

COUNCIL MINUTES

October 15, 2020

The City Council of the City of Mesa met in a Study Session Meeting via a virtual format streamed into the lower level meeting room of the Council Chambers, on October 15, 2020 at 7:34 a.m.

COUNCIL PRESENT

John Giles*
Mark Freeman*
Jennifer Duff*
Francisco Heredia*
David Luna*
Kevin Thompson*
Jeremy Whittaker*

COUNCIL ABSENT

None

OFFICERS PRESENT

Christopher Brady
Dee Ann Mickelsen
Jim Smith

(*Council participated in the meeting through the use of video conference equipment.)

Mayor Giles conducted a roll call.

Items were discussed out of order but for purposes of clarity will remain as listed on the agenda.

1. Review and discuss items on the agenda for the October 19, 2020 Regular Council meeting.

All of the items on the agenda were reviewed among Council and staff and the following was noted:

Conflict of interest: None

Items removed from the consent agenda: None

2-a. Hear a presentation and discuss the 2020 bond program including defeasance, new issuances, and refundings.

City Treasurer Ryan Wimmer displayed a PowerPoint presentation on the 2020 Bond Program.
(See Attachment 1)

Mr. Wimmer provided an overview of the bond program and stated the program supports the Capital Improvement Program (CIP), and is approved each year as part of the budget process.
(See Page 2 of Attachment 1)

Mr. Wimmer explained the City's finance team includes City staff; the City's financial advisors Larry Given and Janelle Gold with Hilltop Securities; as well as bond counsel, Zach Sakas, with Sherman & Howard. He reported the City issues bonds to finance budgeted capital projects,

evaluates the need to sell bonds, and looks for savings to refinance existing bonds at lower rates. (See Page 3 of Attachment 1)

Mr. Wimmer commented that bonds are the most common method for cities to finance infrastructure and provide for intergenerational equity, meaning the people that use the infrastructure pay for it. He remarked that the City borrows money by selling bonds to investors; the proceeds are used to construct City projects and infrastructure, and the City pays principal and interest to investors. (See Page 4 of Attachment 1)

Mr. Wimmer stated the life of bonds is typically 20-25 years and that the City pays debt service for that period on each debt service issuance. He explained the structure of new debt service is fitted with existing debt to maintain stable payments year to year, and the financial forecast presented to Council each year as part of the budget process includes debt service for existing and anticipated future issuances. (See Page 5 of Attachment 1)

Mr. Wimmer pointed out the 2020 issuance was delayed, and the bond market had unfavorable conditions due to the pandemic. He reported the markets have normalized and the issuances have been pushed to November or December, and the 2021 issuances are on a normal schedule for Spring 2021. (See Page 6 of Attachment 1)

Mr. Wimmer provided an overview of the 2020 General Obligation (GO) Bond Sale, which would be for the purpose of Streets, Library, Arts & Cultural, and Public Safety. He advised the last column on the right reflects the remaining authorization following this sale. (See Page 8 of Attachment 1)

Mr. Wimmer explained that GO bonds are secured by the full faith and credit of the City which is the property tax authority of the City. He stated the issuance process involves negotiating with a bank, who then purchases the entire bond offering, then sells those bonds to investors that are typically companies like mutual funds and insurance companies. He stated the bonds are paid for primarily by secondary property tax revenue and the projects that were most recently submitted to the voters and passed were in 2018 for Parks and Culture, and Public Safety. (See Page 9 of Attachment 1)

Mr. Wimmer reviewed the Utility System Revenue Bonds projects and remarked this bond type is used to finance utility infrastructure and is secured by the revenue of utility ratepayers. He commented these bonds are primarily paid for from revenues derived from utility rates and projects, and the most recent utility bonds approved by voters was in 2014. He added the same process is used in selling Utility Bonds and GO bonds because this process provides the best rate. (See Pages 10 through 12 of Attachment 1)

Mr. Wimmer informed Council that the finance team is constantly looking for opportunities to reduce the cost of the debt service and maximize finance opportunities. He stated there are two ways to achieve savings: refundings and defeasance. He added when bonds are refunded or refinanced, they are issued over the same period of time. (See Page 13 of Attachment 1)

Mr. Wimmer displayed a chart of interest rates on treasury bonds in 2010 versus 2020 and explained this is the cost of the U.S. government to borrow money. (See Page 14 of Attachment 1)

Mr. Wimmer discussed the 2020 Bond Program savings for this year in refunding and defeasance which saved the City \$5 million. He further explained in July, the City paid \$15 million of Utility debt which saved \$2 million in interest. (See Page 15 of Attachment 1)

In response to a question from Vice Mayor Freeman regarding the current rate for GO Bonds, Mr. Wimmer stated the current rate on bonds is fairly high since the rate in 2010 was 4% to 6%, so when they are refinanced the City will receive a 2% to 3% interest rate. He clarified that these Bonds being refunded were issued in 2010, had a maturity of 2030, and new bonds will be sold for \$30 million, used to pay off bonds due in 2030, and reissued at a lower rate. He commented for the remaining 10 years on the bonds, the City will save approximately \$500,000 per year and \$5 million overall.

In response to additional questions from Vice Mayor Freeman, Mr. Wimmer explained the City saves on interest costs by reallocating savings to pay off new bonds. He stated when the levy is reset, the goal is to keep it flat year to year until there is a bond authorization. He added the levy is reset once and staff nets out that savings.

City Manager Christopher Brady remarked each year staff looks at the principal and interest payment on all outstanding bonds, and whether they were issued in 2008 or 2020. He added this review helps mitigate against future debt.

In response to a question from Councilmember Duff regarding how the savings is factored into new bonds, Mr. Wimmer commented that if the Transportation Bonds are approved in November, the levy will be reset in 2021 and lowered to recognize that savings.

In response to further questions from Councilmember Duff regarding a delay or deferral of projects due to the economic conditions and the pandemic, Mr. Wimmer explained the timing of the issuance does not affect the projects because the Internal Revenue Service allows the City to pay for projects with cash and then will reimburse the City up to one and a half years later.

Mr. Wimmer commented the second refunding that is planned for this year is Utility System Revenue Bonds. He stated the total savings in 2020 from the two refundings and the defeasance is estimated at \$17 million. (See Page 15 of Attachment 1)

Mr. Wimmer provided an estimated timeline for the 2020 bond transactions. (See Page 16 of Attachment 1)

Mr. Brady explained that while Council has already approved the authority to proceed with financing for ASU @ City Center, the project will also include work to be completed in the market this fall. He reviewed that this is a \$73.5 million project: \$10 million from ASU, \$21 million from the City land sales, and the remaining portion from the excise tax.

In response to a question from Councilmember Heredia regarding a change in the tax levy if the bonds pass in November, Mr. Wimmer stated the tax levy is adopted annually two weeks after the budget adoption and is for the following fiscal year. He added the next tax levy will be adopted in June 2021 for FY 21/22. He clarified the 2018 voter bond authorization would have been included in the property tax levy in 2019, so in 2020 the tax levy did not change.

Mr. Brady remarked that the goal is to maintain a smooth levy to avoid a lot of ups and downs with scheduled payments. He commented the good news for Mesa is that the new growth in property values helps mitigate against the need to significantly adjust the rate and sometimes the

rate can be modified down because growth and new development helps spread the cost across accounts.

Mr. Wimmer explained the tax levy in FY 19/20 and FY 20/21 was \$47 million; the rate dropped due to growth, and the refunding savings from prior years dropped from \$1.18 to \$1.11 per \$100 of assessed value. He added the net effect is a 2.5% decrease for existing homeowners' tax bills.

Vice Mayor Freeman expressed his appreciation to staff for the explanation which helps residents better understand what they are paying. He indicated that he has received calls from his constituents saying the City is overcharging on taxes and he directs them to review the itemized bill to see what they are really paying.

Mayor Giles thanked staff for the presentation.

2-b. Hear a presentation, discuss, and provide direction on the City's recycling program.

Environment Management and Sustainability Department Director Scott Bouchie provided an update to the City's recycling program. **(See Attachment 2)**

Mr. Bouchie explained in September 2019 staff requested approval of two contract extensions: One with United Fibers and one with Republic Services. He stated there were extensive conversations regarding increased costs associated with recycling. He remarked at that time the City had three separate contracts with three separate facilities that were strategically located throughout the City. He continued by saying due to increased costs at that time, there were discussions on recommended changes to the program, including optimizing recycling routes, increased enforcement, rebranding of the recycling program to focus on specific materials, and shutting down recycling drop-off centers. (See Page 2 and 3 of Attachment 2)

Mr. Bouchie referred to the October 2019 fire at the Republic Services facility at the Salt River Project Landfill that was a total loss. He commented the facility accepted 60% of the City of Mesa materials and had just completed a contract extension. (See Page 4 of Attachment 2)

Mr. Bouchie confirmed that in November 2019 the City received a six-month termination notice from Waste Management (WM), the City's other recycling contractor at the time. He explained staff had been negotiating with WM on terms associated with that contract, including a significant increase in the processing fee from \$63 to \$132 per ton, a new transportation fee, a contamination fee that was going from \$29 to \$40 per ton, and a decrease in the revenue share. He added there were also a couple of terms staff was not comfortable with, including the fact that WM was reserving the right to change what was acceptable in their recycling facilities with a 60-day notice with no assurances that the material would actually be recycled, and that they reserved the right to increase the City's price based on several increases in their costs. He added based on these factors, WM and the City were unable to come to an agreement on this contract. (See Page 5 of Attachment 2)

Mr. Bouchie pointed out when the stay-at-home order was implemented in March, staff noticed a significant increase in the amount of tonnage on the residential side. He also noted that there was significant uncertainty with the budget, staffing, and availability. He reported at that time staff met with WM to see if they would delay terminating the contract due to COVID and they would not. (See Page 6 of Attachment 2)

Mr. Bouchie highlighted a chart of Solid Waste tonnage which reflects the amount that was collected in the black barrels. He reported on the seasonality increases at Christmas and during Spring Training and decreases in the summer months. He explained the first week after the stay-at-home order, there was an increase of nearly 20%, and that the collections have leveled off to a little more than 8% of what is historically collected. He expressed appreciation to Solid Waste staff and noted 75 employees came in that day and continued to provide uninterrupted service to residents. (See Page 7 of Attachment 2)

Mr. Bouchie described short-term solutions related to Solid Waste contracts. He commented in September 2019 Council approved a one-year extension with United Fibers, in which they agreed to the existing contract amount of \$85.00 per ton with a 55% revenue share and an annual limit of 6,000 tons. He clarified in conversations with Republic Services, it is anticipated the building at the Salt River Landfill will be rebuilt and should be operational by Quarter 3 of 2021. He added that contract extension runs through 2022. (See Page 8 of Attachment 2)

Mr. Bouchie explained barrel inspections have been resumed and that while the green barrels are relatively clean at almost 90%, the blue barrels are only 30% clean; with 60% requiring some form of education and approximately 14% having major contamination that would warrant removal. He indicated staff is ready to split the blue and green barrel collection; the green barrel material would go to one of the current vendors and the blue barrel material would go to United Fibers initially, and then to Republic Services once that facility is operational. He commented once the barrel collection is separated, the enforcement program would need to be reinstated; however, staff would start with trying to educate residents first. He proposed a period of a few months to educate residents that the recycling program is being reinstated and beginning in January of 2021 the enforcement program would be in full effect. (See Page 9 of Attachment 2)

Mr. Bouchie outlined long-term solutions and stated staff has been working with Arizona State University (ASU) evaluating four options which could be phased in or utilizing a combination of options, and that they are not mutually exclusive of each other: Business as Usual which would mean continuing to partner with recycling facilities; Full Size Materials Recovery Facility (MRF), which would mean the City building a facility; Regional Partnership, which would require looking at infrastructure of Mesa and other cities, what might be built, and how we can leverage to build a facility together; and Mini-MRFs, which are smaller facilities that take less tonnage and are less expensive to build. (See Page 10 of Attachment 2)

Mr. Bouchie explained staff looked at three possible locations for a facility: Center Street yard where the current Household Hazardous Waste facility is located, the East Mesa Service Center, or a location at Pecos and Sossaman that the City owns. He added these locations would provide good coverage across the City. (See Page 11 of Attachment 2)

Mr. Bouchie commented on the first option, Business as Usual, and stated the City currently has two contracts, one with Republic Services and the other with United Fibers, that run through 2022. He reported the advantage of continuing this practice is that there is no capital or labor required on the part of the City, and that the City pays processing fees and receives revenue. He outlined the disadvantages, stating the City does not control the pricing and marketing of materials, it is difficult to know if the materials are actually being recycled, and competition is driving prices up, not down. He added that Mesa does not own any post-collection facilities, transfer stations, landfills, or recycling facilities and are dependent on other facilities to take care of the material we pick up and transport. He indicated a big risk is in the value of the commodity where there have seen significant swings in the value, and if that drops it becomes more expensive for the City. He discussed a trend regarding bans or stringent contamination standards for materials from the US

being sent to other countries, and that it is unknown what effect that will have on pricing if other countries follow in China's footsteps in terms of restrictions on materials. (See Pages 12 and 13 of Attachment 2)

Mr. Bouchie provided an overview of the second option, a Full-Sized MRF which the City would construct at a cost between \$30-\$38 million and could handle 30,000-60,000 tons of recyclable materials. He explained while the facility could handle up to 60,000 tons, Mesa only produces 32,000 tons of material, which accounts for a higher cost per ton for this size of facility. He indicated for this option to make sense; Mesa would need to partner with other cities to have enough throughput to make it economically feasible. He outlined the advantages stating the City would own the facility and have the potential for regional partnerships to accept materials from other cities and would have more control over the cost. He commented the disadvantages are the same as those covered in the first option. (See Page 14 and 15 of Attachment 2)

In response to a question from Vice Mayor Freeman regarding a MRF, Mr. Bouchie responded that the best location in order to take advantage of a regional partnership would be the Sossaman and Pecos area which is close to the borders with Gilbert, Chandler, and Queen Creek.

Mr. Bouchie highlighted Option 3, Regional Partnership, and stated Phoenix has two MRFs, one in North Phoenix and the other at 27th Avenue and Lower Buckeye; and Glendale has one near their landfill. He pointed out Mesa would construct transfer stations and would provide funding to upgrade an existing regional MRF. He added when staff had preliminary conversations with Phoenix, the anticipated costs for both the upgrades and the transfer stations were estimated around \$25 million. He summarized the advantages, stating this would create a long-term regional partnership and would reduce the amount of capital needed by taking advantage of existing facilities and decreasing risk because of the lower capital investment. (See Pages 16 and 17 of Attachment 2)

In response to a question from Mayor Giles regarding interest in a regional partnership, Mr. Bouchie explained Chandler and Queen Creek do not provide their own solid waste service; that Chandler is contracted with WM, and WM collects material but delivers to United Fibers, which is located in Chandler. He remarked that Queen Creek recently signed a contract with Right Away Disposal (RAD), which is a private company that owns a MRF but does not have the capacity for additional material from Mesa or other Valley cities. He added that Gilbert is in a similar situation as Mesa and that they would be interested in a full-sized MRF or an additional transfer station which would get full use by both communities.

In response to a question from Councilmember Duff, Mr. Bouchie indicated staff has had conversations with the Town of Gilbert and they are open to a regional partnership. He clarified that staff is looking for direction from Council before pursuing the details of a regional partnership.

Mr. Brady reiterated that staff wanted to share the future of recycling, where the City is today, and the different options to consider. He requested direction from Council and stressed that regional solutions will need to be vetted and staff can meet with other cities and return to Council at a later date with a formal agreement.

Councilmember Luna expressed support for a regional partnership and sharing costs with a neighboring community.

Councilmember Thompson commented that he has concerns about building a MRF; however, likes the idea of a regional partnership. He stated there are at least two transfer stations in District

6 for WM and Republic Services, and there is an enormous amount of garbage that flies out of trucks on the way to the stations, with trash lining the road on Pecos Road east of Ellsworth. He remarked that the true costs of a MRF need to be considered since employees would be needed to operate the facility, as well as long-term costs to keep the facility up and running. He reported that he has heard from constituents that recycling is important, and they have indicated a willingness to pay extra for recycling.

Mr. Bouchie responded by saying the City of Phoenix contracts out for operations of their MRF and the estimate provided in the presentation includes debt service and associated operational costs based on information from other Valley cities.

In response to a question from Mayor Giles regarding resuming the recycling program with the current fee schedule, Mr. Bouchie explained under the current fee schedule there is approximately \$1 million to pay for recycling costs and tipping fees, which is about \$32.50 per ton. He stated a cost that is higher than \$32 to \$35 per ton is going to put the City overbudget. He added in conversations with United Fibers, the Town of Gilbert and the City of Chandler, the cost is approximately \$50 to \$60 per ton, and the City of Mesa does not have the rate structure to support that cost.

In response to a question from Mr. Brady, Mr. Bouchie explained there is no guarantee material will be recycled. He reported the efficiency of MRFs depends on how fast the material is processed, that there can be 20-30% of material going into the facility that does not come back out simply because of inefficiencies within the operation. He clarified the faster the facility is running, the more money that can be made from tipping fees, and the sacrifice is the amount of material that is sent off for recycling.

Mr. Brady pointed out the vendors are going to charge the City \$60 per ton with no guarantee where the material is actually going. He stated if the facility is not able to process the material, they take it to the landfill and the material ends up in the same place where the City could have paid \$24 to \$25 per ton.

In response to a question from Councilmember Thompson regarding education to reduce the amount going to the landfill, Mr. Bouchie explained a key component to any recycling program moving forward is having the cleanest material possible. He stated when talking to residents, Council and staff can stress a viable program starts with only placing materials in the blue barrels that are intended for the blue barrels. He stressed the City recycling slogan, "When in doubt, keep it out." He commented the City's contamination rate varies from 10-15% and based on national standards a 10% contamination rate is considered very good. He reported the City of Scottsdale conducted an audit of the Republic Services' MRF prior to the fire, and the amount of material that was being landfilled versus recycled was in the 20-30% range, so if the material being delivered has a 10% contamination rate but 20% is going to the landfill, those are inefficiencies within the system.

In response to questions from Councilmember Duff related to the short-term solutions capacity, Mr. Bouchie stated United Fibers has a 6,000-ton limit and then there are some limitations based on the distance staff will be able to drive to deliver that material in an efficient manner. He added if the City collects 32,000 tons annually with the blue barrel program, this contract could not handle all of that material. He clarified the City's contract with Republic Services has a 12,000-ton minimum and they have indicated they would accept over that minimum.

In response to additional comments from Councilmember Duff regarding educating residents to clean up their recyclables, Mr. Bouchie replied if the green and blue barrels start to be separated, the green barrel material can go to the current vendor; and a portion of that material, if it's clean, can go to United Fibers. He reported that staff will return to Council in six months with updates on the program and contracts.

In response to a question from Councilmember Heredia, Mr. Bouchie remarked from a transportation standpoint staff would not be direct delivering with City vehicles. He stated the City would need to construct transfer stations, then those stations would place the material into larger vehicles that can handle more tonnage and deliver to the City of Phoenix location. He explained staff has explored contracts in other cities that have transfer stations to see if that is something Mesa can utilize.

In response to a question from Mayor Giles, Mr. Bouchie clarified staff is proposing to go back to the blue and green barrel programs as soon as October 26. He verified in November and December staff would begin educating residents regarding what materials belong in each of the barrels, conducting a public outreach campaign, and inspecting barrel contents. He added in January 2021 the enforcement program will go into full effect and if the inspections find trash in the blue or green barrels, the barrel will be removed or tagged and not serviced.

In response to a question from Vice Mayor Freeman, Mr. Bouchie explained while it is possible to put a cardboard drop-off at the Household Hazardous Waste facility, there are concerns about the number of people going through there but also because in the past it has been utilized by people that are not City of Mesa solid waste customers.

Mayor Giles commented that it is the consensus of Council to move forward with staff's recommendations and thanked Mr. Bouchie for the presentation.

3. Acknowledge receipt of minutes of various boards and committees.

3-a. Audit, Finance and Enterprise Committee meeting held on September 10, 2020.

3-b. Parks and Recreation Advisory Board meeting held on July 9, 2020.

It was moved by Councilmember Luna, seconded by Councilmember Thompson, that receipt of the above-listed minutes be acknowledged.

Upon tabulation of votes, it showed:

AYES – Giles-Freeman-Duff-Heredia-Luna-Thompson-Whittaker

NAYS – None

Carried unanimously.

4. Current events summary including meetings and conferences attended.

Vice Mayor Freeman –

Mesa Historical Museum reopening
Flu vaccines/COVID testing at Hughes Elementary
Shared Use Path Community Meeting
Mesa Police Department Community Review Session
Chamber of Commerce Government Affairs meeting

Councilmember Thompson –

Community Leaders of America
Eastmark Community Discussion

Councilmember Luna –

Economic Development Advisory Board
Maricopa Association of Government Economic
Development Committee
National League of Cities HELO meeting
Boeing Company flight operations update
Chicanos Por La Causa – 51st Anniversary
Marsh Aviation Tour
Boeing Arizona District virtual briefing

Councilmember Duff –

Historic Preservation Board meeting
Paz de Cristo More than a Meal event
National League of Cities Youth, Education, and
Families 20th Anniversary Celebration
Visit Mesa Board Strategic Plan Ratification
Mesa Police Department Community Review
Session

Mayor Giles –

Paz de Cristo More than a Meal event

Mayor Giles expressed condolences to Councilmember Thompson on the passing of his mother.

4. Scheduling of meetings.

City Manager Christopher Brady stated that the schedule of meetings is as follows:

Monday, October 19, 2020, 5:15 p.m. – Study Session

Monday, October 19, 2020, 5:45 p.m. – Regular Council meeting

5. Adjournment.

Without objection, the Study Session adjourned at 9:21 a.m.

JOHN GILES, MAYOR

ATTEST:

DEE ANN MICKELSEN, 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 15th day of October 2020. I further certify that the meeting was duly called and held and that a quorum was present.

DEE ANN MICKELSEN, CITY CLERK

jd/dm
(Attachments – 2)



2020 Bond Program

October 15, 2020

Ryan Wimmer, Treasurer

Bond Funding - Capital Improvement Program

- Capital projects approved in budget through annual capital improvement program (CIP) update
- Funding source for most CIP projects is bond financing

City of Mesa Bond Program

City financing team:

- Internal Staff
- Financial Advisor (Hilltop Securities: Larry Given, Janelle Gold)
- Bond Counsel (Sherman Howard, LLC: Zach Sakas)

Annually, City financing team:

- evaluates need to issue (sell) bonds
- **issues bonds** to finance budgeted capital projects
- looks for savings opportunities to **refund (refinance) existing bonds** at lower interest rate over same timeframe
- uses available cash to **defease existing debt** (pay off early)
- retires, or pays off, bonds that mature (come due)

Municipal Bonds

Bond – financial instrument representing loan made by investor to borrower

- Most common method for cities to finance infrastructure
- Infrastructure paid for while in use (intergenerational equity)

How bonds work

1. City borrows money by selling bonds to investors
2. Bond proceeds used to construct City infrastructure
3. City pays bond principal and interest to investors

Debt Service

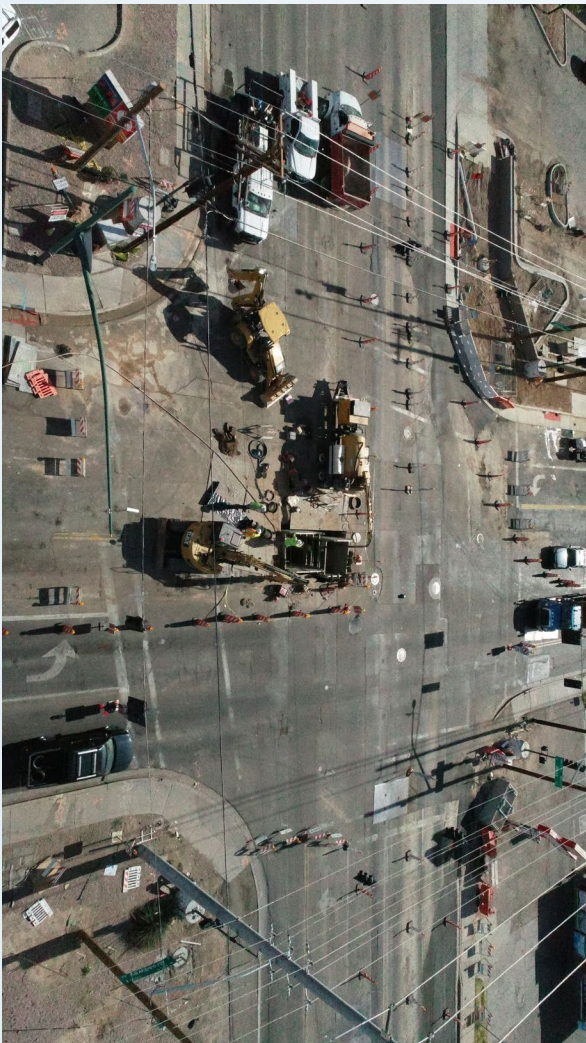
Principal and interest payments on bonds

- City pays debt service for life of bonds (20-25 years)
- Structure of new debt service coordinated with existing debt service to maintain stable payments from year to year
- City's financial forecast includes debt service for both existing and anticipated future debt issuances

2020 Issuance Delay

- City typically issues each year in Spring
- 2020 issuances initially planned for Apr/May
- Pandemic in Feb/Mar resulted in unfavorable market conditions
- 2020 issuances deferred to current timeframe (Nov/Dec)
- 2021 issuances still planned for Apr/May 2021

2020 General Obligation Bond Project Examples



Fire Station 221- Eastmark
Library Improvements
Mesa Drive Street Improvements
North Center Street Athletic Fields
Northeast Public Safety Facility



2020 General Obligation Bond Sale

Planned Issuance: \$22,075,000

Purpose	Authorization Year	Available Authorization	Proposed Sale Series 2020	Remaining Authorization
Streets	2013	\$ 20,265,000	\$ 10,035,000	\$ 10,230,000
Library	2018	\$ 19,700,000	\$ 1,005,000	\$ 18,695,000
Parks and Culture	2018	\$ 83,240,000	\$ 3,010,000	\$ 80,230,000
Public Safety	2018	\$ 74,955,000	\$ 8,025,000	\$ 66,930,000
Total		\$ 198,160,000	\$ 22,075,000	\$ 176,085,000

General Obligation (GO) Bonds

- Secured by full faith and credit of City (property tax)
- Paid for primarily from secondary property tax revenue
- Projects submitted to voters most recently in 2018

Issuance Process:

1. City negotiates with underwriter (bank) to purchase entire bond offering
2. Underwriter sells City bonds to investors

2020 Utility Systems Revenue Bond Project Examples



Electric Substation Improvements
Gas System Infrastructure Replacements
Greenfield Water Reclamation Plant Expansion
Water System Main Rehabilitation/Replacement

2020 Utility Systems Revenue Bond Sale

Planned Issuance: \$70,065,000

Purpose	Authorization Year	Available Authorization	Proposed Sale Series 2020	Remaining Authorization
Electric	2014	\$ 17,280,000	\$ 13,190,000	\$ 4,090,000
Natural Gas	2014	\$ 49,735,000	\$ 16,485,000	\$ 33,250,000
Wastewater	2014	\$ 80,562,788	\$ 36,265,000	\$ 44,297,788
Water	2014	\$ 53,150,402	\$ 4,125,000	\$ 49,025,402
Total		\$ 200,728,190	\$ 70,065,000	\$ 130,663,190

Utility Systems Revenue Bonds

- To finance utility systems infrastructure
- Secured by utility systems revenue
- Paid for primarily from utility systems revenue
- Projects submitted to voters most recently in 2014

Issuance Process:

1. City negotiates with underwriter (bank) to purchase entire bond offering
2. Underwriter sells City bonds to investors

Bond Program Savings

City Finance team manages debt

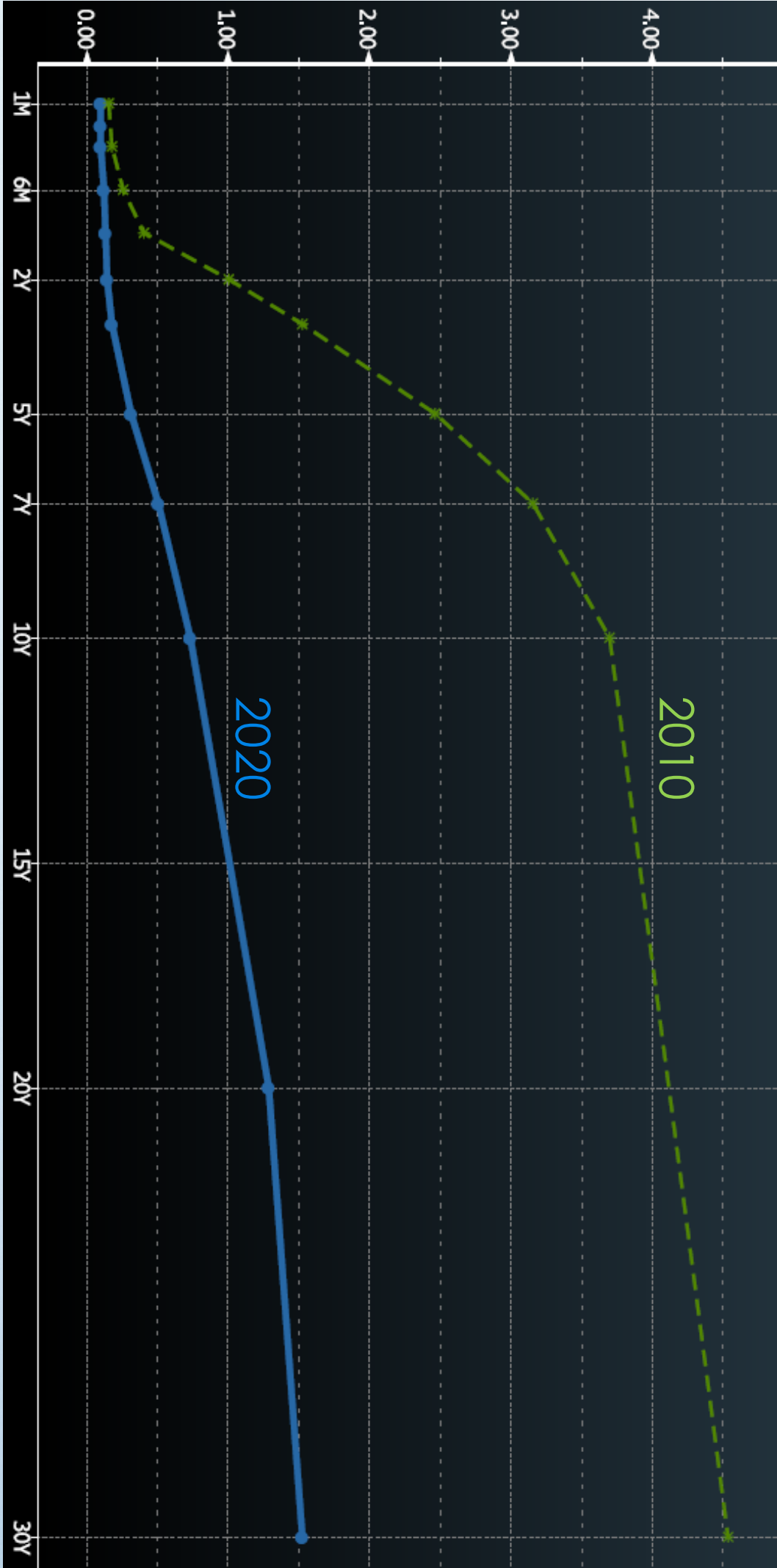
- identify opportunities to reduce financing costs
- maximize financing opportunities

Financing cost savings = more funding available for projects

Annually, City finance team:

- looks for savings opportunities to **refund (refinance) existing bonds** at lower interest rate over same timeframe
- uses available cash to **defease existing debt** (pay off early)

Interest Rates: U.S. Treasuries 2010 vs 2020



2020 Bond Program Savings

General Obligation Bonds

Refunding

Estimated* Interest Savings: **\$5 million** (present value)

Utility Systems Revenue Bonds

Defeasance (*impact fee cash used to pay \$15M principal early - completed July*)

Actual Interest Savings: **\$2 million** (present value)

Refunding

Estimated* Interest Savings: **\$10 million** (present value)

TOTAL ESTIMATED* INTEREST SAVINGS: **\$5M + \$2M + \$10M = \$17M** (present value)

*Conservative estimate based on current interest rates. Actual savings will be based on market conditions when priced.

Estimated Timeline for 2020 Bond Transactions (may be adjusted due to market conditions)

Oct 19

Council considers authorization of:

- General obligation bond issuance
- General obligation bond refunding
- Utility revenue bond issuance
- Utility revenue bond refunding

Nov 10-19

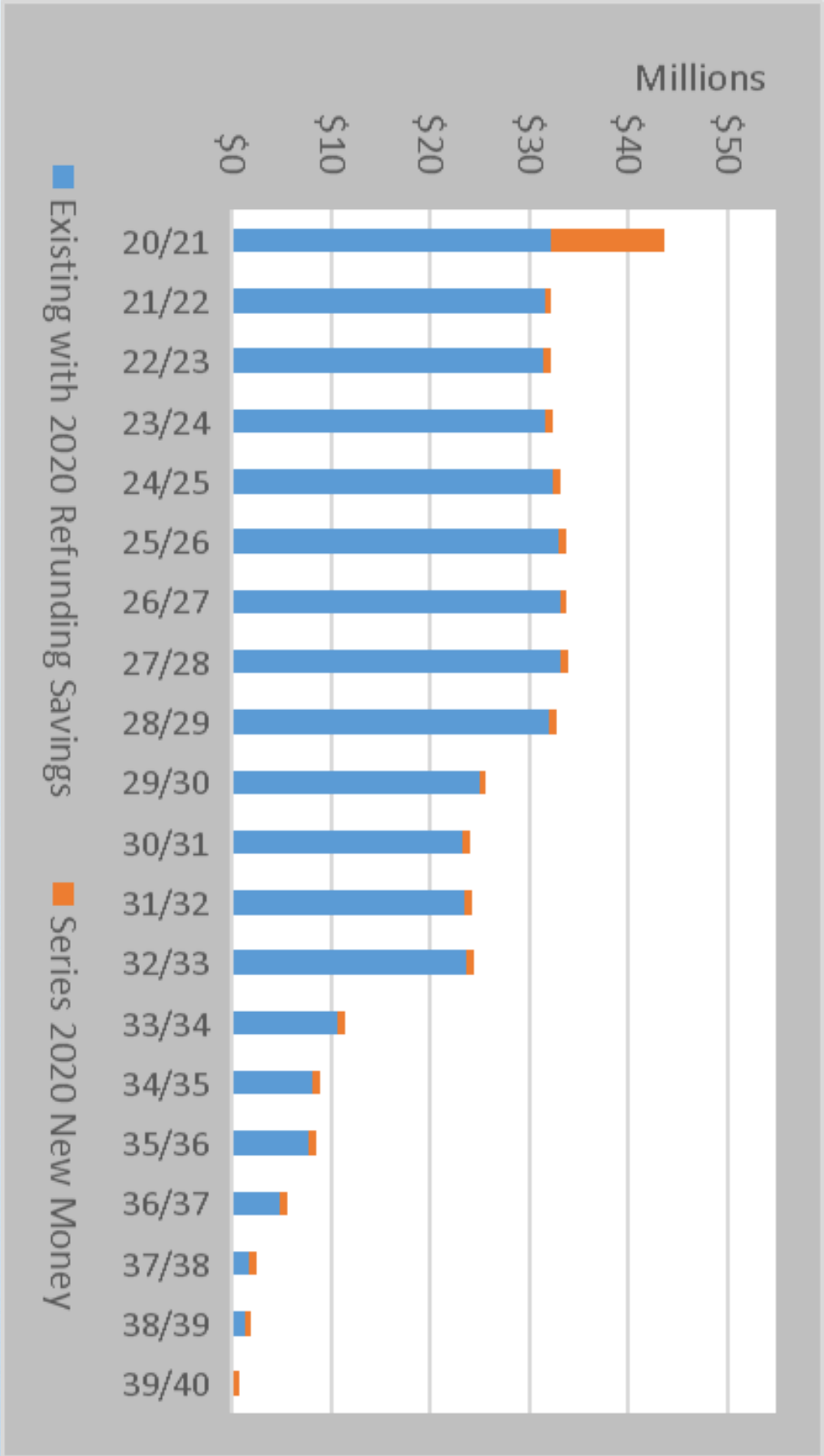
Issuances are priced

Dec 10

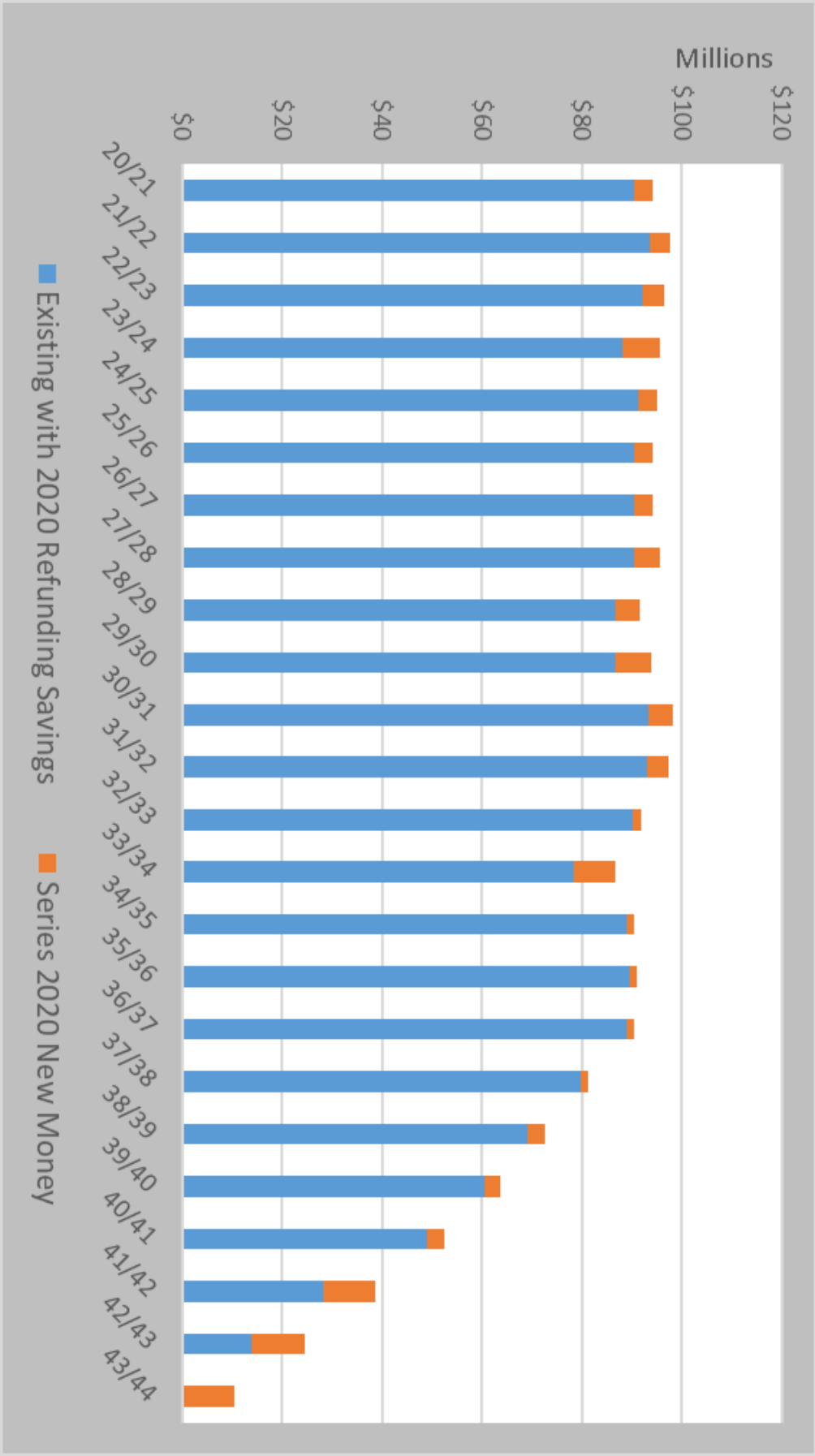
All issuances close and proceeds are received



General Obligation Bond Debt Service



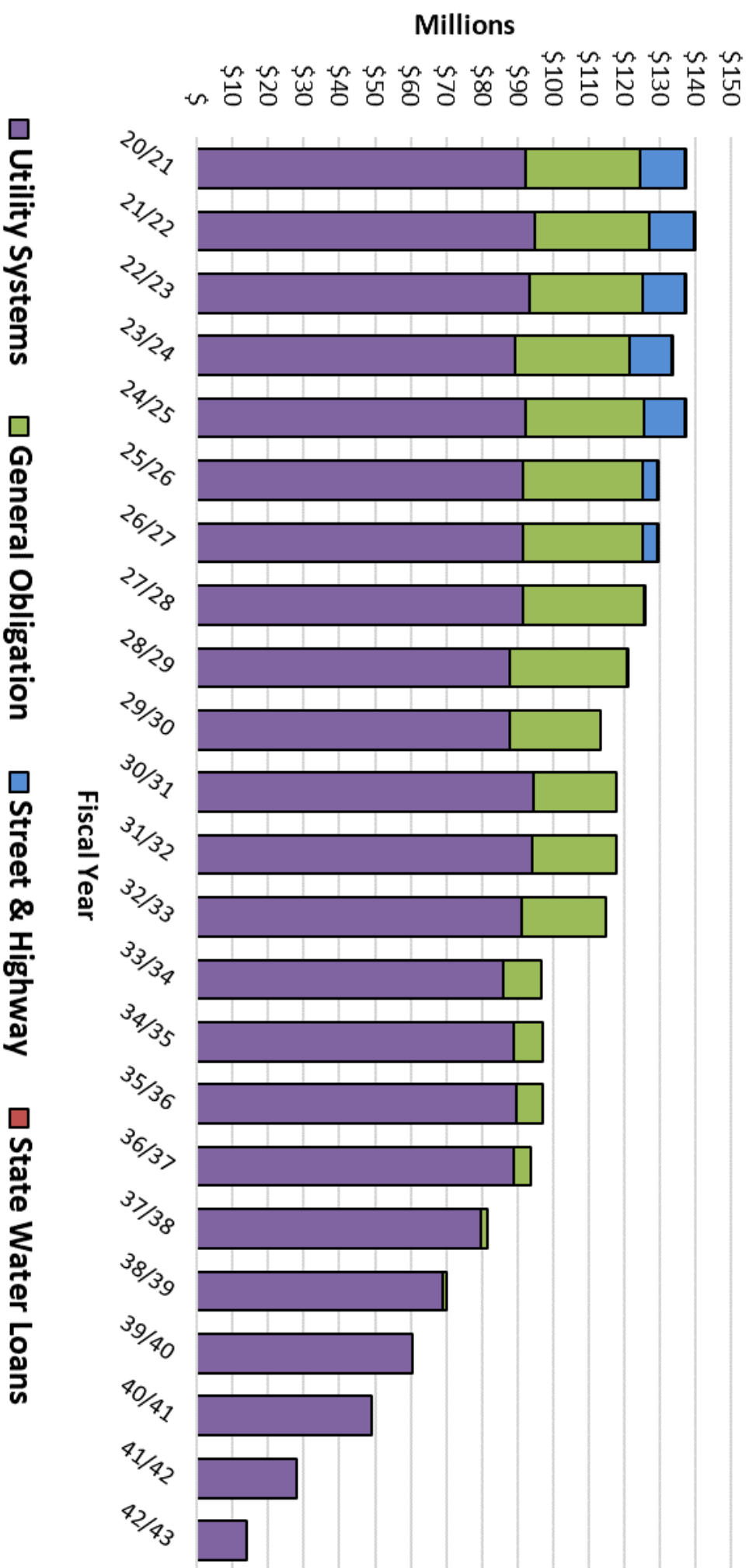
Utility Systems Revenue Debt Service

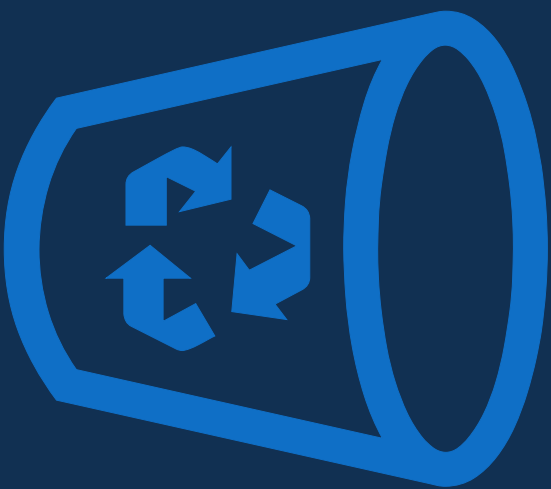


Existing City Debt (as of 8/1/20)

Debt Type	Principal (\$ millions)
Utility Systems Revenue Bonds	\$1,228
General Obligation Bonds	335
HURF (Street & Highway) Bonds	59
State Water Loans	1

Outstanding Debt Service As of: August 1, 2020





Recycling Update

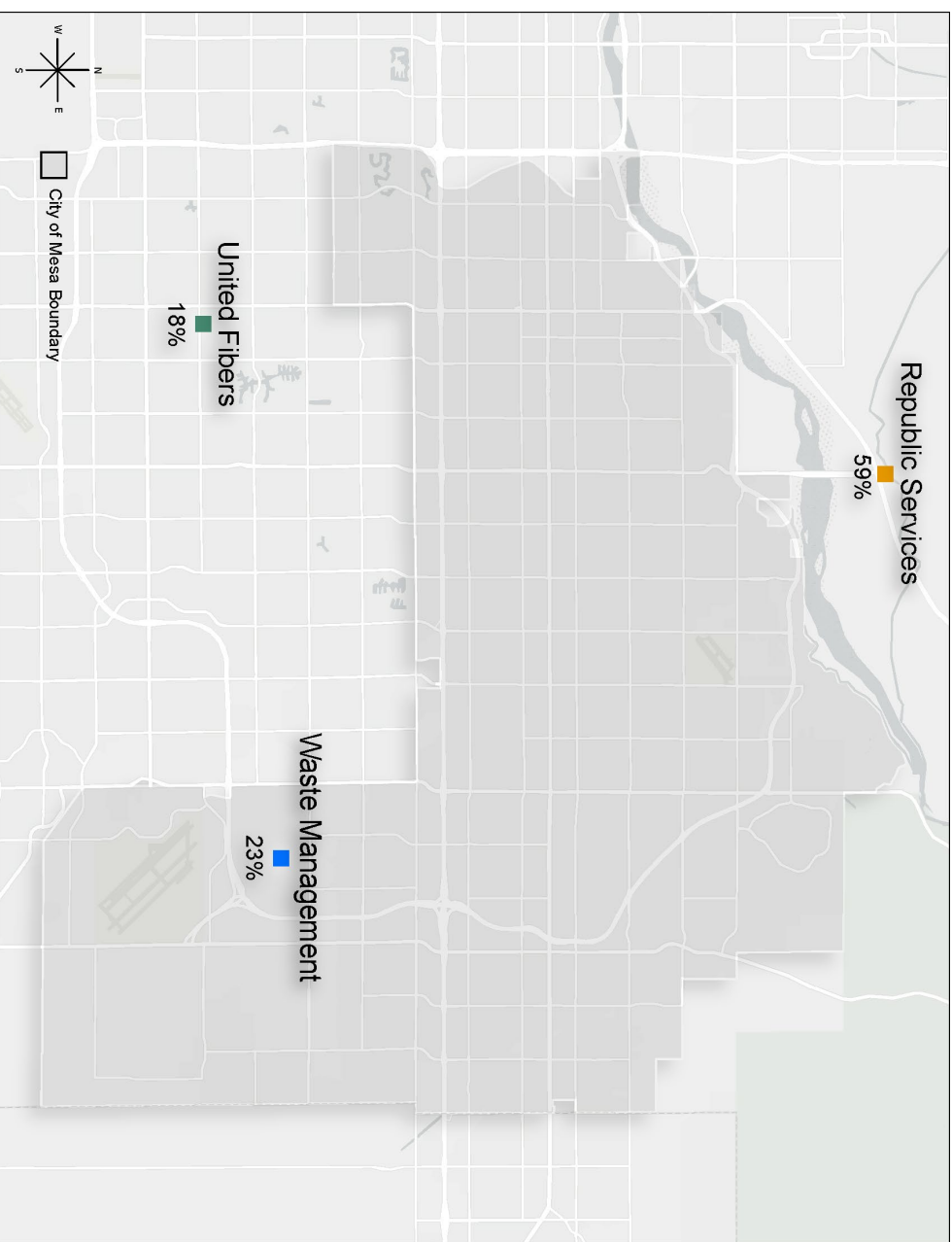
Scott Bouchie

Environmental Management &
Sustainability Director

October 15, 2020

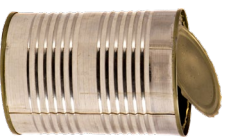
Timeline September 2019

- Renewed two contracts with Materials Recovery Facilities (MRFs)
- Cost of recycling was increasing
- Had 3 separate contracts to handle all the recyclable materials



September 2019

- Optimized Recycling
 - Most Cost-efficient Routes Recycled
- Increased Enforcement
 - Major/Minor Contamination
- Rebranded Recycling Program
 - Beverage bottles, jugs, and cans; food cans; cardboard; and paper
- Recycling Drop-off Center Closures

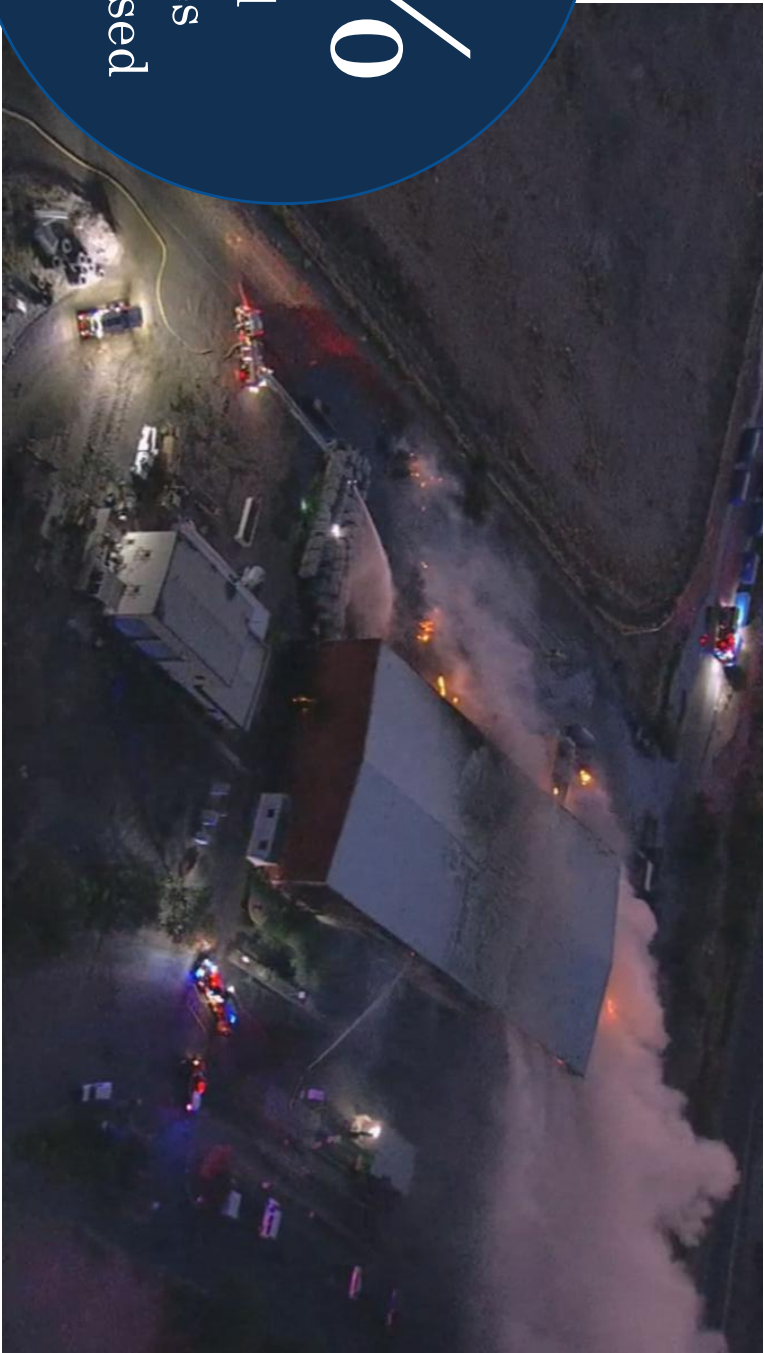


October 2019

Republic Services

Fire at East Valley landfill facility
disrupts cities' recycling programs

BY KEVIN STONE | OCTOBER 25, 2019 AT 4:30 PM
UPDATED: OCTOBER 28, 2019 AT 5:30 PM



60%

of annual
recyclables
were processed
here

November 2019

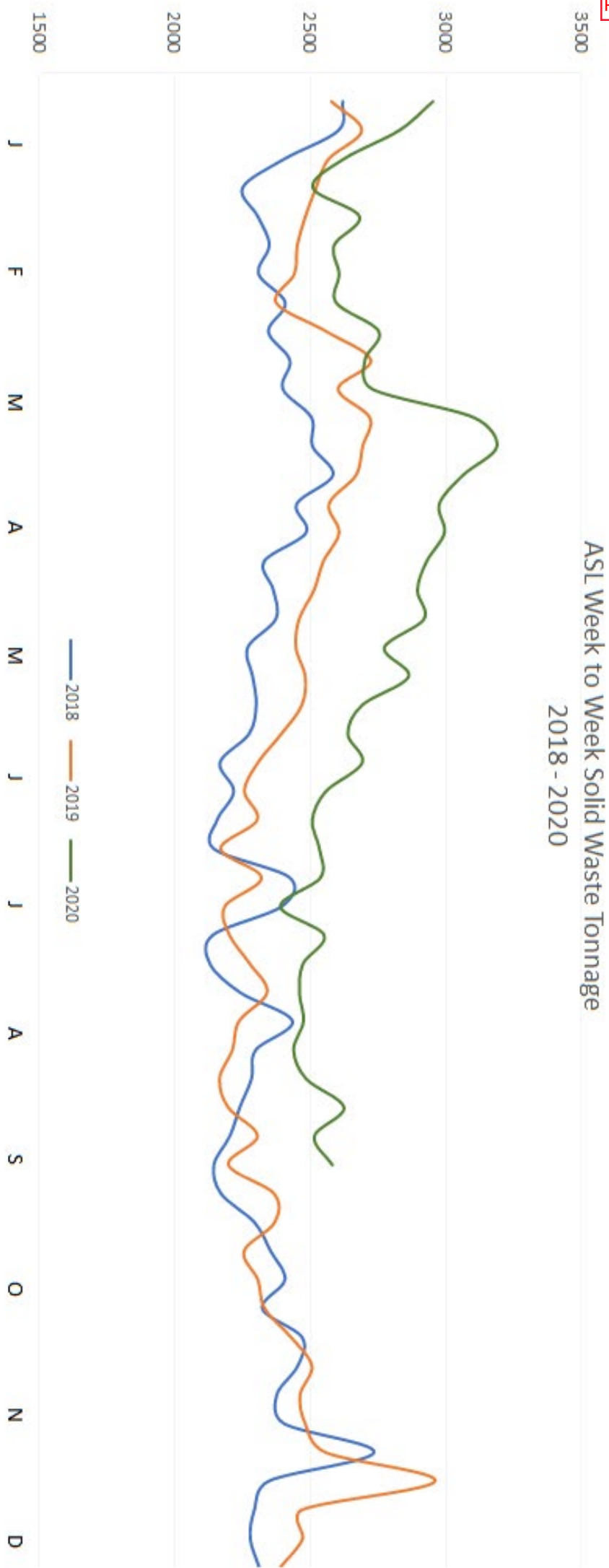
Waste Management Submits Termination Notice

- WM insisted on a contract change for recycling
 - Increase in processing fee from \$63 to \$132
 - Increase contamination fee from \$29 to \$40
 - Decrease revenue share from 60% to 50%
- “...reserves the right at its sole discretion, upon 60 days’ notice, to City to discontinue acceptance of any category of Recyclables....”
- “...makes no representations as to the recyclability of the materials which are subject to this Agreement...”
- “...reserves the right to increase [the “Charges”] payable by City or reduce the rebate to City during the term.....to cover any increases in disposal, processing, recycling, storage and/or third-party transportation or any other transportation costs...”

March 2020

Compounding Operational Factors

- COVID-19
- Waste Management Would Not Delay Contract Termination
- Solid Waste Tonnage Increase
- Staffing Concerns & Availability
- Budget Uncertainty



Short Term Solutions

- United Fibers
 - 1-year extension of existing contract \$85/ton, 55% revenue share, 6,000 annual tons
 - Current cost \$50-60/ton
- Republic Services
 - Anticipate rebuilding facility at Salt River (Q3, 2021)
 - Will honor current contract
 - 12K tons, \$86/ton, 60% revenue share

Short Term Solutions

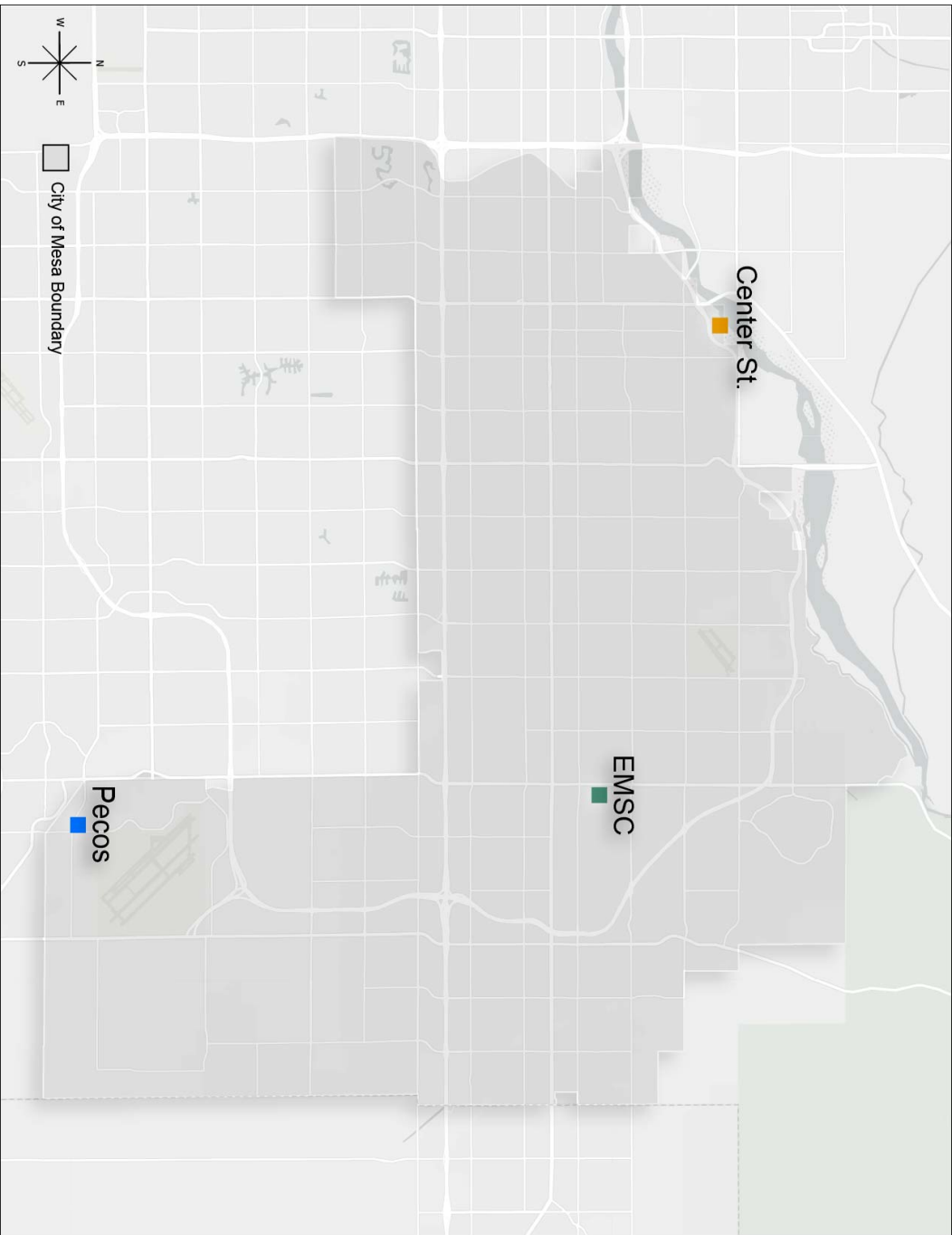
- Resumed barrel inspections without enforcement
 - **Green Barrels**
 - 88% clean, 3% require education, 9% meet removal threshold
 - **Blue Barrels**
 - 30% clean, 56% require education, 14% meet removal threshold
- Ready to spilt blue and green barrel collection
 - Green barrel material will go to our current vendors
 - Bring blue material to UF and Republic (when they open)
- Will need to reinstate enforcement

Long Term Solutions

- ASU Recycling Evaluation
 - Four Options (or mixture)
 - Phased Approach

Option 1	Business As Usual
Option 2	Full Size MRF
Option 3	Regional Partnership
Option 4	Mini-MRFs

Three Locations



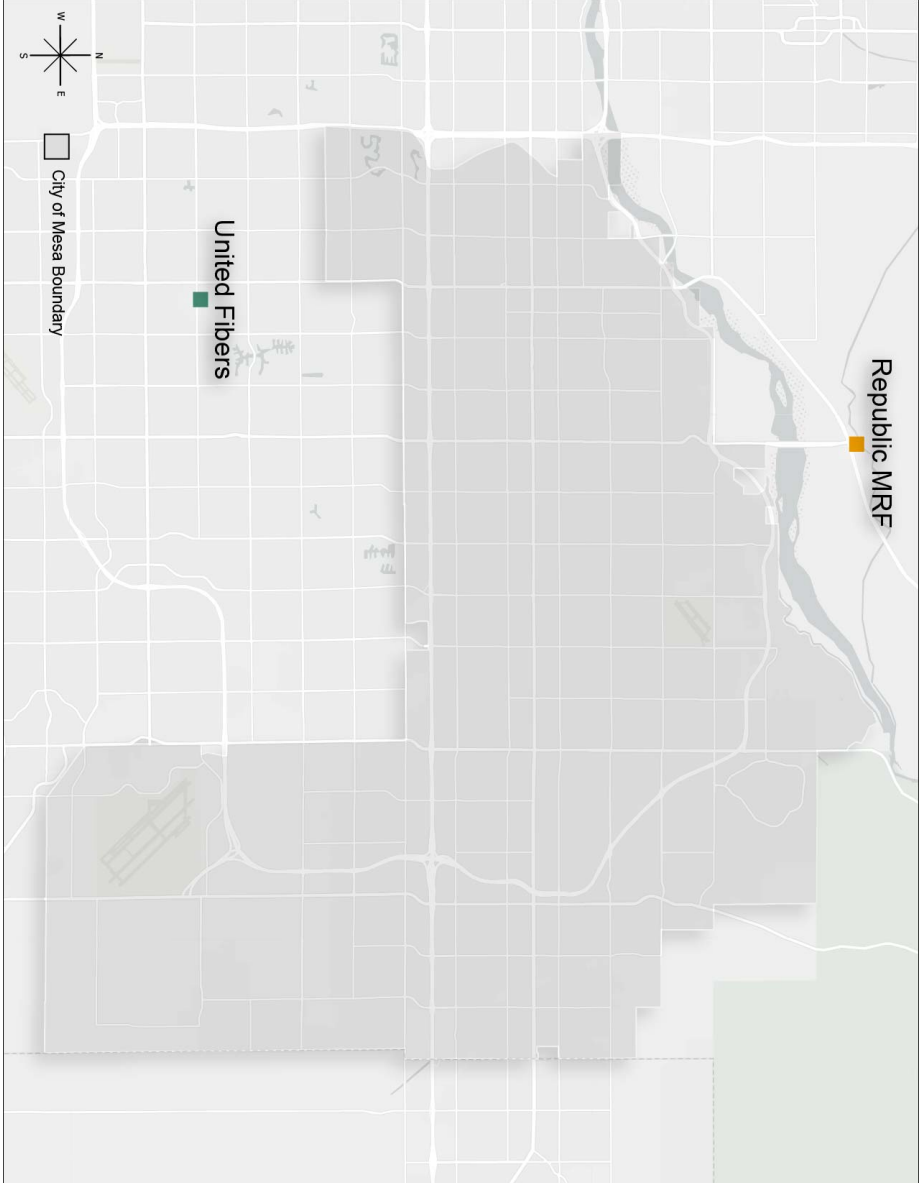
Business as Usual

Processing Cost:

\$50-70/ton

Timeline:

Two contracts through 2022



Business as Usual

Continue to contract with private recyclers and use their infrastructure for transferring and processing materials

- Pros
 - No capital or labor needed

- Cons
 - Do not control pricing, marketing of materials, little assurance all materials are being recycled
 - Competition amongst private companies does not appear to drive cost savings
 - When one vendor ask for price increase, other vendors expect price increase
 - Do not own any post collection facilities
 - Dependent on others for solid waste and recycling
- Risk

Full Size Materials Recovery Facility (MRF)

City of Mesa Would Construct MRF

- Capital Cost - \$30-38M
- Tonnage – 30-60K tons
- Processing cost = \$60-160/ton (lower cost dependent on additional tonnage from outside of Mesa)
- Timeline – 4-6 years

Full Size Materials Recovery Facility (MRF)

- Pros
 - Would own facility that can accept all City of Mesa recyclables
 - Potential to accept materials from other cities
 - More control over cost, marketing and where materials go
- Cons
 - Large capital investment (\$30-38M)
 - Need for transfer station
 - Transfer cost
 - Risk
 - Market fluctuations

Regional Partnership

City of Mesa would construct transfer stations and provide funding to upgrade existing regional MRF

- Capital Cost – \$20-25M
- Tonnage – 32K
- Processing cost - \$35-65/ton
- Timeline – 2-3 years

Regional Partnership

- Pros
 - Creates long term regional partnership
 - Reduces the amount of capital needed
 - Less risk because of less capital investment
- Cons
 - Less control but working with neighboring community
 - Need for transfer stations
 - Transfer cost
 - Risk

Mini MRF

Construct mini MRF capable of processing 10-20K tons of recyclables annually

- Map of Pecos and Sossaman (transfer)
- Capital Cost - \$15-20M/facility
- Tonnage – 10-12K/facility (can run multiple shifts)
- Processing Cost = \$70-100/ton
- Timeline – 2-4 years

Mini MRF

- Pros
 - Would own facility that can accept a portion (30-40%) City of Mesa recyclables
 - No need for transfer of recyclables
 - More control over cost, marketing and where materials go
 - Closed Loop Fund will fund at 0% interest the equipment
- Cons
 - Significant capital investment
 - Risk – Market fluctuations

Recommendation

- Split blue and green routes beginning Monday, Oct. 26th
- Continue to evaluate the options
- Come back to Council in April with update on progress

Questions?