



COUNCIL MINUTES

June 2, 2022

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 June 2, 2022, at 7:30 a.m.

COUNCIL PRESENT

John Giles*
Jennifer Duff
Mark Freeman
Francisco Heredia
David Luna
Julie Spilsbury
Kevin Thompson*

COUNCIL ABSENT

None

OFFICERS PRESENT

Christopher Brady
Holly Moseley
Jim Smith

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

Vice Mayor Duff conducted a roll call.

(Vice Mayor Duff excused Councilmember Spilsbury from the beginning of the meeting; she arrived at 7:33 a.m.)

(Vice Mayor Duff excused Mayor Giles from the beginning of the meeting; he arrived at 7:34 a.m.)

1. Review and discuss items on the agendas for the June 6, 2022, Regular and Special Council meetings.

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

In response to a question from Councilmember Thompson regarding Item 4-f, **(Three-Year Term Contract with Two Years of Renewal Options for Chemical Detectors and Radionuclide Identification Devices for the Mesa Police Department (Citywide))**, on the June 6, 2022, Regular Council meeting agenda, City Manager Christopher Brady responded currently Fire and Police Services charge the airport for the expense of a bomb dog. He commented he will conduct research and report back to Council if the PD is willing to pay for a bomb dog and handler at the airport.

In response to multiple inquiries posed by Councilmember Luna regarding Item 5-k, **(Modifying fees and charges for the Falcon Field Airport. (Citywide))**, on the June 6, 2022, Regular Council meeting agenda, Airport Director Corinne Nystrom stated the fees and charges for Falcon Field are designed for the airport to remain financially self-sustaining. She commented Falcon Field is not funded by the City's General Fund, and the only revenue source for airport operating expenses or capital expenditures is the airport Enterprise Fund. She emphasized the airport only raises fees when necessary and conducts an annual survey of other airports to remain competitive throughout the Valley. She explained the airport will only have to pay a percentage of the City's major capital improvement projects if federal and state funds are received.

Office of Management & Budget Deputy Director Samuel Schultz displayed a PowerPoint presentation on agenda Item 5-m, **(Adopting a pension funding policy and accepting the employer's share of assets and liabilities under the Public Safety Personnel Retirement System as required by A.R.S. §38-863.01. (Citywide))**, on the June 6, 2022, Regular Council meeting agenda. **(See Attachment 1)**

Mr. Schultz provided an overview of the pension funding policy, which must be adopted annually by the City and includes Tiers 1 and 2 members of the Public Safety Personnel Retirement System (PSPRS). He emphasized since the City has an unfunded liability, the City is required to adopt this pension funding policy. He commented the City must recognize and accept its current assets and liabilities, adopt its plan, and meet the funding requirements and objectives for the next fiscal year (FY) to achieve the target of being 100% funded. (See Page 2 of Attachment 1)

Mr. Schultz discussed the three objectives of the pension funding policy. He stated in response to any swings in the markets or changes in assumptions, the Office of Management and Budget (OMB) invests \$2 million annually into a reserve fund to help ensure the stability of pension contributions. He commented that the City ensures that the funding requirements are met; understanding that with inflation and salary increases, the City must ensure that the liability will continue to increase, and that the City has sufficient financial strength to cover those contributions over the forecast period. He emphasized the expectation is to become 100% funded by June 20, 2042. (See Page 3 of Attachment 1)

Mr. Schultz reviewed the City's current assets and liabilities for years 2020 and 2021. He indicated last year when the City adopted an increase of the stabilization plan, the numbers were applied to FY 21/22 and are not reflected. He commented there is a slight increase, but not in line with the considerable investments that the City is making to achieve a level stabilization. He noted last year was a good investment year, and PSPRS had a return of approximately 27%, and that is being used to spread out Mesa's gains and losses over seven years. (See Page 4 of Attachment 1)

Mr. Schultz summarized the City's funding strategies and stated the City sets aside \$2 million annually into the pension reserve fund to offset losses resulting from swings in the market. He added as a result of Proposition 207, which is the marijuana tax for adult use recreational marijuana, the City receives a portion of that sales tax for Public Safety. He indicated the City has elected to use those dollars to reduce the unfunded liability. He commented with the additional sales tax that the City is receiving for FY 21/22, the City will contribute an additional \$2 million to the unfunded liability. He pointed out the City determined the stabilization contribution that is needed by reviewing the unfunded liabilities, and then stabilizing that payment into the forecast at approximately \$80 million over the next 20 years. (See Page 5 of Attachment 1)

In response to a question posed by Mr. Brady regarding the previous forecast, Mr. Schultz mentioned the approximate contribution was \$60 million, and was increased last year.

Mr. Brady clarified this budget year will be the first year the forecast is at \$80 million, which becomes the leveling point for the next 20 years.

Mr. Schultz stated the City contributed an additional \$14 million for the current FY on top of the projected annual contribution. He mentioned the upcoming budget will include an additional \$8 million, as well as the sales tax that the City is contributing to help reduce the unfunded liability. He noted the forecast has trended upward with the variables similar to the City's sales tax to include a slight market correction and salary changes that would affect the liability.

Councilmember Freeman commented the PSPRS program is governed by state legislation and the City must adhere to their guidelines. He mentioned the City pays and amortizes the unfunded liability and has little control over what the state does with the unfunded liability; however, the City is required to meet forecasts.

Mr. Brady explained that the PSPRS is an actuarial defined liability, which includes paying for retirees' future pension payments, and for current employees and the ability to meet their future pension payments. He commented the assumption includes everyone who is employed or going to be employed over that period of time, and those already in the Tiers 1 and 2 program.

In response to a question from Councilmember Freeman regarding the marijuana sales tax, Mr. Schultz commented \$2 million to \$2.8 million was implemented in March, and the first sales tax receipts were for a shorter time period. He indicated the payment the City made for the unfunded liability in FY 21/22 was for sales between January and December, during which time there were no marijuana tax sales for two to three months, noting the \$2.8 million is closer to the stabilizing amount for a full year.

Mr. Schultz reviewed the pension plan updates, which affects the liability from the model standpoint of the actuarial assumption. He stated as the actuarial has begun to decrease the wage growth assumption from 3.5% to 3%, half percentage point reductions will continue until the goal of 2% has been achieved. He commented the PSPRS investment return target is 7.3%. (See Page 6 of Attachment 1)

Mr. Schultz presented a graph highlighting the City's total annual contribution forecast of approximately \$80 million. He indicated the City's stabilized unfunded liability payment ranges from \$64 million to \$66 million. He explained the graph includes the market correction, similar to the sales tax forecast presented for the budget. He stated the City takes the wage growths into account to ensure that the \$80 million stabilization payment is correct, and the City has contributed a significant amount for this FY and next FY to meet the \$80 million compared to the prior actuarial schedules. (See Page 7 of Attachment 1)

Mr. Schultz shared a graph regarding the funded percentage of the City's PSPRS plans depicting how both plans are progressing through the amortization schedule with the \$80 million contribution and how to reach the funding percentage goal of a 100% by June 30, 2042. (See Page 8 of Attachment 1)

Mr. Schultz announced the next steps for Council to adopt the funding policy will be on the Council agenda for the June 6 Council meeting, and the pension funding policy will be posted for the next FY. (See Page 9 of Attachment 1)

In response to a question from Councilmember Luna regarding civilian personnel, Mr. Brady stated civilian personnel participate in the Arizona State Retirement System (ASRS) and the funding percentage is in the low 70s.

In response to a request for clarification from Councilmember Spilsbury regarding the \$200 million stabilization payment, Mr. Brady stated the schedule refers to a \$200 million payment if the City paid only the minimum amount each year. He commented the schedule only referred to that amount since that was all the City could afford to pay seven years ago, which is why a 25-to-30-year schedule was used to calculate the amount. He emphasized having a flat and predictable amount is a lot easier to plan around than an escalating amount. He remarked within the last three years, the economy has turned around and adjustments have been made.

Mr. Schultz added the City's forecast factored in a 6% increase annually, based upon the historical data, and is compounded over 20 years.

In response to a question posed by Mayor Giles regarding the impact of inflation on investments, Mr. Schultz mentioned a slight correction has been included in the forecast due to predicted changes in the market. He mentioned the 27% will be distributed over the next seven years, so that the losses experienced over the next few years will be offset by gains received in the current FY.

In response to an inquiry from Mr. Brady regarding the assumed rate, Mr. Schultz responded the assumed rate of return throughout the seven years is 27%, then adjusts to 7.3%, 0%, 3%, 3%, 10%, and then back to 7.3%. He mentioned to reduce the volatility of the City's contributions, several new policies to level out and amortize gains and losses over a 15-year period have been implemented.

Vice Mayor Duff thanked staff for the presentation.

In response to multiple questions from Vice Mayor Duff regarding Item 4-g, **(Purchase of One Mechanical Street Sweeper (Replacement) for the Transportation Department (Citywide))**, on the June 6, 2022, Regular Council meeting agenda, Transportation Department Director RJ Zeder responded there is an electric sweeper on the market, which is significantly more expensive than the traditional model sweeper that will be purchased. He mentioned the cost for a traditional sweeper is approximately \$345,000 versus a quote for an electric sweeper of \$700,000. He added there is potential for compressed natural gas (CNG) options, but the infrastructure is not in place currently for either CNG or electric. He advised there is not a return on investment for an electric sweeper due to the cost of an electric sweeper, fuel, and operational costs. He emphasized the lack of data on how well an electric sweeper would perform in the City's environment of intense heat, and Transportation is examining what other cities are doing before making a commitment.

City Treasurer Ryan Wimmer displayed a PowerPoint presentation on Item 1-a, **(Proposed Fiscal Year 2022-23 Budget, and the proposed Fiscal Year 2022-23 Secondary Property Tax Levy)**, on the June 6, 2022, Special Council meeting agenda. **(See Attachment 2)**

Mr. Wimmer stated that although the City does not have a primary property tax to fund operations, the City has a secondary property tax to fund the debt service on General Obligation (GO) bonds that are approved by voters. He explained the tax levy is the amount of revenue the City needs to pay their GO bonds debt payment. (See Page 2 of Attachment 2)

Mr. Wimmer explained the property values in Mesa and stated there has been an upward trend over the last decade. He mentioned the two values that the Assessor determines for each property are the full cash value, which follows the market price; and the limited value to dampen the effect of any changes in the property value, which limits big swings in your property value that is taxed each year and used for property tax calculations. He indicated there is a two-to-three-year delay from the time a property is valued to the time used for taxes and so the values on the chart are from a couple of years ago. (See Page 3 of Attachment 2)

Mr. Wimmer reviewed the change in taxable property value between FY 21/22 and FY 22/23. He mentioned more than a third of the new taxable property value in the City next year will be from new property. (See Page 4 of Attachment 2)

Mr. Wimmer discussed the property tax levy, which is the amount the City needs to collect to pay the debt service. He said the City is proposing a levy that is less than the prior year based on the determination that Mesa was not on track to complete the bond programs in four to five years and wants to better align the assumptions with the actual time the bond programs take to progress. He commented there is a healthy reserve balance in Mesa's GO debt service fund and feels confident with reducing the levy that is being recommended for next FY. (See Page 5 of Attachment 2)

Mr. Brady clarified that in the past, the City had to set a specific rate, based on the assumption of how quickly the City needed money for projects and the interest rate. He explained being conservative with estimations and establishing a rate resulted in an accumulation of reserves. He added considering that the City does not anticipate any major changes in property tax values, the City is able to reduce the tax levy rate for a few years and provide savings for residential homeowners.

In response to an inquiry from Vice Mayor Duff regarding lack of funds due to inflation costs, Mr. Brady explained if the bond authorization falls short on a project, a request is made to Council to supplement the capital bonds that are being paid for by the property tax with additional sales tax dollars to meet that need.

In response to a question from Councilmember Spilsbury regarding reserves, Mr. Brady stated that there is a maximum amount of reserves that can be built up; and if the cap is reached, according to state law, whatever is collected will be used to pay down debt early.

Mr. Wimmer provided an overview of the property tax levy forecast over the next 10 years. He stated the forecast last year for the levy was approximately \$45 million until all the bonds were issued from the 2018 and 2020 bond elections to remain flat from year to year. He commented today the proposed adjusted forecast is set at approximately \$39 million for FY 22/23. (See Page 6 of Attachment 2)

Mr. Wimmer compared the proposed tax levy for FY 22/23 to FY 21/22. He stated the annual cost to the median homeowner is decreasing by approximately \$25. (See Page 7 of Attachment 2)

In response to a question posed by Councilmember Freeman regarding the tax rate, Mr. Brady explained the tax levy is the debt service payment, and the property value is provided by the County, which helps the City determine what the payment rate will be.

Councilmember Spilsbury commented the property value divided by the tax levy equals the tax rate.

In response to multiple questions from Councilmember Spilsbury regarding property values, Mr. Brady stated property values are two to three years behind and the property value is provided to residents from the County Assessor's office. He mentioned the property value rate that can be assessed is capped at a 5% growth annually. He commented the letter received from the County Assessor will display the limited value and full cash value.

Responding to a question posed by Councilmember Heredia regarding taxable property values, Mr. Wimmer stated as values increase, and the City is collecting the same levy, the rate goes down, which decreases the payments due to new properties on the market that spreads the cost across more properties.

Mr. Brady referred to Slide 7 stating the City will keep the levy amount at \$38.8 million, and if property values continue to rise during that same period, the City will only need \$38.8 million. He emphasized as values increase, rates decrease; and the City does not focus on rates, rather on the \$38.8 million levy.

In response to a question from Councilmember Heredia regarding creating new growth, Mr. Brady commented the rate will continue to drop since the City only needs to generate the \$38.8 million. He added as values continue to increase, rates will decrease to reach \$38.8 million whether from new construction or amortization of existing properties, and the levy or the debt services amount will not increase.

In response to multiple questions from Councilmembers Heredia, Mr. Wimmer stated as new property enters the market, the base of property available broadens and the cost is spread out, which results in a reduction in the tax levy. He mentioned the levy includes the finance rate.

Mr. Wimmer reviewed the adjusted property tax levy forecast. He mentioned if the \$157 million Public Safety bond question passes in November, more projects will be undertaken, more debt will be issued, and the rate may need to be increased. (See Page 8 of Attachment 2)

Mr. Wimmer clarified that when a new property or home is purchased, the Assessor's Office does not base value on the sale price or current value, but instead takes a ratio of existing properties in that area, similar to the full cash value and limited value ratio and applies that to the new property. He explained whether a property is purchased new or existing, the full value does not reset, but remains as the difference between the full cash value and the limited value based on similar properties in the area.

Mr. Wimmer discussed the historical comparison for the property tax levy and rate. He mentioned for the first four years, the levy remained flat, and the rate decreased due to property values increasing. (See Page 9 of Attachment 2)

Mr. Wimmer provided a timeline for the budget and the property tax levy adoptions. (See Page 10 of Attachment 2)

Discussion ensued relative to publicity pamphlets for the November election on the Public Safety bond, property tax and bond election.

In response to a question from Councilmember Thompson regarding how the levy changes as debt is paid off, Mr. Brady stated the goal is to have level payments for 25 years for each authorization and maintain a smooth levy even with new issuances in the future. He commented

the City is paying off debt every year and has only been issuing secondary property tax since 2009.

In response to a question posed by Vice Mayor Duff regarding projections for growth and property values, Mr. Wimmer stated there is a 6% assumption, which includes 4% from appreciation and 2% from new properties.

Vice Mayor Duff thanked staff for presentation.

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

2-a. Parks and Recreation Advisory Board meeting held on March 9, 2022.

2-b. Transportation Advisory Board meeting held on March 15, 2022.

2-c. Library Advisory Board meeting held on January 18, 2022.

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

Upon tabulation of votes, it showed:

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

NAYS – None

Carried unanimously.

3. Current events summary including meetings and conferences attended.

Vice Mayor Duff –	Hydrogen Day at Southwest Gas and ASU Lightworks
Councilmember Freeman –	Community Safety Fair
Councilmember Heredia –	Valley Metro Streetcar opening – Tempe Water conservation Facebook video
Councilmember Luna –	Red Mountain Library – summer reading kickoff Water Hydration Campaign Mesa Firefighters Career event Nordic Ammunition Company – expansion grand opening Solid Waste and water conservation Facebook video
Councilmember Spilsbury –	Water Hydration Campaign Main Library – summer reading kickoff

Vice Mayor Duff and Councilmembers Freeman, Luna, and Thompson attended the POW MIA flag ceremony at the Mesa Police Headquarters.

4. Scheduling of meetings.

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

Monday, June 6, 2022, at 5:15 p.m. – Study Session

Monday, June 6, 2022, at 5:45 p.m. – Regular

Monday, June 6, 2022, at 5:50 p.m. – Special

5. Adjournment.

Without objection, the City Council study session adjourned at 9:09 a.m.

VICE MAYOR

ATTEST:

HOLLY MOSELEY, 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 2nd day of June 2022. I further certify that the meeting was duly called and held and that a quorum was present.

HOLLY MOSELEY, CITY CLERK

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(Attachments – 2)

Public Safety Personnel Retirement System (PSPRS)

Pension Funding Policy FY 2022/23

June 2, 2022

Samuel Schultz

Deputy Budget Director – Office of Management and Budget



Pension Funding Policy

Beginning on or before July 1, 2022, the governing body of an employer shall annually

- Adopt a pension funding policy for the Public Safety Personnel Retirement System for employees who were hired before July 1, 2017.
- Formally accept the employer's share of the assets and liabilities under the system based on the system's actuarial valuation report

ARS 38-863.01

Pension Policy Required Objectives:

The pension funding policy includes funding objectives that address at least the following



MAINTAIN STABILITY OF
CONTRIBUTIONS



MEET FUNDING
REQUIREMENTS



FUNDING RATIO TARGET
AND TIMELINE

Current Status - Tier 1 and 2 (Pension + Health)

Unfunded Liability / Funded Status

(as of June 30, 2020; includes health)

Plan	Assets (millions)	Liability (millions)	Unfunded Liability (millions)	Funded Status
Fire and Medical	\$ 226	\$ 458	\$ 232	49.3%
Police	\$ 400	\$ 870	\$ 470	45.9%
Total	\$ 625	\$ 1,327	\$ 702	

Unfunded Liability / Funded Status

(as of June 30, 2021; includes health)

Plan	Assets (millions)	Liability (millions)	Unfunded Liability (millions)	Funded Status
Fire and Medical	\$ 245	\$ 482	\$ 237	50.8%
Police	\$ 433	\$ 904	\$ 471	47.9%
Total	\$ 679	\$ 1,386	\$ 708	



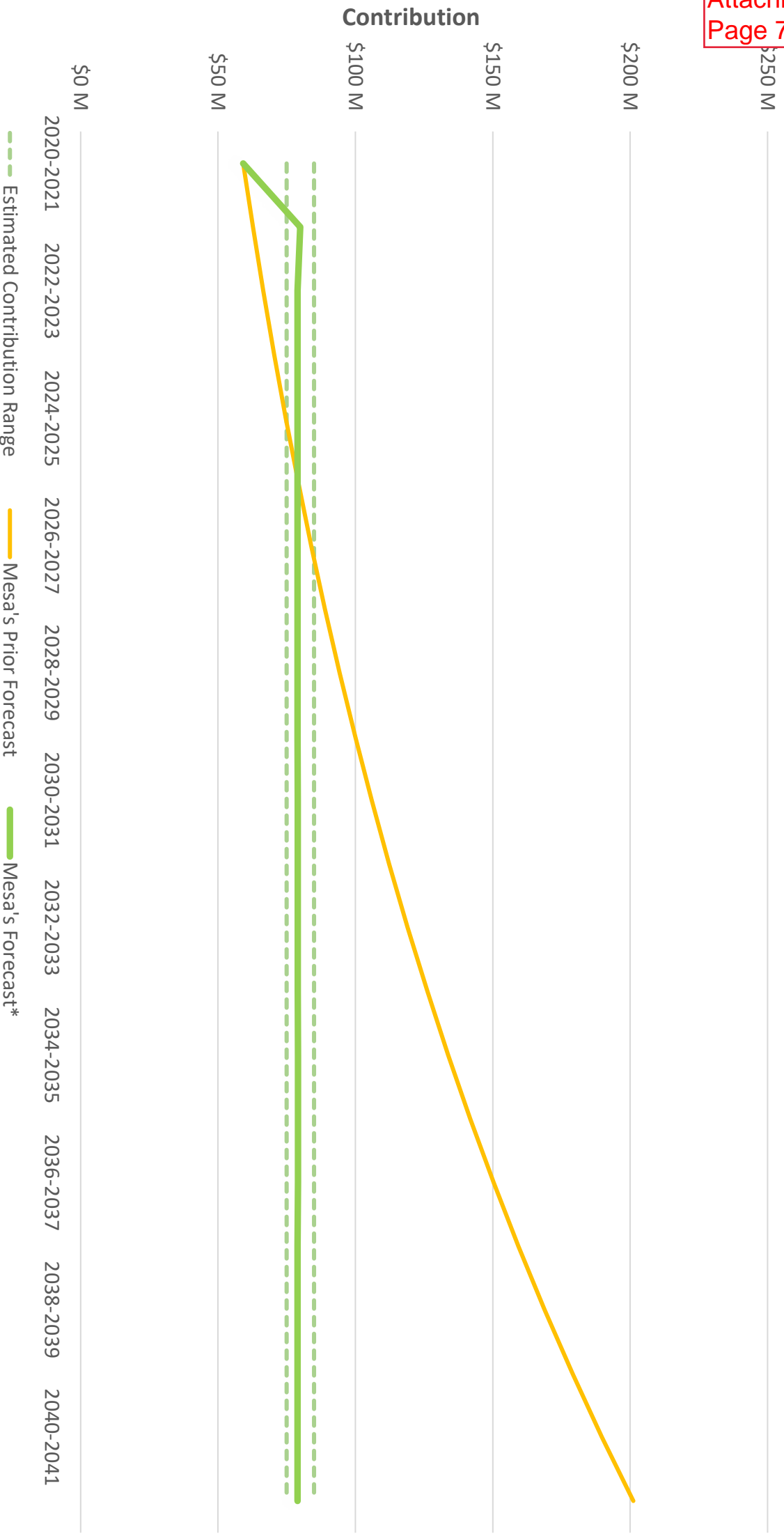
City Funding Strategies

- Pension Stabilization Fund
 - \$2M annual contribution
 - Current Balance: **\$12M**
 - *As of the close of FY 2021/22*
- Additional City investment from sales tax on adult use (recreational) marijuana
 - FY 21/22: \$2.0M
 - *Police: \$1.3M*
 - *Fire: \$729K*
 - FY 22/23 (projected): **\$2.8M**
- Stabilized investment
 - Approximately **\$80M** in total forecasted annual contributions

Pension Plan Updates:

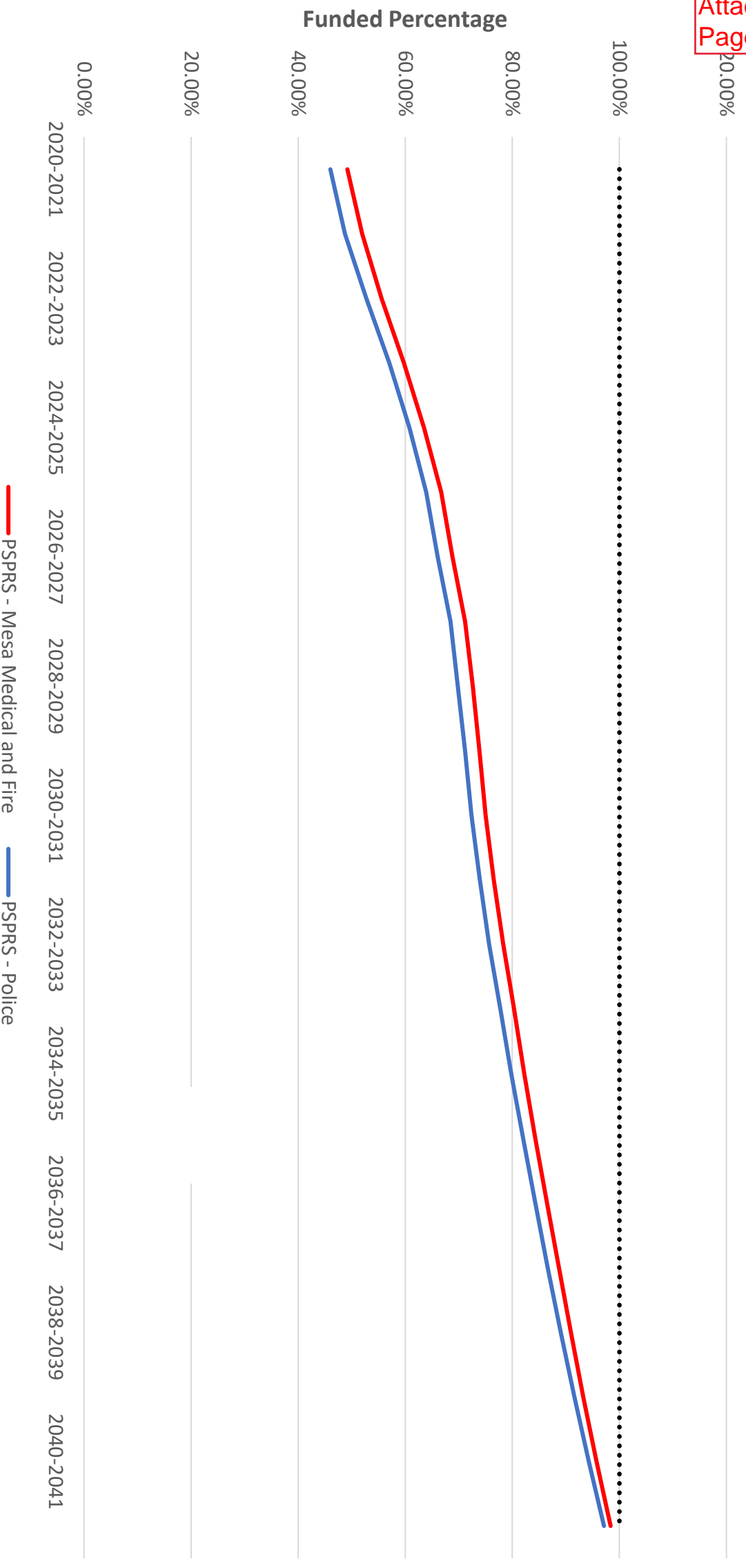
- Wage Growth Assumption – Reduced from 3.5% to 3% and will continue to decrease to 2%
- Investment Returns – approx. 27% for FY 2020/21
 - Gains/losses smoothed over 7 years and amortized out

The City's Total Contribution is forecasted at approximately **\$80M** annually



*Mesa's Forecast accounts for a market correction and upcoming salary adjustments

Funded Percentage of the City's PSPRS plans



Next Steps:

Adoption of the Funding Policy on June 6, 2022

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Secondary Property Tax Levy

FY 2022-23

Ryan Wimmer, Treasurer

June 2, 2022



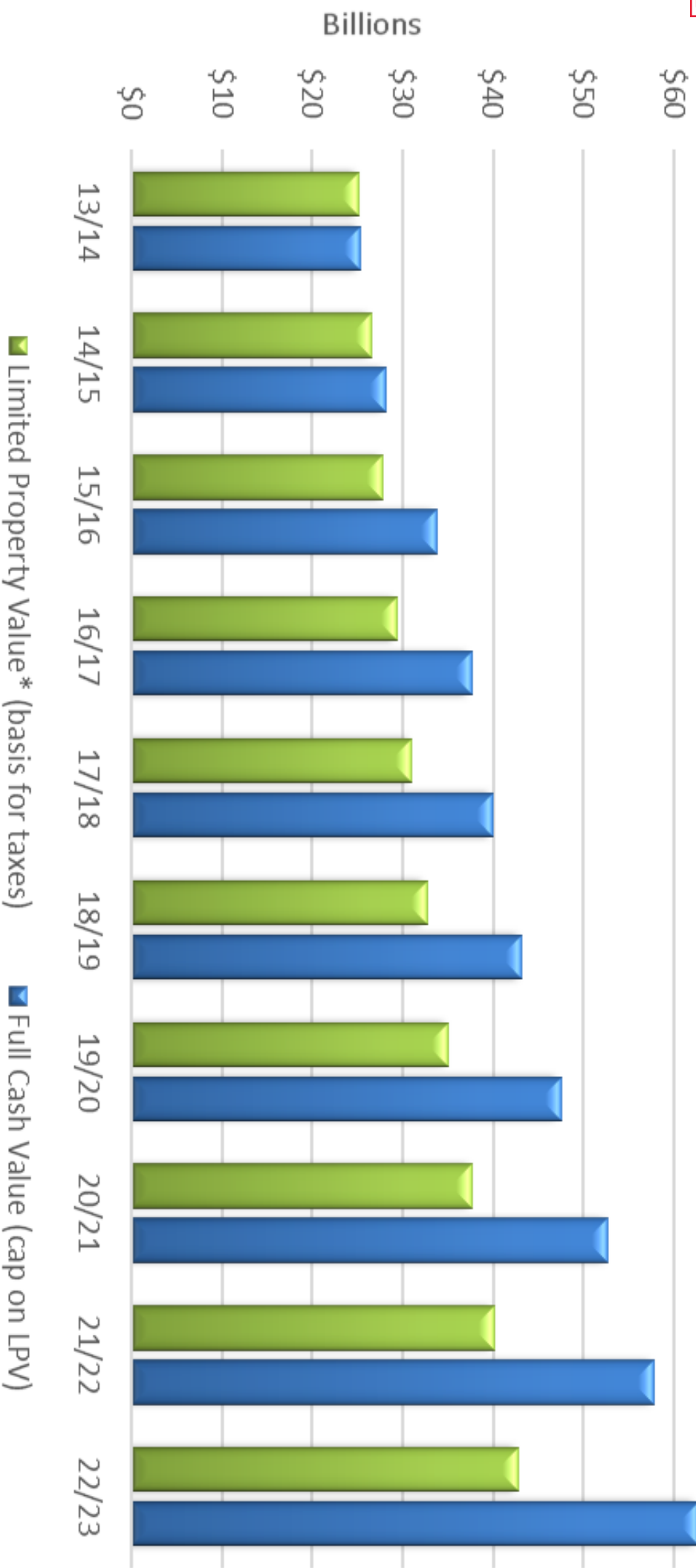
Property Tax Types

Type	Permitted Use	City of Mesa
Primary	General city operations	No
Secondary	Debt service on general obligation bonds approved by voters	Yes

Formula:

$$\text{Property Value} \times \text{Tax Rate} = \text{Tax Levy}$$

Total Property Value in Mesa (2-3 year delay from sales value)



*Annual increase on existing properties limited to 5%

Change in Taxable Property Value

Formula:

$$\text{Property Value} * \text{Tax Rate} = \text{Tax Levy}$$

Change in Taxable Property Value in Mesa (FY21/22 to FY22/23)

	\$ Change	% Change
Appreciation of Existing Property	+\$158 million	+4.0%
New Property	+\$ 86 million	+2.1%
Total	+\$244 million	+6.1%

FY22/23 Property Tax Levy

Formula:

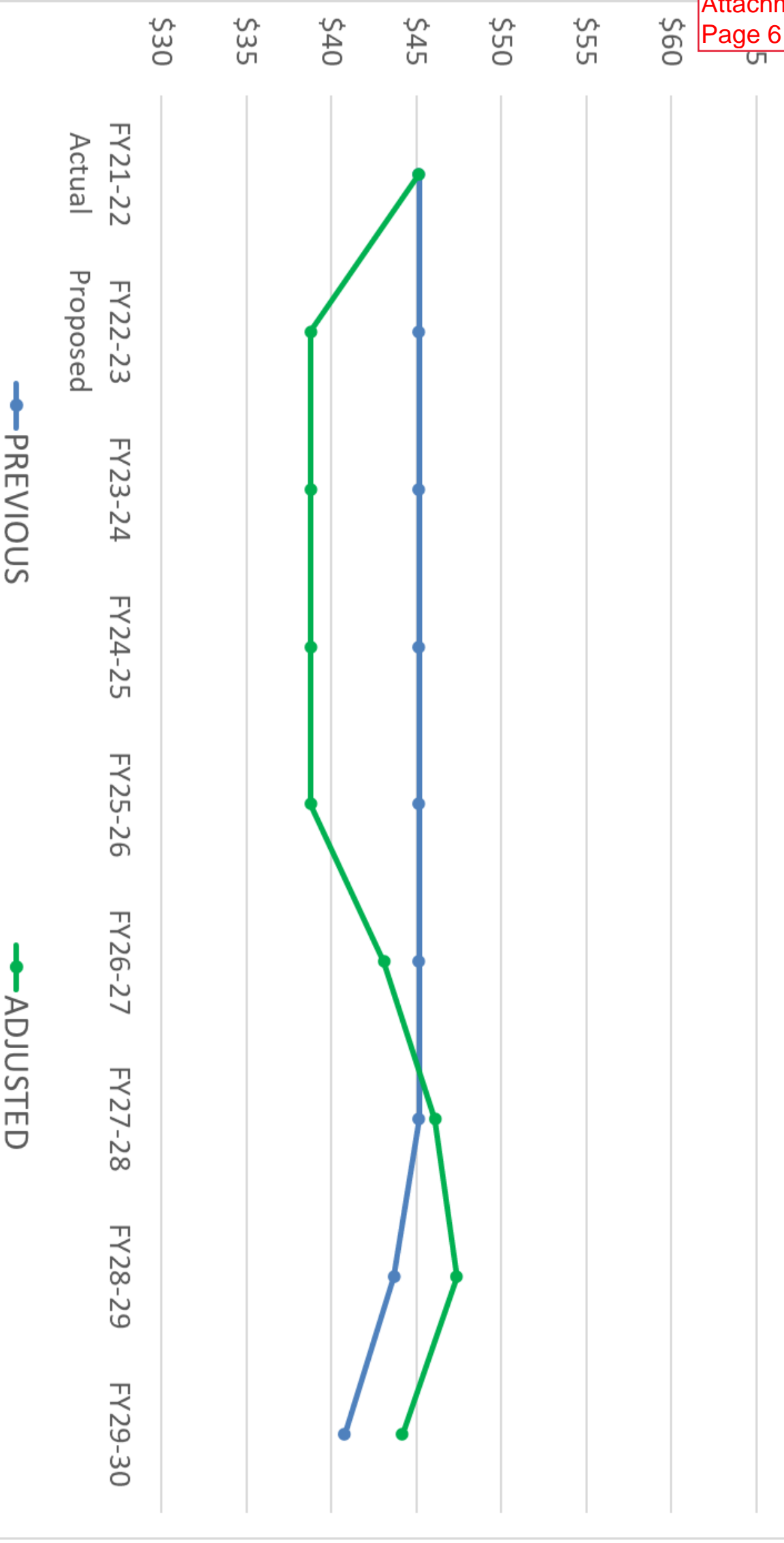
$$\text{Property Value} * \text{Tax Rate} = \text{Tax Levy}$$

FY22/23 Proposed Levy: Set at a level that funds annual debt payments for several years but that may need to be increased once all bonds authorized by voters in 2018 and 2020 have been sold

Less than prior year due to:

1. Timeframe – aligns levy with progress of bond programs
 - Timeframe to complete bond programs (6-8 years) versus original assumption (4-5 years)
 - 31% of bonds authorized by voters in 2018 have been sold
 - 3% of bonds authorized by voters in 2020 have been sold
2. Savings from conservative financial assumptions (interest rates, collection rates, etc.)
3. Healthy reserve balance

Property Tax Levy Forecast



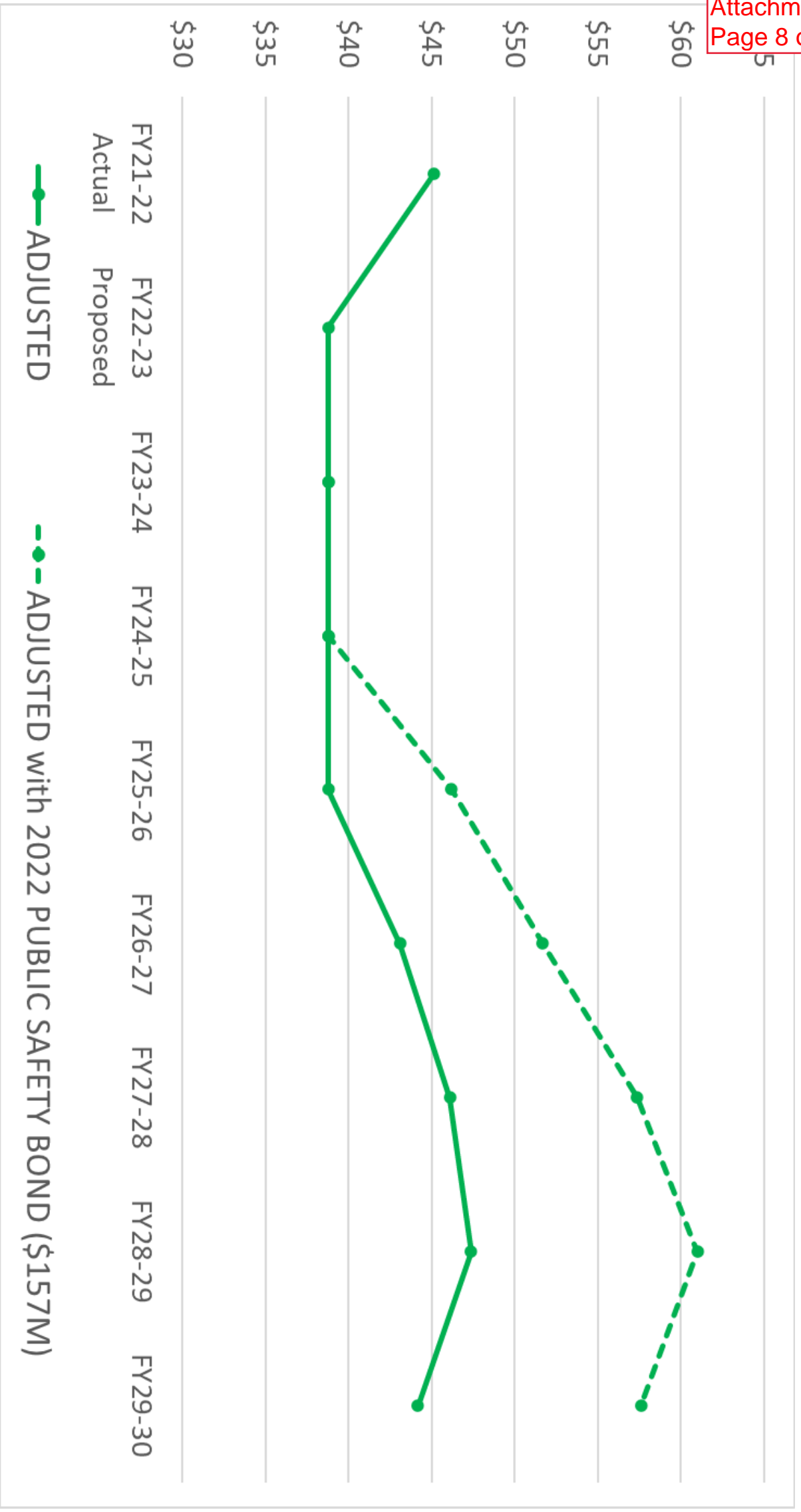
Proposed Levy and Rate

	FY21/22	FY22/23 Proposed	\$ Change	% Change
Taxable Property Value	\$3,990 million	\$4,234 million	+\$244 million	+6%
Tax Levy	\$45.2 million	\$38.8 million	-\$6.4 million	-14%
Tax Rate	\$1.1319	\$0.9157	-\$0.2162	-19%
Annual Cost to Median Homeowner	\$171	\$146	-\$25	-15%

Formula:

$$\text{Property Value} * \text{Tax Rate} = \text{Tax Levy}$$

Property Tax Levy Forecast



Proposed Levy and Rate

Historical Comparison



Calendar

June 6	Public hearing on annual budget and secondary property tax levy
	Final adoption of annual budget
June 20	Adoption of secondary property tax levy

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General Obligation Debt Service

