

COUNCIL MINUTES

May 23, 2019

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 May 23, 2019 at 7:30 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

*Vice Mayor Freeman participated in the meeting through the use of telephonic equipment.

1-a. Hear a presentation and discuss the benefits of the Arizona Municipal Water Users Association (AMWUA) and an update on the Drought Contingency Plan for the region.

Water Resources Advisor Brian Draper introduced Warren Tenney Executive Director of the Arizona Municipal Water Users Association (AMWUA) who displayed a PowerPoint presentation. **(See Attachment 1)**

Mr. Tenney stated AMWUA was started in 1969 by the City of Mesa and four other Valley cities, to work together on water policy issues. He explained today, AMWUA consists of 10 cities across the Valley that provides water to 3.5 million people, including businesses and industries which are key to the economy. He commented during the last 50 years, AMWUA has played an important role in finding solutions for Arizona's water challenges.

Mr. Tenney pointed out some of the accomplishments of AMWUA which include a significant role in the passage of the 1980 Ground Water Management Act, which has provided a secure foundation for managing Arizona's water; working with Arizona Public Service (APS) on an agreement to provide reclaimed water to cool the Palo Verde Nuclear Generating Station; and developing the concept for the underground water storage legislation that allows cities to store water in aquifers for future use. (See Page 4 of Attachment 1)

Mr. Tenney remarked AMWUA also helped to establish the Arizona Water Banking Authority for storing water from the Colorado River, and supported the modification of the Roosevelt Dam to expand storage capacity. He added AMWUA helped pass the Lower Basin Drought Contingency Plan (DCP), which was signed into effect this week by seven basin states and the Bureau of Reclamation.

Mr. Tenney declared one of AMWUA's most significant and ongoing contributions is to develop a water conservation ethic in Arizona which has brought water conservation professionals and cities together to share their expertise and resources to help residents use water more efficiently. He stated the benefit of these efforts is that Mesa's annual water demand is the same as 20 years ago, even though the population has grown. He stressed AMWUA wants to increase public awareness about these water conservation programs and cooperation among municipalities is critical in finding solutions to Arizona's water supply issues.

Mr. Tenney stated AMWUA Board of Directors is made up of a Mayor or a Councilmember from each of the member cities and that Councilmember Thompson serves on the board. He explained AMWUA advocates for its members, and the most important advocacy effort is to speak with one active voice at the State Legislature.

Mr. Tenney highlighted AMWUA continues to appreciate what the member cities are doing to ensure water is distributed to homes and businesses throughout the state. He encouraged AMWUA members to continually plan for the state's water infrastructure and prepare for water shortages. He reported AMWUA is proud of what has been contributed and is committed to continuing to collaborate with Mesa and other members to protect Arizona's water resources.

Responding to a series of questions posed by Councilmember Duff, Mr. Draper responded by saying 50% of Mesa's water supply is dependent on Central Arizona Project water, 40 to 45% is Salt River Project (SRP), and the remainder is groundwater. He stated in the event DCP cuts are initiated, the cuts are structured on a priority system. He mentioned agriculture takes the first reduction.

Mayor Giles thanked Mr. Tenney and staff for the presentation.

1-b. Hear a presentation and discuss the series 2019 bond sales.

Chief Financial Officer Michael Kennington introduced Larry Given, Hilltop Securities Managing Director, who displayed a PowerPoint presentation. **(See Attachment 2)**

Mr. Kennington reminded Council four bond issuances went out to market. He explained ratings were requested from two rating agencies: Standard & Poor's (S&P) and Moody's. (See Pages 2 and 3 of Attachment 2)

Mr. Kennington highlighted the bond rating results, and stated this is the first time an upgrade has been received in a number of years, which is significant. (See Page 4 of Attachment 2)

Mr. Given commented the upgrade is a long-term continuing effort by City staff. He stated there is a lot of groundwork that goes into this year-round and the priority is to continue to improve the ratings. He reported this is the highest General Obligation (GO) bond rating the City has had in 30 years.

Mr. Kennington highlighted better ratings mean lower interest costs and increases the demand for City of Mesa bonds. He explained when Mesa offers to sell certain bonds, 2.3 represents 2.3 times the number of bonds received in offers from investors to buy City of Mesa bonds. He pointed out for the refunding bonds, the savings was better than expected at \$17 million in savings rather than the \$12 million estimated. He stated the generated savings will go directly to the Enterprise Fund. (See Pages 5 through 7 of Attachment 2)

Mr. Given expressed the sale of the bonds went very well due to the demand for Mesa bonds, which had to do with the credit rating achieved by the City, and the City's ability to hit the market at the right time. He commented the trade problems between the United States and China worked to the benefit of the City. He stated where the City benefited greatly was being able to borrow long term at 3% due to this process.

City Manager Christopher Brady reported this is a financial milestone for the City of Mesa. He stated staff has been working hard to receive the upgrades because the City financially was at its strongest in a decade. He emphasized the health and financial position of both the General Fund and the Utility Fund are integrated in the discussion between the City Manager, financial team, budget team, infrastructure team and analysts. He recognized this is the best rating the City of Mesa has received in 32 years. He thanked Mayor Giles and the Council for trusting staff to move forward with the effort and thanked all who participated in making this happen.

In response to a series of questions from Councilmember Whittaker, Mr. Kennington stated regarding the utilities five-year Capital Improvement Program (CIP) totals, similar to the CIP discussion last week, it is viewed as a wish list for departments, not necessarily a list of CIP projects, which staff will continue to develop. He remarked the credit rating agencies would always like a formal policy regarding transfers of money to the General Fund.

Mr. Brady stated as a City, the policy is being looked at to maintain the transfer and not to increase by more than inflation. He feels adopting a clear policy of limiting the public safety transfer to a certain percentage would be supported. He said right now the transfer is limited to the CPI.

In response to a question posed by Councilmember Whittaker asking for clarification on whether the cap on the transfer to the General Fund is a formal policy or just a best effort, Mr. Brady responded staff is open to establishing those parameters with Council.

In response to Councilmember Whittaker requesting clarification on the transfer capped at the CPI, Ms. Cannistraro responded by saying during the recession there was a freeze and so the catch-up year in FY 2013/14 shows a larger increase. She commented in FY 2014/15 the cap was set at 3%; however, there were market salary adjustments approved by Council for Police and Fire that year. She pointed out at that time, with Council direction, there was a slight increase in the Public Safety contribution, which had an impact over three years, FY 2014/15 to FY 2016/17. She continued by saying the contribution will vary each year since it is tied to the Western CPI, which is an estimate when the budget is set, and over the past few years the contribution has come in higher. She stated even though the contribution has come in higher, only what was budgeted for was transferred.

In response to comments from Councilmember Whittaker stating the CPI has been exceeded two out of the last six years, Ms. Cannistraro responded by saying staff followed Council direction to change FY 2014/15 to pay officers and firefighters at market rate. She reported in FY 2008/09 the contribution was frozen until staff could determine how deep the recession would be and what the recovery would look like. She replied there was a catch-up year with the Western CPI in FY 2013/14. She remarked the numbers from FY 2014/15 to 2016/17 were skewed because of the three-year, \$4.5 million impact.

Mr. Kennington summarized the rating report from the S&P and stated the ratings reflect the system's extremely strong enterprise risk profile and strong financial risk profile.

Mayor Giles asked Mr. Given for a comparison of other utility companies across the country regarding their ratings. Mr. Given responded staff does request a comparison periodically and he can follow up with Council in the future.

Mayor Giles expressed appreciation to City staff for this improved rating and the impact on savings.

Councilmember Whittaker commented one weakness mentioned in the report was the pension system obligation without a plan. Mr. Kennington responded he is not sure what was meant by that statement but will follow-up.

In response to a question from Vice Mayor Freeman about the length of bonds being purchased and defeasing the bonds before their lifespan, Mr. Kennington stated when new money bonds are sold, the bonds are typically between a 20 and 25-year length. He added when issuing refunding bonds, the bonds don't go past their maturity. He mentioned every year impact fees are restricted to pay down utility debt.

Mayor Giles thanked staff for the presentation.

1-c. Hear a presentation, discuss, and provide direction on the impact of the proposed City Charter amendment in the initiative application filed with the City as Serial Number IN2020-02 on the Fiscal Year 2019/2020 General Fund expenditures and the Fiscal Year 2020/2021 General Fund budget.

Chief Financial Officer Michael Kennington introduced Assistant City Attorney Kelly Gregan who displayed a PowerPoint presentation. **(See Attachment 3)**

Ms. Gregan explained an initiative starts when voters gather signatures to propose new laws or amend existing laws. She stated the City of Mesa received an application for an initiative on May 8, 2019. She commented the serial number provided by the City Clerk's office for this initiative is IN 2020-02. She provided the four principle provisions of the initiative are limiting the amount of utility service revenue used for General Fund purposes, limiting General Fund transfers at 20% of gross utility service revenue, creating a utility account, and providing a mechanism for returning excess utility service revenue to ratepayers. (See Page 2 of Attachment 3)

Ms. Gregan stated A.R.S. 9-500.14 references: "A city or town shall not spend or use its resources...for the purpose of influencing the outcomes of elections." (See Page 3 of Attachment 3)

City Attorney Jim Smith presented some general guidelines that this is an initial neutral assessment, not a debate; therefore, do not state support or opposition to the initiative. He advised to ask about and discuss the initiative in a neutral manner and to provide direction moving forward related to the impact of the initiative.

Responding to a question by Councilmember Whittaker regarding the repercussions if the guidelines are violated, Mr. Smith stated there are multiple penalties under the State statute.

Ms. Gregan stated the proposed City Charter Section 614 is divided up into three sections. She commented Section A deals with rates and finances, Section B with use of the public utilities revenues, and Section C, which is what will be discussed today, about the use of utility monies.

She provided a summary of what this initiative would accomplish in terms of adding language to the City Charter that limits the use of utility revenues. (See Page 4 of Attachment 3)

Ms. Gregan pointed out the proposed initiative's impact on the General Fund deposit/transfer is stated in Section 614 (C)(9). (See Page 5 of Attachment 3)

Mr. Kennington stated when calculating the initial assessment, the most recent financial statement audited by an independent accounting firm was used, which was the FY 2017/18 Comprehensive Annual Financial Report (CAFR) to find the utility revenues. He detailed the utility revenues at \$362 million; and a 20% limit on the transfer to the General Fund would max at \$72 million. He suggested what that would mean for the FY 2019/20 budget is it would create a total contribution shortfall of \$51 million. (See Page 8 of Attachment 3)

Councilmember Whittaker commented the data presented is inaccurate because comparing the audited financials from 2017/18 to the 2019/20 budget is incorrect because the budget has grown substantially over the past two years.

Mr. Kennington replied the language in the proposed initiative was confusing because the language requires them to limit the transfer based on a financial report that has been audited by an accounting firm. He stated audited financial statements are not issued until six months after the year-end.

Mr. Smith clarified the initiative states, "as determined through a financial report audited by an independent accounting firm."

Mr. Kennington replied the most recent financial report independently audited was used. He stated there is a question as to how the proposed initiative would work going forward.

Mr. Brady pointed out, in response to Councilmember Whittaker stating the data is incomparable, the challenge is in the wording, since the requirement is to use audited numbers, not the most recent numbers. He stated based on the way the initiative reads, the audited numbers establish the benchmark. He continued by saying there is a risk of using unaudited numbers to project the budget and possibly incurring a penalty.

Councilmember Whittaker explained this ordinance is common in multiple municipalities throughout the United States, stating the possibility of reaching out to them to compare. He reiterated staff should not be comparing utility revenues from FY 2017/18 to a budget for FY 2019/20 due to the fact the budget is 10% larger.

Mayor Giles indicated the numbers may be understated in the chart due to the difference between the years being compared. He suggested using last year's budget to identify what the numbers would show.

Councilmember Whittaker agreed last year's numbers would be more relevant. He declared the Utility Fund revenues grew 5.21% each year over the last two years. He stressed the utility revenues from two years ago cannot be compared to the current budget numbers.

Mr. Brady informed Councilmember Whittaker staff was trying to avoid the consequences of overstating and having to reimburse or having uncertainty in the budgeting process due to the fact the audited numbers are not available until six months after the close of the fiscal year.

Councilmember Whittaker stated a more accurate way to compare is by using utility revenues and the budget from two years ago to see the actual funding gaps. He remarked a comparison of inflated numbers for the current year compared to utility numbers from two years ago is not a fair comparison.

Mayor Giles stated, hypothetically, if this initiative passes, a year from now staff will have to estimate what the revenue will be in the Enterprise Fund so Council can determine the cap.

Mr. Brady explained it would be easier to estimate based on a budget for that year rather than an audited number. He pointed out staff can do an analysis based on the budget, but the initiative states using audited numbers.

Responding to a question by Councilmember Duff regarding what the dollar amount would be if this initiative had been in place in FY 2017/18, Mr. Brady responded staff would have to retrieve those numbers to give an accurate answer.

Mayor Giles clarified using the FY 2017/18 utility revenues and placing the 20% cap, the contribution would have been no more than \$72.3 million.

Mr. Brady added by using those numbers, the difference is at least \$30 million the City would have to make up in revenues or make cuts.

In response to a question by Mayor Giles regarding how much the budget has increased over the last two years, Ms. Cannistraro stated the transfer in FY 2017/18 from the Enterprise Fund to the General Fund was approximately \$106.5 million. She added if you compare the \$106.5 million to the \$72.3 million, it would be a revenue or resource gap for the funded items from FY 2017/18.

Ms. Cannistraro pointed out the pie charts showing the total resources for the budget are on the website for the last five years which shows exactly what was funded with the General Fund transfer. She stated she would send Council a link to the information. (See Page 7 of Attachment 3)

Mr. Brady emphasized 70% goes to public safety; therefore, 70 to 75% of the impact would be to public safety.

Councilmember Whittaker inquired why only the Enterprise Fund is being renamed the Public Safety Contribution Fund. He stated commingled funds go into the General Fund and is distributed at the sole discretion of Council.

Ms. Cannistraro agreed the pie chart summarizes the revenues that go into the General Fund and are comingled once there, which means there are no restrictions. She stated if there were reductions in the General Fund, Council would have to prioritize the expenses applied.

Mayor Giles suggested, if passed, the problem every year will be anticipating what the utility revenues will be in order to know where to place the cap.

Mr. Kennington continued his presentation stating as a municipality the City is required to balance the budget. He pointed out the three options available to balance the budget. (See Page 9 of Attachment 3)

Mr. Kennington stated the proposed initiative did not offer a new source of revenue for the General Fund. He also pointed out in order to increase taxes, voter approval is needed. He described the effect on the municipal workforce and municipal construction projects. (See Pages 12 and 13 of Attachment 3) He explained if the proposed initiative were approved, the City would need to consider an alternative budget to account for the reduction to the General Fund.

Mr. Brady pointed out the General Fund is represented by about 70% personnel, like salaries, pension and benefits. He explained whatever the amount of the reduction, positions and programs will be impacted. He stated the concern with the uncertainty of this initiative passing, there is a tremendous amount of difficulty in moving forward with new programs. He remarked passing of the initiative will have a significant operational impact on the City.

Jay Gittrich, a Mesa resident, stated his concern is for ratepayers. He added he has lived in the City of Mesa for almost 20 years and his utility rates have doubled in that time.

In response to a series of questions from Mayor Giles regarding whether the initiative mandates or requires a reduction in utility rates, Mr. Smith responded the initiative does not create any minimum or maximum as to how Council can spend money; the only cap is on the transfer. He advised a future Council action would determine how those funds are spent. He stated there is general language, which is in State Statute that all rates should be just and reasonable, but there is not a cap.

In response to a question by Councilmember Whittaker whether Section 10 is unenforceable by stating surplus amounts will be reimbursed to utility customers, Mr. Smith replied other than Number 9, there are no minimums or maximums. He provided an example if all the money was spent before reaching Number 10, there would be no excess money left for surplus; therefore, no money to refund.

Councilmember Whittaker suggested Numbers 1 through 8 would effectively lead to long-term reduction of utility rates.

Mr. Smith advised he will not answer advocacy-type questions.

Mayor Giles commented, hypothetically, if the initiative passes and there was a surplus at the end of the year, then the initiative would mandate those funds be returned to the ratepayers.

Mr. Brady commented the focus is to figure out how the City would handle a potential gap in the General Fund if this initiative passed.

In response to a series of questions posed by Councilmember Heredia inquiring what percentage of the budget goes to public safety, Mr. Brady stated about 70%, but that does not include support services for public safety. He also clarified in the event of cuts, the intent is to try to impact public safety less, but there will be an impact to all departments.

Ms. Cannistraro clarified the FY 2019/20 proposed budget is about 60% for public safety, which does not include items like replacement of vehicles or breathing apparatus.

Responding to a question by Councilmember Luna regarding the impact on the voter-approved bond project for the Northeast Public Safety Facility and whether the initiative will affect operating costs, Mr. Brady said the estimate to operate the facility per year will be \$3.5 million. He added there would have to be a consideration before adding new facilities with operating costs since

they are not yet occupied. He reported the City will proceed with hiring police/fire as proposed and purchasing land for proposed projects but will come back to Council before moving forward.

Councilmember Whittaker commented staff cannot presume what future Councils will do with the budget. He also stated he introduced the initiative last year in June and the City failed to address the issue. He declared he will continue to have conversations regarding the initiative to determine what cap is appropriate.

Mayor Giles emphasized the language does not mandate lowering of utility rates, nor reinvestment in the utility infrastructure, there is no exclusion that would hold harmless or protect the impact to public safety, and there is a disagreement on the dollar figure of the impact if the initiative were passed. He added he remains committed to honoring the instructions of the voters and continuing to construct the public safety facilities and hiring staff as promised to the voters. He stated if the future requires laying off personnel, that will be appropriately addressed at that time. He suggested future Council agendas include a discussion on the health of the infrastructure so good information is available to be able to compare valid information.

Mr. Brady agreed by saying Council should have a real conversation as to what the restrictions should be on the transfer.

Councilmember Whittaker added he would like to see the proposal from Council put on the ballot as their own initiative and let Council decide on the cap. He advised Council has the ability to create their own ballot measure and come up with what those restrictions should be for transferring money from the Utility Fund to the General Fund.

Mr. Smith advised Councilmember Whittaker he is getting into an advocacy role.

Ms. Cannistraro mentioned there is an overall Enterprise Fund as a whole, but there are subfunds and each utility has separate existing schedules.

Mayor Giles suspects Mesa is not the only city using the Enterprise Fund for other City services. He questioned whether Mesa is uniquely different than other municipalities in the way services are paid for in the City.

Councilmember Duff pointed out the Enterprise Fund shows the sales tax and bed tax revenues for the Convention Center and Spring Training facilities are larger than the shortfall during their season. She stated there are some quality-of-life expenses that would have to be cut, or other revenue sources would need to be put in place, like a property tax or sales tax. She emphasized residents need to look at this holistically as far as the cost to live in Mesa and the quality of life.

Mayor Giles commented the reason the City spent the money at the Convention Center and Spring Training facilities is to generate far more revenue than was put into the project.

Councilmember Whittaker responded a majority of cities increase sales tax revenue in March. He agreed the proper form of taxation is a secondary property tax.

Councilmember Heredia stated he looks forward to future discussions on utility rates to figure out different options to lessen the burden on residents.

Mr. Brady reminded Council staff is not proposing a utility rate increase this year. He pointed out over the last three to four years the rates have been kept close to the inflationary rate.

Mayor Giles excused Vice Mayor Freeman from the remainder of the meeting at 9:08 a.m.

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

Mayor Giles: East Valley Hispanic Chamber of Commerce Breakfast
Mesa K-Ready Graduations

Councilmember Duff: East Valley Hispanic Chamber of Commerce Breakfast
The Nature Conservancy Presentation
Mesa Community Court Innovation Award

Councilmember Luna: East Valley Hispanic Chamber of Commerce Breakfast

3. Scheduling of meetings and general information.

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

Thursday, May 30, 2019, 7:30 a.m. – Cadence Community Facilities District Board

Thursday, May 30, 2019, 7:30 a.m. – Eastmark Community Facilities District No. 1 Board

Thursday, May 30, 2019, 7:30 a.m. – Eastmark Community Facilities District No. 2 Board

Thursday, May 30, 2019, 7:30 a.m. – Study Session

4. Adjournment.

Without objection, the Study Session adjourned at 9:13 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 23rd day of May 2019. I further certify that the meeting was duly called and held and that a quorum was present.

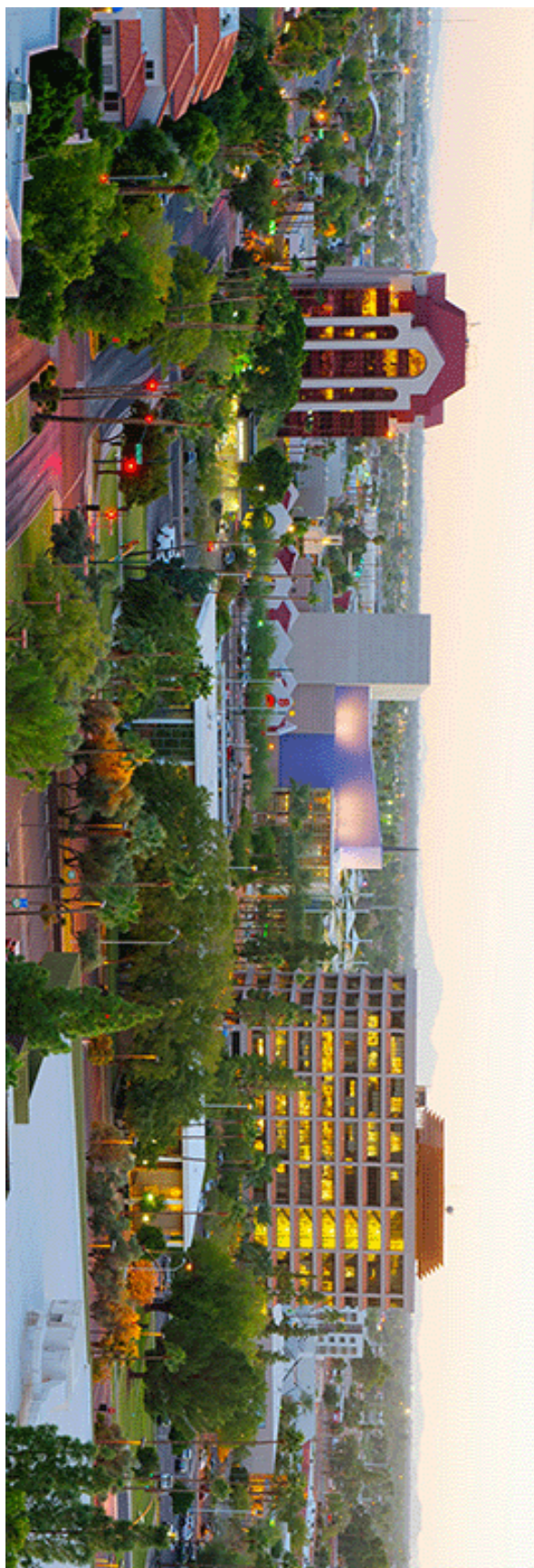
DEE ANN MICKELSEN, CITY CLERK

Collaboration Keeping the Glass Full

Mesa City Council

May 23, 2019

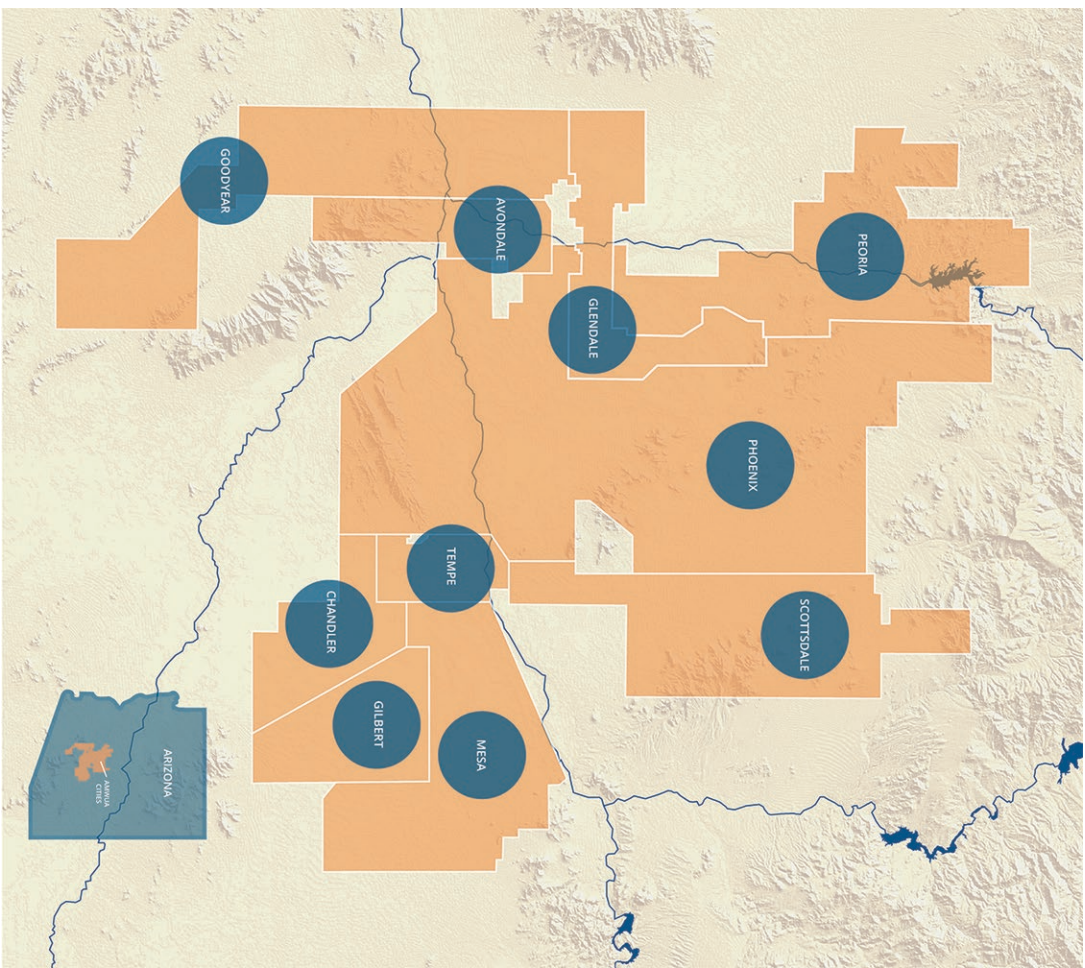




Arizona Municipal Water Users Association



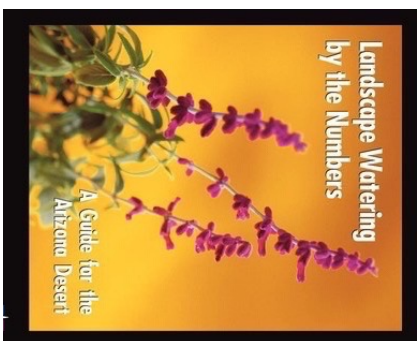
City of Phoenix





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Facilitate Regional Water Conservation Efforts



Collaborate among Members





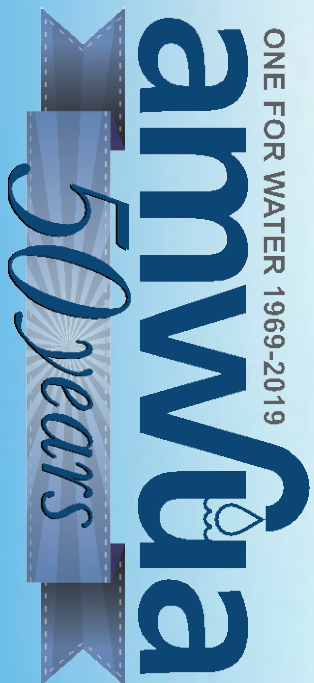
ONE FOR WATER

ARIZONA MUNICIPAL WATER USERS ASSOCIATION





Looking forward to the next 50 years





2019 Bonds Sales Update

May 23, 2019

Michael Kennington, Chief Financial Officer
Larry Given, Managing Director, Hilltop Securities

2019 Bond Sales

- General Obligation Bonds
 - Series 2019 Bonds \$33M
- Utility Systems Revenue Bonds
 - Series 2019A Bonds \$94M
 - Series 2019B Refunding Bonds \$54M
 - Series 2019C Refunding Bonds \$79M

2019 Bond Ratings Process

- Requested a rating from two independent rating agencies, S&P and Moody's
- Agencies conducted an in depth analysis of the City using the following common themes:
 - Economy
 - Management
 - Finances
 - Capital and Infrastructure
 - Debt and Pensions

2019 Bond Ratings Results

- S&P raised its long-term rating to AA with stable outlook from AA- on the City's GO bonds and reaffirmed their AA- rating on the City's utility revenue bonds.
- Moody's maintained their Aa2 rating with a stable outlook for both our general obligation and utility revenue bonds.

	Moody's	S&P	Fitch	Meaning
	Aaa	AAA	AAA	Prime
	Aa1	AA+	AA+	
	Aa2	AA	AA	High Grade
	Aa3	AA-	AA-	
Investment Grade	A1	A+	A+	
	A2	A	A	Upper Medium Grade
	A3	A-	A-	
	Baa1	BBB+	BBB+	
	Baa2	BBB	BBB	Lower Medium Grade
	Baa3	BBB-	BBB-	
	Ba1	BB+	BB+	
	Ba2	BB	BB	Non Investment Grade Speculative
	Ba3	BB-	BB-	
	B1	B+	B+	
	B2	B	B	Highly Speculative
	B3	B-	B-	
Junk	Caa1	CCC+	CCC+	
	Caa2	CCC	CCC	Substantial Risks
	Caa3	CCC-	CCC-	Extremely Speculative
	Ca	CC	CC+	In Default w/ Little Prospect for Recovery
		C	CC	
			CC-	
	D	D	DDD	In Default

2019 Mesa Bond Market Demand

- General Obligation Bonds
 - Series 2019 Bonds - 2.3X *(in total orders vs. par amount)*
- Utility Systems Revenue Bonds
 - Series 2019A Bonds – 4.6X
 - Series 2019B Refunding Bonds – 1.4X
 - Series 2019C Refunding Bonds - 2.5X

2019 Bond Sales Results

- ‘New Money’ Bonds – Interest cost realized was better than forecasted.

General Obligation – Interest Cost of 2.7%

\$4.5 M less interest cost over life of bonds
(\$704k over forecasted period)

Utility Revenue – Interest Cost of 3.3%

\$31.5 M less interest cost over life of bonds
(\$3.6M over forecasted period)

2019 Bond Sales Results

- Utility System Revenue Refunding Bonds – Savings realized was better than expected.

As of our March presentation, we expected to generate \$12 M of debt service savings.

Series 2019 B&C, generated \$16.9M of debt service savings.



Impact of Proposed Initiative IN2020-02

City of Mesa
May 23, 2019



Charter Amendment Initiative Application IN 2020-02 (“Proposed Initiative”)

- Application Submittal Date: May 8, 2019
- Applicant Name: Jeremy R. Whitaker
- Name of Organization: Yes on Affordable Utilities
- Proposed Initiative would create a new Section 614 of the Mesa City Charter
- “An amendment to the Mesa City Charter to limit the amount of utility service revenue that can be used for general fund purposes, establishing the fiscal year limit of general fund transfers at 20% of gross utility service revenue; creating a Utility Fund Account to separately account for expenditures of utility service revenue; and providing a mechanism for returning excess utility service revenue to ratepayers.”

Impact of the Proposed Initiative

- A.R.S. § 9-500.14: “A city or town shall not spend or use its resources...for the purpose of influencing the outcomes of elections.”
- Does not prohibit “the use of public resources to investigate the impact of ballot measures on a jurisdiction.” (Atty. Gen. Opinion No. I15-002)
- Purpose of presentation is to communicate the initial assessment of the impact of the Proposed Initiative.

Proposed Initiative: City Charter Section 614 Uses of Utility Revenues

1. Operation & Maintenance of Public Utility Services
2. Retirement of Indebtedness (Utility Services & Assets)
3. Development of Utility Assets
4. Reimbursements by the Solid Waste Division or Utility Department to other City Departments for Support of Utility Services
5. Promotion of any of the City's Utility Products or Services
6. Development, or Promotion or Use of Systems, Equipment, Services, Devices or Materials to Promote Conservation & Recycling by Utility Customers
7. Employee Benefits (Solid Waste Division & Utility Department)
8. Bond Reserve Funds Issued for Utility Assets
9. General Fund Deposit or Transfer not to Exceed Twenty Percent (20%) of the Gross Revenues from the City's utility services
10. Surplus Amounts Reimbursed to Utility Customers

Proposed Initiative's Impact on General Fund Deposit/Transfer

Section 614 (C)(9)

“For each fiscal year: Council may, in its discretion, deposit or transfer to the City’s general fund an amount not to exceed twenty percent (20%) of the gross revenues generated from the City’s provision of utility services during such fiscal year, as determined through a financial report audited by an independent accounting firm.”

Initial Assessment: Impact on General Fund Deposit/Transfer*

Revenues from Electric, Gas, Water,
Wastewater and Solid Waste Utilities \$361.9 M

Proposed Initiative Limitation 20%

Proposed Initiative Limit for Enterprise
Fund Contribution to General Fund \$72.3 M

**Estimate Based on FY 17/18 CAFR*

Estimated Impact of Proposed Initiative to Available City Resources (Millions of Dollars)*

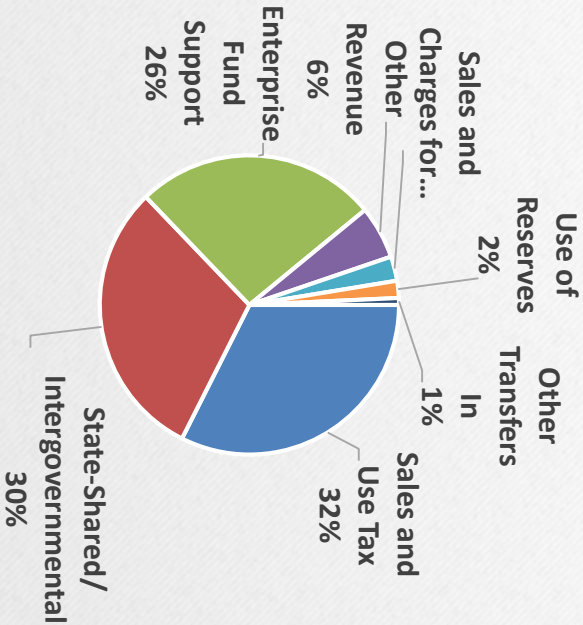
Enterprise to General Fund Contribution Limit	\$ 72.3 M
<u>Budgeted Contribution from Enterprise to General Fund</u>	<u>(\$ 110.6) M</u>
Contribution Shortfall from Proposed Initiative	(\$ 38.3) M
Convention Center and Spring Training Facilities	(\$ 4.8) M
<u>Economic Investment Fund Projects**</u>	<u>(\$ 8.4) M</u>
Estimated Reduction of Available Resources	(\$ 51.5) M

*As proposed in FY 19/20 Budget

**Impact on this fund is difficult to determine based on proposed language.

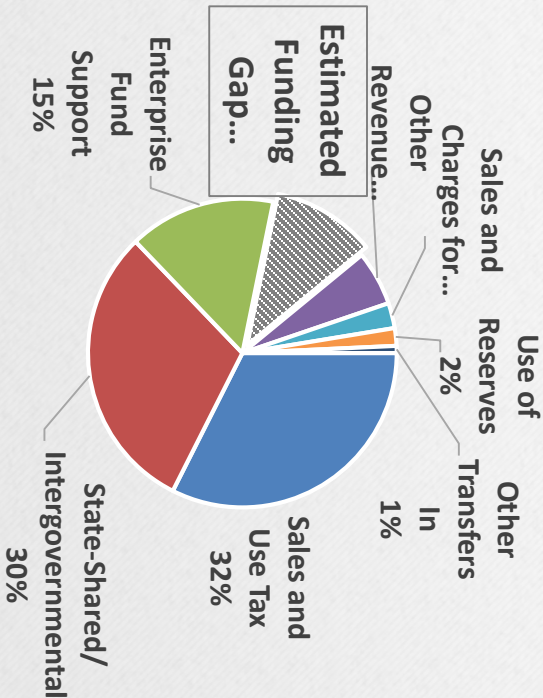
General Governmental and Economic Investment Funding Sources

FY 19/20 Tentative Budget



*Note: Does not include carryover funding from FY 18/19

FY 19/20 Tentative Budget
(with proposed initiative)



A Municipality's Budgeting Options

- Duty to Have a Balanced Budget
- Options Available to a Municipality to Balance the Budget When Revenue Decreases:
 - Find New Source of Revenue;
 - Increase a Current Source of Revenue; or
 - Decrease Expenditures by Decreasing Services/Programs.

New or Increased Source of Revenue

- Proposed Initiative Offers No New Source of Revenue for the General Fund or Option to Increase a Current Source of Revenue for the General Fund.
- Primary Source of Revenue for Arizona Municipalities is Taxation.
- Mesa City Charter Section 602 (Taxes)
 - Transaction privilege tax, real estate tax (primary and secondary property tax) and personal property tax.
 - All taxes listed in the Mesa City Charter above require voter approval.*
- Investigate Other Funding Sources

**Transaction Privilege Tax increase in rate in excess of 1% (current Mesa rate is 2%) requires voter approval. Most recent increase was approved in 2018 as a dedicated Public Safety Sales Tax.*

Options to Decrease Expenditures

Decrease Municipal Workforce: Leave Proposed, New Positions Vacant*

General Fund Positions Proposed FTE	12.25
\$ 1.11 Million	
Public Safety Sales Tax Positions Proposed	25.00 FTE
\$ 2.89 Million	
2018 Bond Related Positions Proposed FTE	3.50
\$ 0.24 Million	

**Proposed Full-Time Equivalent (FTE) Based on FY 19/20 Budget*

Decrease Number of Municipal Construction Projects and Improvements: 2018 Bond Authorized Projects*

Estimated Annual O&M for Project

- Fire Station 221 - \$2.0M
- Northeast Public Safety Facility - \$3.5M
- Plaza @ Mesa City Center - \$200K
- Dobson Library Improvements - \$275K
- Main Library Improvements - \$20K

**Projects expected to have construction begin during the next two fiscal years*

Decrease Projects and Improvements: 2018 Bond Authorized Projects* (Continued)

Estimated Annual O&M for Project

- Federal Building Renovation - \$210K
- Monterey Park - \$467K
- North Center Street - \$470K
- Harris Basin Playground - \$17K

**Projects expected to have construction begin during the next two fiscal years*

Options to Decrease Expenditures for a Remaining Estimated Funding Gap

- If the Proposed Initiative were approved by the voters, the City would need to consider an alternative budget that accounts for the reduction to the General Fund due to the Proposed Initiative.

