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OFFICE OF THE CITY CLERK

COUNCIL MINUTES

February 16, 2017

The City Council of the City of Mesa met in a Study Session in the lower level meeting room of the Council Chambers, 57 East 1st Street, on February 16, 2017 at 7:30 a.m.

COUNCIL PRESENT	COUNCIL ABSENT	OFFICERS PRESENT
John Giles	None	Christopher Brady
Mark Freeman		Dee Ann Mickelsen
Christopher Glover		Jim Smith
David Luna		
Kevin Thompson		
Jeremy Whittaker		
Ryan Winkle		

1-a. Hear a presentation, discuss and provide direction on: two low-income housing proposals, New Frontier Senior Living and Main Street & Horne Redevelopment (HOME funds and Low Income Housing Tax Credit requests); preliminary allocation of up to $500K of FY 2017/18 HOME funds to Mesa Artspace Lofts.

Housing and Community Development Director Liz Morales introduced Community Revitalization Coordinator Rachelni Marna and displayed a PowerPoint presentation **(See Attachment 1)** related to HOME funding and the low-income housing tax credit program.

Ms. Morales stated that staff seeks Council direction related to these funding sources. She stated that the HOME Investment Program provides approximately $1 million to the City of Mesa from the Department of U.S. Housing and Urban Development (HUD). She explained that HOME funds are used to expand affordable housing and home ownership programs, provides the critical GAP financing for rental development, and supports and strengthens the public-private partnerships. She noted that federal funds are leveraged with private investments, which provides a great economic impact to the City of Mesa. (See Pages 2 and 3 of Attachment 1)

Ms. Morales indicated that staff requests Council direction on the following:

- Letters of support/non support to Arizona Department of Housing (ADOH) for the proposed affordable housing developments in Mesa (New Frontier Senior Living and Main Street & Horne Redevelopment)
- Preliminary approval to allocate $500,000 of HOME funds (that was set aside for rental development) to Mesa Artspace Lofts
- Direction to complete due diligence and amendments needed for Mesa Artspace Lofts project and return to Council in late March 2017 for final review and action

Ms. Morales provided a brief synopsis of the history and purpose of the Low-Income Housing Tax Credit (LIHTC) program. (See Page 4 of Attachment 1) She noted that LIHTC projects typically serve families that meet between 40-60% of the area median household income. She explained that part of the competitive process of the project is for ADOH to request a letter of support from municipalities, however, such request is not dependent on whether applicants receive funding.

Ms. Morales reviewed the timeline for the HOME funding process in order to meet the State's March 1st deadline for LIHTC applications. (See Page 5 of Attachment 1)

Ms. Morales indicated that three proposed projects are requesting HOME funding. She stated that Mesa's open application process resulted in two new applicants, New Frontier Senior Living and Main Street & Horne Redevelopment. She clarified that the third project, Mesa Artspace Lofts went through the FY 16/17 competition process and applied for HOME funding and LIHTC, which they were awarded. She explained that the HOME funding application process requires significant underwriting and review by City staff. She clarified that if is determined that the project needs GAP assistance,which is the case with Mesa Artspace Lofts, then the City has the right to award additional funding to ensure that the project is viable.

Ms. Morales highlighted the following information related to 'A New Frontier Senior Living' development:

- The developer is Yes Housing, Inc.
- The site address is 2220 W. Ella Street, Mesa, AZ 85201
- The project proposes 60 independent senior housing units with a community garden, and intends to serve households of 40% to 60% of the average median income
- The applicant requested $500,000 of HOME funding and the project has been scored by the Housing Advisory Board

Ms. Morales provided the following facts related to the Main Street & Horne Redevelopment project:

- The developer is Gorman & Company, Inc.
- The site address is 815-827 E. Main Street, Mesa, AZ 85204
- The project consists of 64 units for households of 40% to 60% of average median income
- The rents will range from $650/month for 1BR/1BA up to $1,050/month for 3BR/2BA
- The applicant requested $500,000 from HOME funding and the project has been scored by the Housing Advisory Board
- Veteran preference was provided with the application

Ms. Morales recalled that in 2016, Mesa Artspace Lofts received $500,000 from FY 16/17 HOME funds, as well as the LIHTC tax credits. She stated that the project located at 155 S. Hibbert in Downtown Mesa will provide 50 live/work units for artists and veteran artists and their families, serving households of 40% to 60% of the average median income. (See Page 9 of Attachment 1)

Ms. Morales added that the Council approved the Mesa Artspace Development and Real Estate Agreements and amendments, to ensure that the development occurs if new HOME funds are granted. She indicated that the City has invested a lot of time on the project and approximately $14,000 in various costs, in addition to costs incurred by Mesa Artspace related to redevelopment. She informed the Council that the Housing Division of Community Services has only 24 months to spend the federal dollars from the time the funds are received, otherwise the money must be

returned to the U.S. Treasury. She clarified that since funding was allocated to Mesa Artspace last year, that if the project is not approved the Council would need to reallocate those funds quickly.

Ms. Morales noted that the allocation of HOME funds to Mesa Artspace Lofts would be preliminary due to the fact that staff would continue to complete due diligences and amendments needed for the project. She stated that staff would return to Council in late March for final review and approval.

Mayor Giles thanked staff for the presentation.

In response to a question from Coucilmember Luna, Ms. Morales replied that the competition for applicants is point-based from ADOH. She explained that a letter of support is a requirement from the state to show that the jurisdiction approves, but does not have any weight related to points.

Ms. Morales responded to a concern voiced by Mayor Giles by clarifiying that a letter of non-support from the City will not terminate a project, but will initiate questions from the State.

In response to a question from Coucilmember Freeman, Ms. Morales indicated that the median income threshold varies by family size and is $51,200 for a family of four, based on approximately $24/hour for an average worker.

In response to a few questions from Councilmember Winkle, Ms. Morales indicated that the median income levels are for Maricopa County and are set at both the state and federal level. She reported that the median income level for the City of Mesa is approximately $41,000. She recalled that staff has been working on the Mesa Artspace project for approximately three years. She explained that tax reform led Mesa Artspace to lose an equity investor, which resulted in the need for additional financing.

Councilmember Luna commented that he visited an Artspace project in Harlem and Seattle and witnessed the great things they do in the community. He said that he supports the project and inquired if a representative of Mesa Artspace was present to confirm that if granted the $500,000, would the project be completed in a timely manner.

Senior Vice-President of Real Estate Development and Project Manager for Artspace Heidi Zimmer introduced Vice-President of Finance Steve Stanley. She explained that as of December, the project was fully funded and expected to be completed; however, tax reform changed the investor market for tax credits and the investor backed out of the deal. She stated that another investor stepped in at a competitive price, but with a $ 0.07 difference that results in a gap of $850,000.

Ms. Zimmer reported that Artspace has worked diligently to ensure that the project continues in a timely manner and intends to close no later than the end of June. She explained that the timing is important due to the fact that the HOME funds must be expended, and the investor pricing expires in June. She clarified that ADOH requires that 10% of construction costs must be expended by the end of June, otherwise all tax credits are lost. She emphasized that they intend to see the project through and thanked Council for their consideration.

In response to questions from Councilmember Whittaker, Ms. Zimmer confirmed that her company has 45 projects in operation and has never lost tax credits due to a time lapse. She explained that for two years Artspace applied for HOME funds but had not received tax credits yet, so they had to pause while other projects advanced. She said that now Artspace has the tax

credit allocation, the letters of support would be helpful in advancing the project. She added that hopefully Mesa will receive more funds for the following year that can be given to others who may not be as ready at this time.

Councilmember Whittaker asked for further information related to the potential forfeiture of HOME funds not spent within 24 months and the resulting consequences.

Ms. Morales explained that the HUD requirement is that we close on the HOME funds contract, which demonstrates that funds are committed within 24 months. She stated that once staff is certain that the project will move forward and financing is in place, then the contract will be completed, which she estimates to be the end of April. She noted that if the FY 16/17 HOME funds are unspent, they would become available to another project, but would not be in time for the March 1st points allocation necessary for the local jurisdiction support.

In response to a question from Councilmember Whittaker related to any Artspace projects applying for funds in subsequent years, Mr. Stanley indicated that since the crash in 2008, this is the first time pricing has fallen. He confirmed that his team is proactive and have the due diligence closing list ready to submit if approved by Council. He reported that in 2008, they did receive some funds (not HOME funds) thanks to the new 1603 Program that was enacted to fund gaps.

Ms. Zimmer added that Artspace did have a few projects receive HOME funds in multiple-year cycles that was unanticipated, but not due to this same issue. She explained the situation that another funding source failed to come through on a project that was shovel ready, and the City was able to allocate additional unused funds that were available.

Ms. Morales added that some projects are determined to need less money than expected and staff is able to make adjustments to assist other projects. She clarified that the $500,000 is approximately half of the HUD allocation and stated that other activities are supported with the funds (i.e., home ownership, owner development, and tenant-based rental assistance).

In response to a question from Councilmember Winkle related to the possible allocation of Community Development Block Grant (CDBG) funds, Ms. Morales explained that CDBG funds can only be used for acquisition and not for construction.

Tyler Montague, a Mesa resident, opposed the location of both the Main Street & Horne Development and A New Frontier Senior Living. He voiced the opinion that the projects do not support the City's general vision of a healthy neighborhood with integration of the various levels of socio-economic occupants. He stated that the area has the lowest median income in the City and suggested that it would continue to decrease if these projects were added. He requested that the Council support Artspace and said that he believes the character and nature of the project would add to the City.

In response to a question from Councilmember Whittaker related to the source used to acquire income levels, Mr. Montague offered to email that information after the meeting. He noted that he reviewed the median income for zip code 85201 and others nearby, and found the median income level to range from $38,000 to $40,000.

Jacob Brown, a Mesa resident, stated that he lives in close proximity to the Main Street & Horne project and also works closely with the neighborhood and the West Mesa Community Development Corporation (CDC), which incorporates the project location. He indicated that the Council was informed by the developer that the neighborhood supports the project, however, he

argued that is not true. He stated that the neighborhood's positive feedback of the presentation given by the Main Street & Horne project developers may have been misconstrued as support for the project. He indicated that from the CDC's Facebook group and email list, he asked people to send emails to the City Council if they are not supportive of the project.

Dea Montague, a Mesa resident, announced that he supports the Artspace project. He stated that he opposes the Main Street & Horne project and feels that it does not create a balance. He pointed out that according to Census tracts, 20% of the West Mesa area lives at poverty level. He indicated that various community meetings resulted in a majority of attendees agreeing that the multi-story building design does not fit into the area of single-family homes. He noted that many businesses have moved due to the low-income level that currently exists.

Mike Wright, a Mesa resident, stated that he was speaking on behalf of the Action Neighborhood Alliance (ANA), which is a group of 600 homeowners in the 85201 zip code area. He concurred with Mr. Montague and Mr. Brown's comments. He provided a map that illustrates the LIHTC projects concentrated in West Mesa, mostly in zip code 85201 **(See Attachment 2)** and advised that it impacts the economic development of the area. He suggested that concentrating low-income properties in one area is not economically or socially viable and stated that the ANA opposes such projects in West Mesa.

William Frost, a Mesa resident, stated that he lives near the Main Street & Horne project and is in opposition to the project for the reasons already outlined. He indicated that the median household income of the area does not promote local businesses returning to the neighborhood. He supported Mesa Artspace as a viable project.

Tim Boyle, a Mesa resident, said that he has lived in Mesa all of his life and is an architect and urban developer. He pointed out that he knows a lot about density and the New Frontier Senior Living project is a textbook example of what not to do in our community. He opposed the idea of adding a high-rise building within a block of single-family homes. He recognized that the older multiple-family residential (RM) zoning of the area has allowed the project to move through the City's planning process and recommended that Council oppose the project. He reported that he toured the Metro on Main Townhome project, which are priced at $2,000 or more, and said that it is the type of project that will draw people in and help make the light rail corridor the pride of Mesa.

Jamie Glasser, a Mesa resident, stated that she believes that low-income housing helps people with jobs and housing, which allows them to spend tax-dollars in the area. She supported Artspace and said the art studio would help increase the local arts economy in Mesa. She thanked Council for working to make Mesa great. She reported that she has visited eight Artspace projects in the U.S. and that they have proven to increase socio-economic levels, local business, and increased the local economies.

Mayor Giles reported that he met with each of the three project developers. He disagreed with the underlying opinion that LIHTC housing should be avoided and believes it to be a great thing if placed strategically.

Mayor Giles pointed out that the New Frontier Senior Living project is age restrictive and does not impact schools. He expressed the opinion that the project does not measure up to the high standards he would expect and does not support the project. He suggested that the Main Street & Horne developer has credibility in Mesa with previous projects, however, he does not support the location for a large LIHTC project. He joined the supporters of Mesa Artspace Lofts and noted

that he has been involved for three years in this process. He voiced the opinion that Artspace will be a catalyst for the future development of arts in our community.

In response to a question from Councilmember Luna, Ms. Morales confirmed that the other two projects may continue moving forward with ADOH with or without Mesa's letter of support.

In response to a question from Councilmember Whittaker, Ms. Morales clarified that the reason that Maricopa County targets the 40% to 60% average median income is that it allows families with income to have affordable housing, in order for them to have more disposable income. She stated that she did not have the Maricopa County median income numbers, but provided 80% of the low-income households determined by size as follows:

- 2-person household $41,000
- 4-person household $51,200
- 6-person household $59,400

In response to a question from Councilmember Luna, Ms. Morales reported that 40% to 60% average median income threshold for senior citizens is $22,000 to $35,000 for a 1-person household, and $25,000 to $41,000 for a 2-person household.

Councilmember Winkle thanked Mr. Frost and Mr. Brown for attending the meeting to represent the neighborhood. He reported that another member of the CDC had previously shared conflicting information with the Council. He referred to the correlation between school performance and poverty and asked Mr. Montague for his opinion on the matter.

Tyler Montague indicated that the correlation between school performance and poverty was based upon the percentage of students at elementary schools who qualify for the federal free/reduced lunch programs and their test scores. He confirmed that the data showed a 75% positive correlation, which is a strong relationship, but he did not analyze the cause. He pointed out that building new LIHTC housing does not mean that the old dilapidated housing disappears, but rather concentrates the poverty to one area. He advised that it is mathematically impossible to raise the median income by adding more people below that income level to the area.

Councilmember Winkle indicated that he walked along Ella Street and knocked on doors, and discovered that the majority of residents have never heard of the project or the West Mesa CDC. He voiced his concern that there is a disconnect in neighborhood engagement.

Councilmember Thompson felt that the developers had ample time to inform the neighbors about the projects and he does not believe that a delay is necessary. He added that he is only in support of the Mesa Artspace project.

In response to a question from Mayor Giles, Joe Ortega, representing Yes Housing Inc., explained that in the initial stages of the New Frontier Senior Living project, he met with former Councilmember Kavanaugh and Mayor Giles who provided a list of requests in order to receive City support. He stated that his company followed the advice and met with immediate neighbors, who were in favor of the development. He suggested that the threshold for obtaining community support has already been met; however, he is willing to complete additional steps if clearly defined by the Council.

Bryan Swant, representing Gorman & Company, confirmed that his company will engage with the community such as they did with their Escobedo project. He recognized that gaining 100% community support is an impossible task, but reported that his company's completed projects are

always well received and most communities request that they build additional projects. He stated that additional time would be helpful, but may not change anything.

Dea Montague stated that he is a member of the West Mesa CDC and confirmed that the Committee is not in support of the Main Street & Horne project.

Councilmember Freeman stated that he appreciates the open discussion and feels that Council has all of the necessary information to make a decision. He read a section of the January Economic Development Advisory Board meeting minutes, which provided insight from a developer as to why West Mesa is an ideal location for new businesses. He indicated that high-earning jobs with good benefit packages draws an attractive workforce that will create a demand for housing, shop local retail, and provide a long-term economic benefit. He noted that the West Mesa area is very desirable to businesses since it has a qualified workforce within close proximity.

Councilmember Freeman commented that an updated Housing Master Plan is forthcoming and there are several great projects happening in Mesa. He added that the minimum wage increase will impact businesses and suggested focusing on raising the median income level in the area. He stated that when he puts his fingerprint on a project, he wants to be certain the project is robust, dynamic and helps with economic stability in the area. He voiced his support of the Mesa Artspace project but not the other two projects.

It was moved by Councilmember Winkle, seconded by Councilmember Glover, to continue the item until further outreach can be completed on the New Frontier Senior Living and the Main Street & Horne projects and prior to the issuance of letters of support.

Upon tabulation of votes, it showed:

AYES – Luna-Glover- Winkle
NAYS – Giles-Freeman-Thompson-Whittaker

Mayor Giles declared the motion failed.

It was moved by Vice Mayor Luna, seconded by Councilmember Winkle, to preliminarily allocate $500,000 of FY 2017/18 HOME funds to Mesa Artspace Lofts, subject to due diligence and public comment.

Carried unanimously.

In response to a question from Councilmember Whittaker, Ms. Morales indicated that the HUD website states that Maricopa County's median income is $62,900.

Councilmember Whittaker pointed out that if the Main Street & Horne project is targeting 40% to 60% of the median income according to HUD, then the median income range would be approximately $31,450. He stated that according to the U.S. Census tract data, the average median income for that block is $26,544 and pointed out that providing the low-income housing would potentially raise the median income in that area by $5,000 per household.

It was moved by Councilmember Thompson, seconded by Councilmember Freeman, that the City not issue a letter of support for the Main Street & Horne Redevelopment low-income housing project at that location.

Upon tabulation of votes, it showed:

AYES – Giles -Freeman- Glover-Luna-Thompson
NAYS – Whittaker-Winkle

Mayor Giles declared the motion carried by majority vote.

It was moved by Counilmember Freeman, seconded by Councilmember Thompson, that the City not issue a letter of support for the New Frontier Senior Living project at 2220 W. Ella Street.

Upon tabulation of votes, it showed:

AYES – Giles-Freeman-Glover-Luna-Thompson
NAYS – Winkle-Whittaker

Mayor Giles declared the motion carried by majority vote.

1-b. Hear a presentation and discuss the City's economic outlook, financial forecast, and the current and FY 2017/18 budget update.

Office of Management and Budget Director Candace Cannistraro introduced Office of Management and Budget Department Deputy Director Brian Ritschel and displayed a PowerPoint presentation **(See Attachment 3)** related to the FY 2017/18 budget updates.

Ms. Cannistraro stated that her focus is financial sustainability, which means looking at the revenues and the expenses and what operational items can be sustained over time. She illustrated the general governmental operating revenues and expeditures, as previously reviewed with the Council. (See Pages 2 through 4 of Attachment 3)

Ms. Cannistraro pointed out that the line item 'Net Sources and Uses' is the main focus of the General Governmental Fund Balance Table. (See Page 5 of Attachment 3) She pointed out that the line item shows the gap between the resources the City anticipates receiving and the anticipated expenses needed to continue providing the current level of City services. She explained that gaps have occurred in the past and may be filled using reserve balances.

In response to a question from Mayor Giles related to the negative totals shown in the Net Sources and Uses line item, Ms. Cannistraro clarified that Mesa is receiving less resources than it needs to cover expenses.

City Manager Christopher Brady reported that the numbers for sales tax revenue will not be received until March and would impact the FY 16/17 budget totals. He reminded Council that this is a conservative forecast and staff has assumed a modest growth and an economic downturn over the next few years. He indicated that the increase in expenditures from FY 16/17 to FY 17/18 is projected to make a dramatic change in the net income. He stated that City departments were asked to identify improvements and efficiencies to next year's budget by 5%. He highlighted the average Reserve Fund balance and advised that Council policy states that a minimum of 8-10% would be maintained. He pointed out that the City would need to be aggressive in the next 2-3 years in order to replenish that reserve balance.

Mayor Giles reminded everyone that Mesa has been operating with a higher Reserve Fund balance than expected and efforts have been made to reduce the budget in order to maintain 8% to 10%. He added that departments are still asked to be frugal and make reductions.

Mr. Brady pointed out that the pending sales tax revenue can dramatically change the trajectory of that reserve. He emphasized that 8% to 10% is the minimum and would only provide one month of reserves. He noted that the hit of $12 million for PSPRS was not forecasted and impacted the difference between FY 16/17 and FY 17/18. He added that the goal in the next few years is to get to a point of spending less than or equal to the amount coming in, in order to build that reserve back up again.

In response to a question from Vice Mayor Luna, Mr. Brady affirmed that the City's bond rating is supported by keeping the reserve balance at a minimum of 8% to 10%.

In response to a question from Councilmember Thompson related to refinancing debt such as General Obligation (GO) bonds, Ms. Cannistraro clarified that the General Fund does not pay for GO bond debt and that is paid for by the secondary property tax.

Mayor Giles requested clarification on the ideal goal of the Reserve Fund balance.

Ms. Cannistraro explained that she would be uncomfortable with a Reserve Fund balance below 10% . She indicated an economic correction is anticipated in either FY 18/19 or FY 19/20, and the plan is to have a greater reserve balance in order to absorb that economic correction without affecting City services. She reported that after meeting with the various departments regarding budget savings, she will return to Council in April with another update and recommendations.

In response to a question from Mayor Giles related to the drastic dip between FY 18/19 and FY 19/20, Ms. Cannistraro listed the following items that impacted that change (See Page 6 of Attachment 3):

- $12 million for Public Safety Personnel Retirement System (PSPRS) increases in FY 17/18 will extend into FY 18/19
- $6 million current estimate for the Hall Case for PSPRS
- FY 19/20 anticipates a full year of operations of the light rail extension, which nets at $2.2 million after the revenue is factored
- Potential salary changes

In response to a question from Councilmember Winkle, Ms. Cannistraro confirmed that sales tax revenue is not meeting the expenditure needs. She stated that local sales tax makes up more than one-third of the revenue that affects the General Governmental Fund and referred to all of the revenue sources. (See Page 3 of Attachment 3)

In response to a question from Councilmember Freeman, Ms. Cannistraro explained that the $6 million carryover (See Page 4 of Attachment 3) is due to outstanding obligations such as vehicles that have been ordered, but will not arrive to be paid until the following fiscal year.

In response to a concern voiced by Councilmember Whittaker related to the negative Reserve Fund balance forecasted for FY 20/21, Mr. Brady replied that a negative reserve would never happen. He explained that the forecast is the driving force for acting now to find reductions. He added that the goal is to find $7 million in net savings each year to reach the shortfall, which he hopes will include both a revenue and an efficiency solution.

Ms. Cannistraro illustrated that the forecasted budget for FY 15/16 showed resources and uses growing at nearly the same pace, which had indicated progress toward closing the gap. She reported that, unfortunately, the PSPRS expense in FY 16/17 created a larger gap and displayed a chart that illustrates the difference one year can make in the forecast. (See Pages 7 through 9 of Attachment 3)

Ms. Cannistraro stated that staff is working with the various departments in order to identify ongoing efficiency savings and reductions and will return to Council on April 6th with an updated forecast. She reviewed the anticipated calendar related to the budget. (See Page 11 of Attachment 3)

In response to a question from Councilmember Thompson, Mr. Brady explained that the rise in uses from FY 14/15 to FY 15/16 was an unexpected PSPRS expense of $8 million, which was spread out over two years.

Ms. Cannistraro clarified that the unexpected hit of $8 million was absorbed in the operational budget and expenditure reductions in order to cover that particular PSPRS issue.

Mayor Giles thanked staff for the presentation. He explained that the upcoming strategic planning session will allow Council to discuss goals and add measurable indicators. He inquired about possible barometers related to our financial stability.

Ms. Cannistraro explained that the sales tax indicates what is happening in the economy, both local and state. She highlighted some unique items that are analyzed to determine trends in the economy such as solid waste barrel sets that indicate how our population is growing, and landfill tonnage that indicates how much people are buying. She stated that such information is used to forecast sales tax.

Mr. Brady pointed out that retail sales tax is the largest portion of sales tax, but construction sales tax is another good barometer of what is going on in the economy. He noted that construction sales tax tells the level of value improvements being made in the City.

Vice Mayor Luna thanked staff for the presentation. He suggested lobbying our congressional delegation relative to e-fairness, due to the fact that municipalities miss out on sales tax collections for online sales.

Deputy City Manager Scott Butler indicated that many national organizations and trade groups have been working with Congress on this measure and are just waiting to see what posture the new administration will take on the matter. He reported that some companies, such as Amazon, work with the state and cities diligently and pay sales tax. He suggested that small “trickles” at the state legislature lead to large impacts to the City, such as exempting diapers and other hygiene products from state sales tax. He commented that the legislature needs to balance how various changes can impact cities and that cities need to stay diligent on educating the legislature.

In response to a question from Councilmember Freeman related to the Gilbert Road light rail extension, Ms. Cannistraro reported that the City receives a percentage of revenue from transit sales for the light rail, based on the percentage of track that exists within the City.

Mr. Butler added that a fare box recovery is based upon where the boarding occurs, so the more people who board in Mesa the better.

In response to a question from Councilmember Freeman, Ms. Cannistraro explained that the Gilbert Road light rail extension anticipates an increase of $1.8 million in revenues and a $4 million increase in expenses, for a net of $2.2 million dollars to the General Fund.

Councilmember Whittaker voiced his concern with the unexpected budget impacts of PSPRS and asked what improvements could be made to reduce such issues in the future.

Mr. Brady pointed out that the unexpected PSPRS expense was the result of a court case in 2011 that was unpredictable. He agreed that better communication and clarification from the PSPRS Board of Trustees would be helpful. He reported that staff is working with the City of Phoenix to partner in funding consultants who can provide counsel related to pension costs. He noted that once that study and scope of work is determined, a timeline will be shared with Council.

In response to a question from Councilmember Whittaker, Ms. Cannistraro clarified that the effect of the PSPRS Hall Case will not be felt until FY 18/19 and briefly highlighted background information relative to the $12 million change in expenses.

Mayor Giles thanked staff for the presentation.

2. Information pertaining to the current Job Order Contracting projects.

This item was not discussed by the Council.

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

3-a. Historic Preservation Board meeting held on January 3, 2017.

3-b. Economic Development Advisory Board meeting held on January 3, 2017.

3-c. Housing and Community Development Advisory Board meeting held on January 5, 2017.

3-d. Judicial Advisory Board meeting held on October 3, 2016.

3-e. Audit, Finance and Enterprise Committee meeting held on December 8, 2016.

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

Carried unanimously.

4. Review items on the agenda for the February 23, 2017 Study Session.

Discussion ensued related to the topics and flow of the upcoming Strategic Planning Session.

Mayor Giles invited Councilmembers to arrive at the meeting armed with specific questions or projects, for a high level of discussion on goals and priorities.

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

Vice Mayor Luna: Heart Your Health Event
Bike and Pedestrian Program Movie at the Park

Councilmember Winkle: Ride-along with Fire Engine 203

6. Scheduling of meetings and general information.

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

Monday, February 20, 2017 – City Offices Closed

Thursday, February 23, 2017, 8:00 a.m. – Strategic Planning Session

7. Adjournment.

Without objection, the Study Session adjourned at 9:51 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 16th day of February, 2017. I further certify that the meeting was duly called and held and that a quorum was present.

DEE ANN MICKELSEN, CITY CLERK

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(attachments – 3)

Review & Approval of HOME Funding & Low Income Housing Tax Credits FY2017-18

February 16, 2017

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Council Direction Requested Today

1. Council direction on letters of support/non support to AZ Department of Housing for newly proposed affordable housing developments in Mesa:
   a) New Frontier Senior Living
   b) Main Street & Horne Redevelopment
2. Preliminary approval to allocate $500k FY 17/18 HOME funds to Mesa Artspace Lofts.
3. Direction to complete due diligence and amendments needed for Mesa Artspace Lofts project and return to Council In late March 2017 for final review and action.

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HOME Investment Program

HUD allocates funds by formula to eligible state and local governments to:

- Expand affordable housing and home ownership programs
- Provide critical funding GAP assistance to ensure affordable and quality development
- Strengthen public-private partnerships
- Leverage federal funding investment ($.25 = $1)
- Current allocation $1,002,129

Low Income Housing Tax Credit (LIHTC) Program Purpose

- Created by IRS Tax Reform Act of 1986
- Tax credits allocated by Arizona Department of Housing (ADOH) allocates through annual competitive process
- Offered as an incentive to use private equity in affordable housing developments
- Targets households 40-60% Avg. Median Income

ADOH will ask for a letter of support from City of Mesa regardless of funding and or other financial support given by City.

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Timeline

Goal: Meet State's deadlines while ensuring ample time for City-related reviews and City Council consideration.

- Sept. 29: FY 17/18 HOME & LIHTC applications opened
- Nov. 17: LIHTC applications received
- Dec. 22 Staff underwriting & risk assessments completed
- Jan. 5: Housing and Community Dev. Advisory Board
- **Feb. 16: City Council review of HOME funding recommendations; LIHTC letters of support.**
- Mar. 1: State LIHTC applications due
- May 15: City Council approves FY 2017-18 CDBG/ ESG/ HOME Annual Action Plan

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LIHTC Requests for HOME Funding

Three proposed projects, all with HOME funding requests:

- New Frontier Senior Living
- Main Street & Horne Redevelopment
- Mesa Artspace Lofts*

All projects consistent with the approved Consolidated Plan.

* Approved for HOME funding FY16/17; therefore, the City has the authority to modify funding amounts without going through this year's application process.

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A New Frontier Senior Living

- Developer: Yes Housing, Inc.
- Site Address: 2220 W. Ella St, Mesa, AZ 85201
- 60 independent Senior Housing with community garden
- Households of 40% to 60% of the average median income
- Rents $575/mos. for a 1BR/1BA & up to $895/mos. for a 2BR/2BA
- $500k HOME funding request
- 112 total points by Housing Board

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Main Street & Horne Redevelopment

- Developer: Gorman & Company, Inc.
- Site Address: 815-827 E. Main St, Mesa, AZ 85204
- 64 units
- Households of 40% to 60% of average median income
- Rents $650/mos. for a 1BR/1BA & up to $1,050/mos. for a 3BR/2BA
- $500K HOME funding request
- 134 total points by Housing Board

Mesa Artspace Lofts

- In 2016, approved for LIHTC Credits and $500k HOME funding. Requesting $500k 2017/18 HOME funds, due to gap created by changes to LIHTC market.
- 50 live/work units for artists/veteran artists and their families at 155 South Hibbert in downtown Mesa.
- Households of 40% - 60% of the avg. median income.
- Council-approved Development and Real Estate Purchase Agreements; amendments pending to ensure development occurs if new HOME funds granted.
- City's predevelopment investments: appraisals, land survey and environmental assessment.

Council Direction Requested Today

1. Council direction on letters of support/non support to AZ Department of Housing for newly proposed affordable housing developments in Mesa:
   a) New Frontier Senior Living
   b) Main Street & Horne Redevelopment
2. Preliminary approval to allocate $500k FY 17/18 HOME funds to Mesa Artspace Lofts.
3. Direction to complete due diligence and amendments needed for Mesa Artspace Lofts project and return to Council In late March 2017 for final review and action.

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Review & Approval of HOME Funding & Low Income Housing Tax Credit Proposals

Questions?

Feb. 16th, 2017

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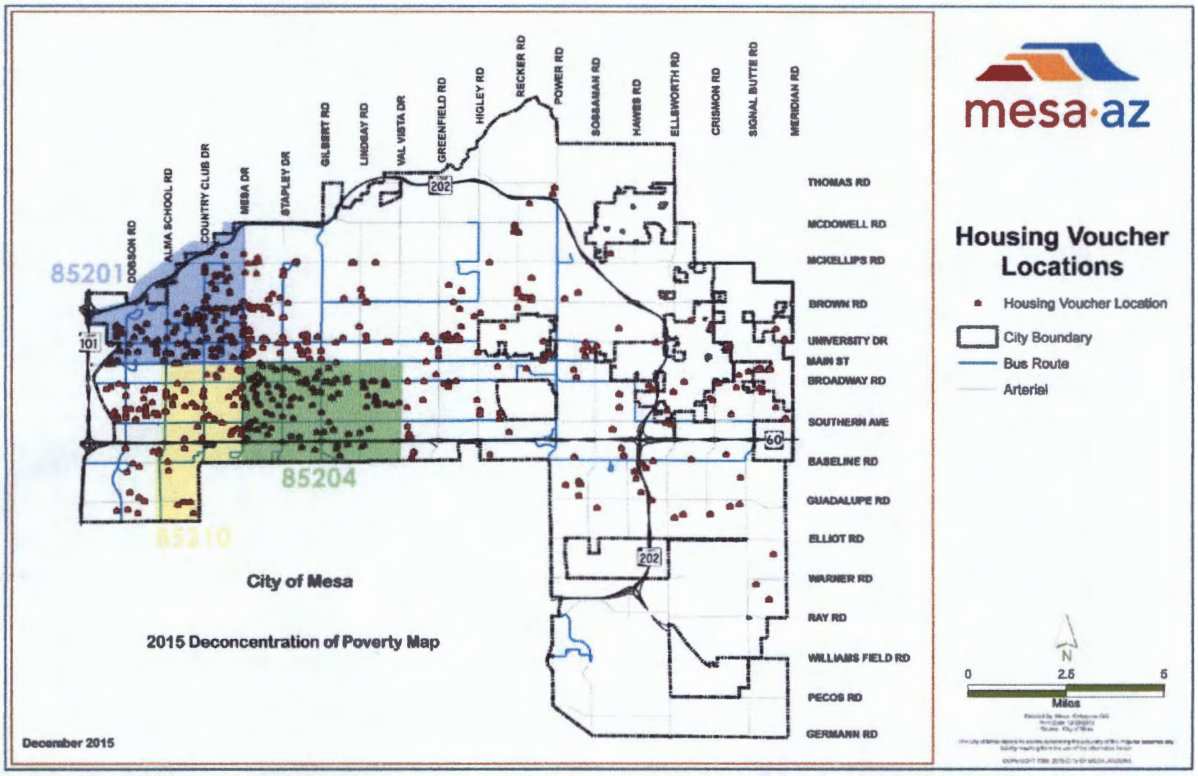
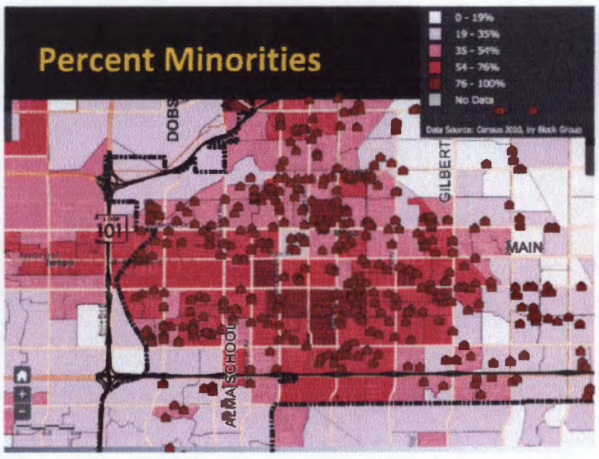
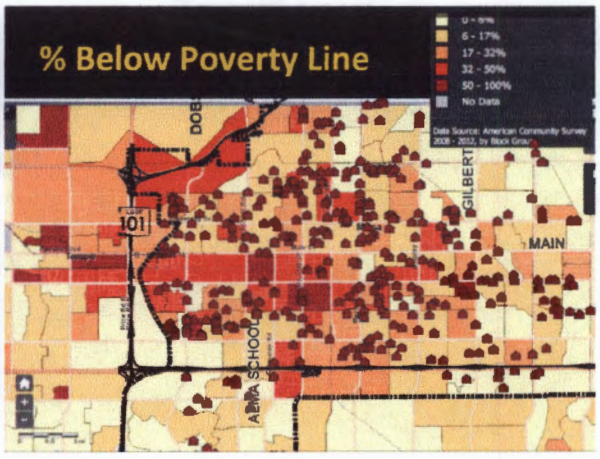
In 2008, Inclusive Communities Project filed suit against the Texas agency responsible for administering low income tax credits, claiming it disproportionately allocated too many tax credits "in predominantly black inner-city areas and too few in predominantly white suburban neighborhoods."To support their claim, the Inclusive Communities Project cited statistics that showed "92.29% of [low-income housing tax credit] units in the city of Dallas were located in census tracts with less than 50% Caucasian residents."

In June 2015 the Supreme Court ruled in their favor.

Mesa census tracts < 50% Caucasian residents are located in zip codes 85201, 85210, and 85204.







https://en.wikipedia.org/wiki/Texas_Department_of_Housing_and_Community_Affairs_v._Inclusive_Communities_Project,_Inc.

Financial Forecast

General Governmental Funds

February 16, 2017

City of Mesa

Presented by the Office of Management and Budget

Financial Sustainability

- Forecasting revenues and expenditures allows for determining if there are sufficient on-going revenues to cover current and new on-going needs
- Separating out items that can vary from year to year like capital and debt service allow for a better analysis of operational pressures
- The closer annual operating expenditures are to annual operating revenues, the more sustainable they are over time
- Periodic usage of reserves allows for the normal ebb and flow of finances

General Governmental Operating Revenues

	FY 15/16 Actuals	Change from FY 14/15	FY 16/17 Budget	FY 16/17 Projected	Change from FY 15/16	FY 17/18 Forecast	Change from FY 16/17 Projected
Local Sales Tax	**$125.8**	3.5%	**$129.5**	**$132.5**	5.3%	**$134.8**	1.8%
State Shared Revenues							
State Sales Tax	**$41.6**	3.9%	**$42.6**	**$43.3**	4.1%	**$45.6**	5.1%
Urban Revenue Sharing	**$52.9**	-0.5%	**$57.7**	**$57.8**	9.3%	**$59.3**	2.6%
Vehicle License Tax	**$18.2**	8.5%	**$18.6**	**$19.0**	4.2%	**$19.7**	3.9%
Enterprise Transfer	**$99.7**	4.1%	**$103.9**	**$103.9**	4.2%	**$106.5**	2.5%
Other	**$41.2**	3.8%	**$39.7**	**$38.5**	-6.7%	**$40.5**	5.3%
Total	**$379.5**	3.4%	**$392.1**	**$395.0**	4.1%	**$406.4**	2.9%

(as of Dec 2016) **Dollars in millions**

FY 16/17 Budget excludes $6.0M in carryover.

General Governmental Expenditures

	FY 15/16 Actuals	Change from FY 14/15	FY 16/17 Budget	FY 16/17 Projected	Change from FY 15/16	FY 17/18 Forecast	Change from FY 16/17 Projected
Operating Expenditures							
Personal Services	**$272.4**	0.1%	**$290.1**	**$293.3**	7.7%	**$309.5**	5.5%
Other Services	**$49.4**	-11.6%	**$68.3**	**$62.7**	26.9%	**$64.4**	2.7%
Commodities	**$10.2**	-14.3%	**$15.9**	**$14.7**	44.1%	**$19.1**	29.9%
Transfers							
to capital fund	**$3.0**	-53.1%	**$8.6**	**$10.8**	260.0%	**$9.5**	-12.0%
to other funds*	**$30.8**	481.1%	**$23.1**	**$23.1**	-25.0%	**$24.2**	4.8%
Total	**$365.8**	4.1%	**$406.0**	**$404.6**	10.6%	**$426.7**	5.5%

***Note: Includes transfers to the TransitFund, Arts and Culture Fund and other funds.**
The large increase in transfers to other funds from FY 14/15 to FY 15/16 was due to a timing issue in the reconciliation to the Valley Metro Reimbursement of $7.1M, the Art and Culture transfer of $9.8M was new in FY15/16 while reducing general governmental operating expenditures, and due to $6.0M in carryover.

(as of Jan 2017) **Dollars in millions**

FY 15/16 Actuals and FY 16/17 Budget include $6.0M in carryover each

General Governmental Fund Balance

	FY 15/16 Actuals	FY 16/17 Budget	FY 16/17 Projected	FY 17/18 Forecast	FY 18/19 Forecast	FY 19/20 Forecast	FY 20/21 Forecast
Beginning Reserve Balance	$78.4	$64.6	$92.1	$82.5	$62.2	$31.5	$6.4
Total Sources	$379.5	$392.1	$395.0	$406.4	$419.1	$433.6	$448.2
Total Uses	$365.8	$406.0	$404.6	$426.7	$449.8	$458.7	$475.6
Net Sources and Uses	$13.7	($13.9)	($9.6)	($20.3)	($30.7)	($25.1)	($27.4)
Ending Reserve Balance	$92.1	$50.7	$82.5	$62.2	$31.5	$6.4	($21.0)
Ending Reserve Balance Percent*	22.8%	11.9%	19.3%	13.8%	6.9%	1.3%	-4.4%

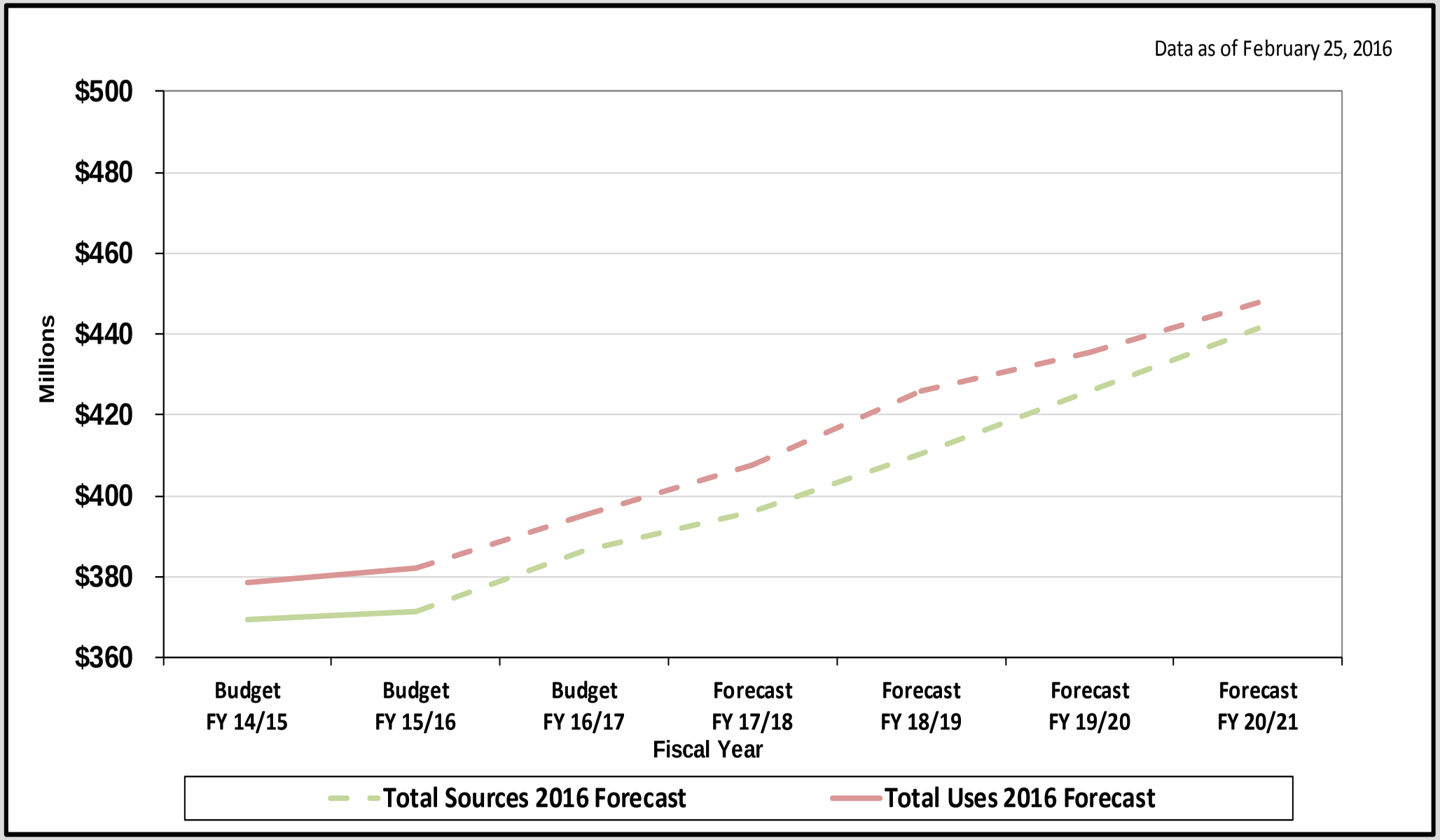
*As a % of all Next Year's uses of funding

Note: Sources do not include an economic correction

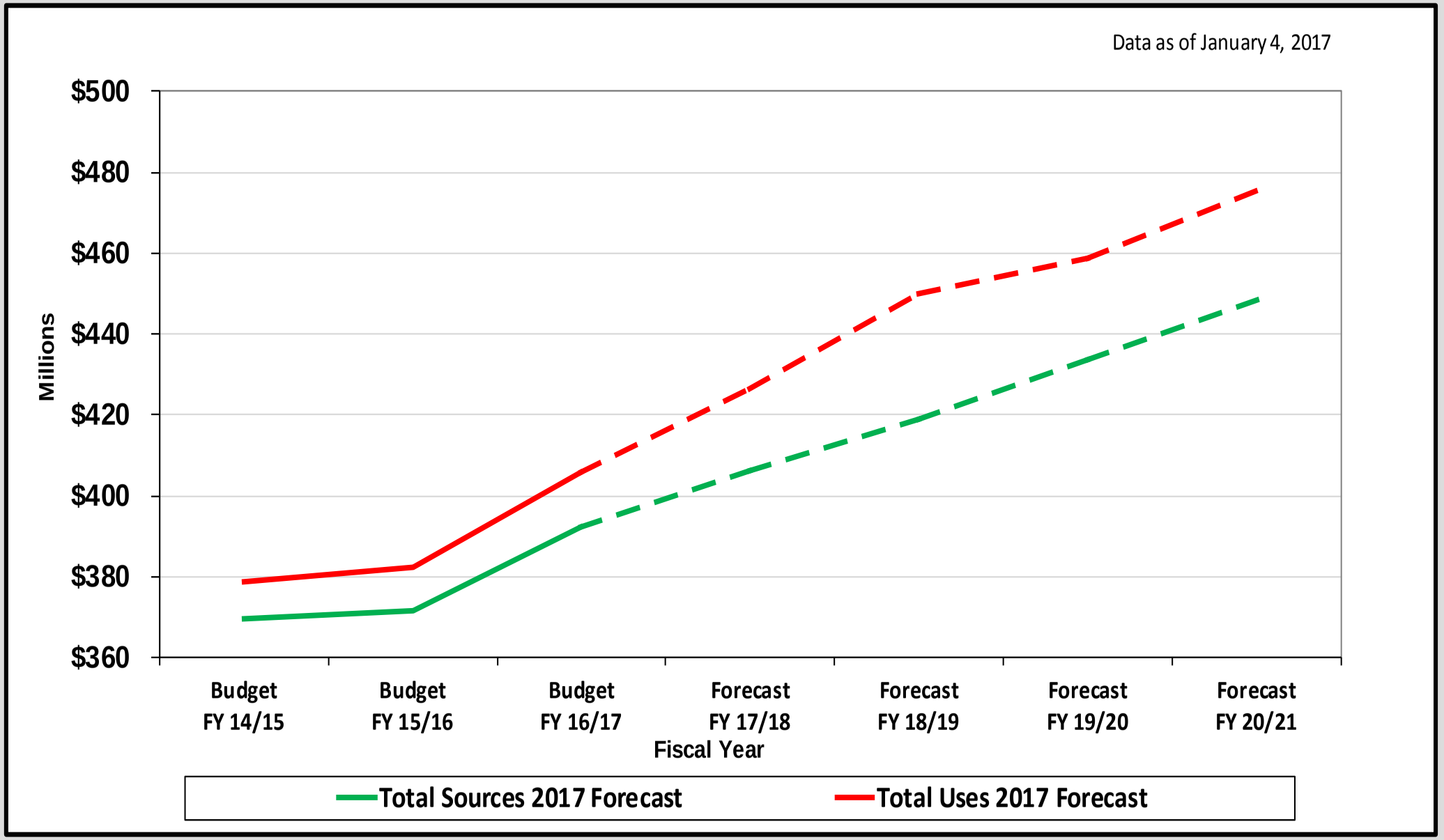
Major Expense Changes Included in Forecast

- PSPRS increase of $12M in FY 17/18 and an additional $6M in FY 18/19
- Gilbert LRT Expansion: $4.0M annual increase in FY 19/20
  - $1.8M anticipated increase in revenues

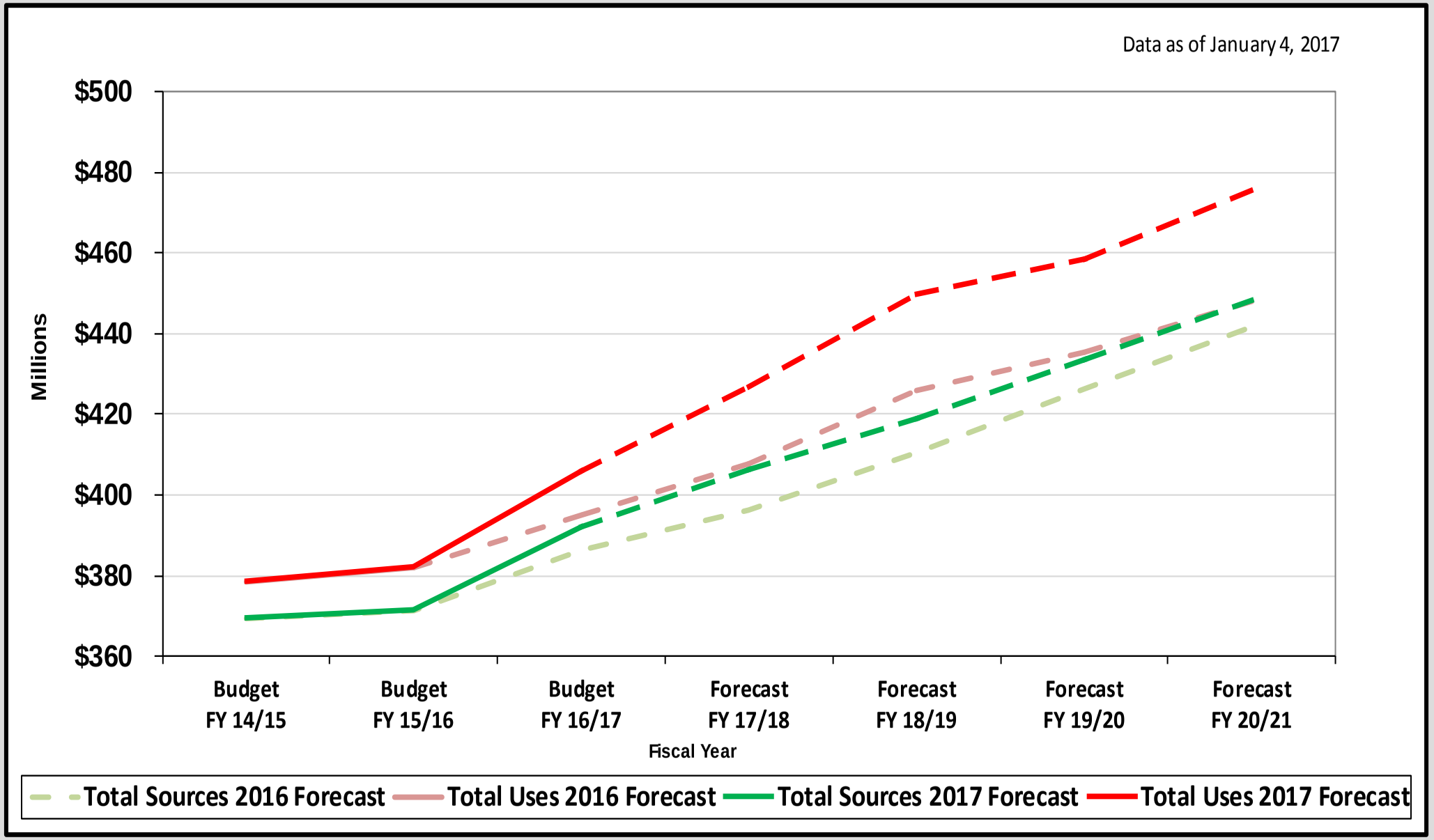
Forecasted Budget – General Governmental



Forecasted Budget – General Governmental



Forecasted Budget – General Governmental



FY 17/18 Budget Focus

- Departments have been asked to identify on-going efficiency savings/reductions of 5%
- Personal service allocations have been increased to cover the increased cost of positions, including the increase in pension costs
- Non-position base budgets have been held at FY 16/17 levels
- All requests for new funding require evidence of impact on outcomes of department mission

Next Steps – Anticipated Calendar

April 6	Review Proposed FY 17/18 Budget Review Non-Utility Capital Improvement Program (CIP)
April 13	Review Enterprise Fund, Utility CIP and Utility Rates
April	Hear from various departments
May 22	Adoption of the CIP and Utility Rates Tentative Adoption of the FY 17/18 Budget
June 5	Final Adoption of the FY 17/18 Budget
June 19	Adoption of the Secondary Property Tax Levy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