to the original report, many of the (non-contradictory) included items have been implemented as a result of the economically driven budgetary adjustments or as part of the reorganization of the city's departmental structures. Other suggested changes have been reviewed and acted on or rejected by the Council in the intervening years.

Budget Process and Service Efficiencies

-continued -

Establish Committee to Examine City Employee Compensation and Benefits

- ▶ The City Council shall establish an Employee Compensation and Benefits Review Committee to address the growth of benefit entitlements, retention, and review and calibrate pay scales and benefits to the private marketplace where appropriate.
 - A formal committee has not been established. Pay and benefits have, for the most part, been frozen for more than two years. Retirement pensions are controlled by the State.



Revenue Related Enhancements

Institute a Primary Property Tax

- ▶ The City Council should ask the voters to decide on whether to institute a primary property tax.
 - The initiation of a primary property tax was placed on the May 16, 2006 ballot by Council. The item was rejected by voters in by a margin of 60% opposed to 40% in favor.

Revenue Related Enhancements

- continued -

Adjust the Local Sales Tax Rate to 1.75%

- ▶ The City Council should place before the voters a ballot question to adjust the local sales tax rate to 1.75% once the ¼-cent Q-of-L tax expires in July 2006. Of the half-cent, a portion will be dedicated to transportation and the remaining portion to the general fund to maintain and expand such items as public safety, neighborhoods, and parks and recreation.
- An increase in the City's sales tax rate to an overall level of 1.75% was approved by voters on May 16, 2006. The measure won by a margin of 60% in favor and 40% opposed.
- Between August 2006 and June 2010 the revised tax structure has generated approximately \$153.2M in new revenue.
- The approximate fiscal year annual average has been \$39.1M.

Revenue Related Enhancements

- continued -

Adopt a Policy to Establish Transfer Limits from the Utilities Enterprise Fund to the General Fund

- ▶ Establish transfer targets and allow the various enterprises to retain a more significant portion of their revenues to address maintenance concerns, provide infrastructure and equipment enhancements, and function as true enterprises while retaining regionally competitive rates.
 - Transfer targets were established for FY'2006/2007 and have been maintained since then. Subject to adjustment by Council, the targets are incorporated into the development of future budget forecasts.
 - Utility rates for each of the City's enterprises are now forecast five years into the future to allow for internal planning by the enterprise operations and the rate payers. The City continues to maintain household costs well within the regional mid-range.

Revenue Related Enhancements

- continued -

Evaluate the Options Related to the Pinal County Water Farms

- ▶ The City Council should study all the options related to the selling the City's the nearly 12,000-acre water farm.
 - Following review of the Pinal County farms role in the City's "water portfolio" the City Council now allows for the sale of lands based on market conditions and timing. Proceeds from the sale of these non-productive capital assets are designated to offset the costs of other capital assets either through reduction in bond principal balances or offsetting financing costs for the acquisition & construction of other capital assets.
 - In accordance with the adopted Financial Policies proceeds from the sale of these assets cannot be used to offset operational expenses.

Additional Significant Financial Accomplishments

- ▶ Bond Rating Upgrades
- ▶ Secondary Property Tax Supported General Obligation Bond Debt
- ▶ Financial System Replacement
- ▶ Federal Stimulus Funds
- ▶ Advancing Freeway Construction
- ▶ Adoption of Formal Financial Policies