



COUNCIL MINUTES

June 1, 2023

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 1, 2023, at 7:30 a.m.

COUNCIL PRESENT

John Giles*
Francisco Heredia
Jennifer Duff*
Mark Freeman
Alicia Goforth*

COUNCIL ABSENT

Scott Somers
Julie Spilsbury

OFFICERS PRESENT

Christopher Brady
Holly Moseley
Jim Smith

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

Vice Mayor Heredia conducted a roll call.

Vice Mayor Heredia excused Councilmembers Somers and Spilsbury from the entire meeting.

1. Review and discuss items on the agendas for the June 5, 2023, Regular and Special Council meeting.

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

Conflict of interest: None

Items removed from the consent agenda: None

Office of Management and Budget Deputy Director Samuel Schultz displayed a PowerPoint presentation on agenda Item 5-b, **(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 Regular Council meeting agenda. **(See Attachment 1)**

Mr. Schultz provided an overview of the pension funding policy and the required objectives. He advised that the City is in its 19th year of amortization and expects to be 100% funded by June 30, 2042. He reviewed the assets and liabilities ending fiscal year (FY) 22 compared to the previous year. He indicated the funded status has increased; however, assets are growing at a faster rate compared to liabilities and he listed contributing factors. He projected a 1% to 2% investment growth for FY 22/23 and a mild recession for FY 23/24. (See Pages 2 through 5 of Attachment 1)

Mr. Schultz summarized the City's funding strategies and explained position and salary increases for Fire and Police will be funded through the Public Safety Sales Tax. He discussed the outlook for Mesa and reminded Council that the goal for the pension is to become 100% funded over a 19-year amortization period. He noted that House Bill (HB) 2028 reduced Tier 2 contribution rates to 7.65%, which enabled Mesa to recognize additional assets. He elaborated on the impacts to the City's liability and how staff continues to monitor the growth of Tier 3 to determine the effects of the contribution into the unfunded liability payment. (See Pages 6 and 7 of Attachment 1)

Mr. Schultz shared a graph regarding the funded percentage of the City's Public Safety Personnel Retirement System (PSPRS) plans depicting how both plans are progressing through the amortization schedule. He announced the next steps for Council to adopt the PSPRS funding policy. (See Pages 8 and 9 of Attachment 1)

City Manager Christopher Brady clarified that the City has a level payment for the unfunded liability for the next 19 years. He pointed out to establish a level payment, staff considers several variables and will make adjustments to the contribution amount as needed.

In response to a question from Councilmember Goforth, Mr. Brady explained that the stabilization fund is not required by law, but the City of Mesa (COM) established the practice of setting aside \$2 million annually for reserves.

Councilmember Freeman commented the PSPRS program is governed by state legislation. He mentioned the City is fortunate to have a \$3.3 million increase in marijuana sales tax used to offset some payments for market adjustments, as well as save the taxpayers money.

In response to a question posed by Councilmember Freeman, Mr. Brady replied that the City is required to make payments and chose to make higher payments than the minimum in order to stabilize the payments and avoid backloading extra payments on future Councilmembers.

Mr. Schultz noted the recommendations can be adjusted as needed throughout the fiscal year, and that staff can return with alternative funding options during the budget process or throughout the FY.

Vice Mayor Heredia thanked staff for the presentation.

Responding to multiple questions from Councilmember Freeman regarding Item 4-a, **(Use of a Cooperative Contract for the Purchase of Four Pumper Trucks (Three Additions and One Replacement) and One Ladder Truck (Replacement) for the Mesa Fire and Medical Department (Citywide))**, on the Regular Council meeting agenda, Assistant Fire Chief James Johnson explained that the City has reserve fire trucks available for new fire stations until the new fire trucks arrive, which can take up to three years. He confirmed that the base price for a new pumper truck is approximately \$1 million, while the price of a new ladder truck is estimated to be \$1.8 million.

Responding to multiple questions from Councilmember Freeman regarding Item 8-a, **(Amending Title 6 (Police Regulations), Chapter 10 (Public Park Regulations), Section 4 (Prohibited Activities and Restrictions) of the Mesa City Code to include prohibitions and restrictions related to marijuana in parks. (Citywide))**, on the Regular Council meeting agenda, City Attorney Jim Smith replied that the Mesa City Code related to marijuana in parks is being amended to permit park rangers to issue the same citations as police officers. He added park

rangers requested that their citations be referenced within the Mesa City Code rather than in the marijuana ordinance.

Councilmember Duff requested a correction regarding Item 6-a, **(Modifying and updating terms for the Electric Residential - Economy eligibility criteria.)**, on the Regular Council meeting agenda, to Exhibit A, line number 2 to omit the words “pilot program”.

Responding to multiple questions from Councilmember Duff regarding Item 6-b, **(Amending Table 1 in Title 5 (Business Regulations), Chapter 17 of the Mesa City Code, entitled Mesa Development Impact Fees, by removing the Wastewater Impact Fee from the table so as to confirm the discontinuation of this fee. (Citywide))**, on the Regular Council meeting agenda, City Attorney Jim Smith explained over a decade ago, the change in legislation on the impact fee statute allowed for two options and the City selected the option that would remove the impact fee once the debt is paid. He stated the impact fee is structured off of debt, and the City would have to restructure all of their impact fees if the City decided to finance capital projects moving forward.

In response to a question posed by Vice Mayor Heredia, Mr. Brady recalled that in the past, capital projects were financed through bonds.

Mr. Smith clarified that previously capital projects had to be financed as of the date the legislature passed, which restricted impact fees.

Mr. Brady advised that the decision to pay off existing debt has been successful.

In response to multiple questions from Councilmember Goforth Item 10-b, **(Resolution approving the Five-Year Capital Improvement Program for fiscal years ending 2024-2028. (Citywide))** on the Regular Council meeting agenda, Office of Management and Budget Director Brian Ritschel replied that the adoption of the five-year Capital Improvement Program happens every year. He added the capital improvement plan is often amended in response to delays in projects, timelines, or priorities.

Treasurer Ryan Wimmer displayed a PowerPoint presentation on Item 1-a, **(A public hearing on the proposed Fiscal Year 2023-24 Budget, and the proposed Fiscal Year 2023-24 Secondary Property Tax Levy. (materials attached))**, on the Special Council meeting agenda. **(See Attachment 2)**

Mr. Wimmer explained the two property values the Assessor determines for each property are the limited property value and the full cash value. He indicated there is a two- to three-year delay from the time a property is valued to the time used for taxes. He presented a chart showing the residential median property values in Mesa, and compared home sale values in Mesa, Gilbert, and Chandler. He reported the taxable property value in FY 23/24 is increasing 6.7% in total. (See Pages 2 through 4 of Attachment 2)

Mr. Wimmer stated that the City does not have a primary property tax for general operations, but the City has a secondary property tax for payments on General Obligation (GO) bonds. He compared the proposed tax levy, values, and rates for FY 23/24 to FY 22/23. He noted that taxable values can only increase by 5% annually and the tax rate is down 6.3% for the next FY; therefore, every existing property in the City of Mesa (COM) will receive a lower tax bill in FY 23/24. (See Pages 6 and 7 of Attachment 2)

Mr. Wimmer reviewed a graph illustrating the history and forecast of the tax levy and rate. He indicated in future years, the City still has the 2018 and 2020 bond election, as well as the 2022 bond election for Public Safety. He mentioned as bonds are issued in the future, the City anticipates the levy will rise and the rate will rise as the debts are issued. He projected the levy is expected to peak in FY 28/29 and then drop in FY 29/30. (See Page 8 of Attachment 2)

In response to a question from Councilmember Freeman, Mr. Brady explained that staff applies a rate that is necessary to generate what the City owes in debt payment. He explained the process staff uses to determine how much the City will turn to the market each year to sell bonds and make adjustments, if necessary.

In response to a question from Vice Mayor Heredia, Mr. Wimmer commented that the graph does not include the 2024 GO bond election or any following bond elections, only the existing approved authorizations from 2018, 2020, and 2022.

In response to multiple questions, Mr. Wimmer stated the forecast assumes a 6% annual property tax value growth. He explained the different types of rates and assessments and how the values are assessed.

Mr. Wimmer provided a timeline for the budget and the property tax levy adoptions, which go into effect in July. (See Page 9 of Attachment 2)

Vice Mayor Heredia thanked staff for the presentation.

2. Current events summary including meetings and conferences attended.

Mayor Giles and Councilmembers highlighted the events, meetings, and conferences recently attended.

3. Scheduling of meetings.

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

Monday, June 5, 2023, 5:15 p.m. – Study

Monday, June 5, 2023, 5:45 p.m. – Regular

Monday, June 5, 2023, 5:50 p.m. – Special

4. Adjournment.

Without objection, the Study Session adjourned at 8:35 a.m.

FRANCISCO HEREDIA, 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 1st day of June 2023. I further certify that the meeting was duly called and held and that a quorum was present.

HOLLY MOSELEY, CITY CLERK

lr
(Attachments – 2)

Public Safety Personnel Retirement System (PSPRS)

Pension Funding Policy FY 2023/24
June 1, 2023

Samuel Schultz
Deputy Director – Office of Management and Budget

Pension Funding Policy

Beginning on or before each fiscal year, the governing body of an employer shall

- 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, 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	

Unfunded Liability / Funded Status

(as of June 30, 2022; includes health)

Plan	Assets (millions)	Liability (millions)	Unfunded Liability (millions)	Funded Status
Fire and Medical	\$ 268	\$ 515	\$ 246	52.0%
Police	\$ 478	\$ 963	\$ 485	49.6%
Total	\$ 746	\$ 1,479	\$ 732	



Pension Plan Updates:

- Increased Salary Growth in actuals for FY 2021/22 of approx. 10%
- Discount Rate Assumption (Investment Growth) – Reduced from 7.3% to 7.2%
- Investment Returns – approximately negative **4.2%** for FY 2021/22
 - Gains/losses smoothed over 7 years and amortized out, but prior year gains wiped out
- FY 2022/23 projected to be around 1-2% (net fees)

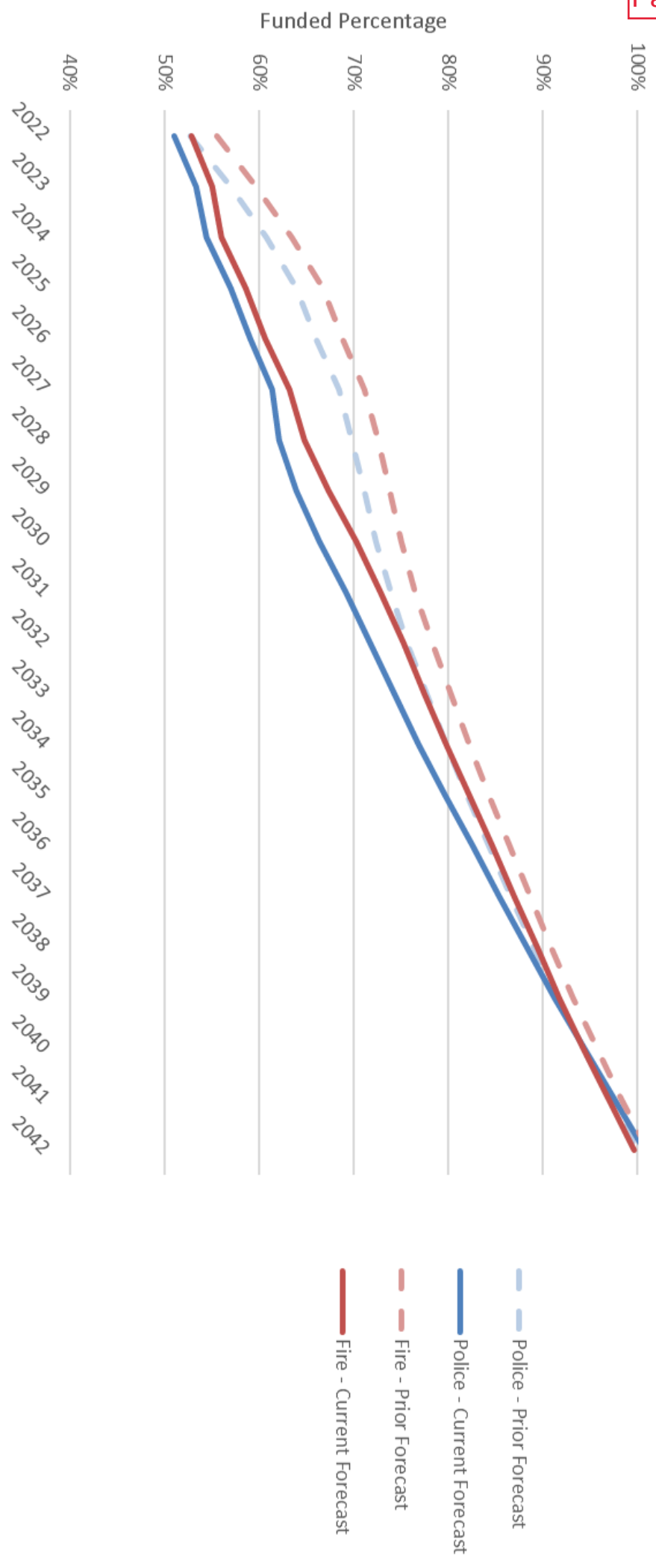
City Funding Strategies

- Pension Stabilization Fund
 - \$2M annual contribution
 - Current Balance: **\$14M**
 - *As of the close of FY 2022/23*
- Stabilized investment
 - Forecasted at approximately **\$86M-\$88M** in the future for annual contributions
 - Includes sales tax on adult use (recreational) marijuana – FY 2023/24 (proposed) - \$3.3M
 - Increased FTEs
 - Increased Salary (proposed Market Adjustment for July 2023)
 - Increase range boundaries by \$5M to \$80M-\$90M for Market adjustment and include marijuana sales tax

City of Mesa's Outlook:

- Continue to monitor market conditions
 - FY 2023/24 includes a mild recession
 - Federal debt ceiling discussions
 - Pension is a long-term plan with many ups and downs
 - 10-year performance average at **7.35%** (market value of assets)
- Continue to monitor changes from the State
- Adjust with salary changes and FTE growth
- Monitor Tier 3 population growth

Lower than expected investment returns and changes in the assumptions



Next Steps:

Council to take action on adopting the PSPRS Funding Policy on:
June 5, 2023

FY 2023-24

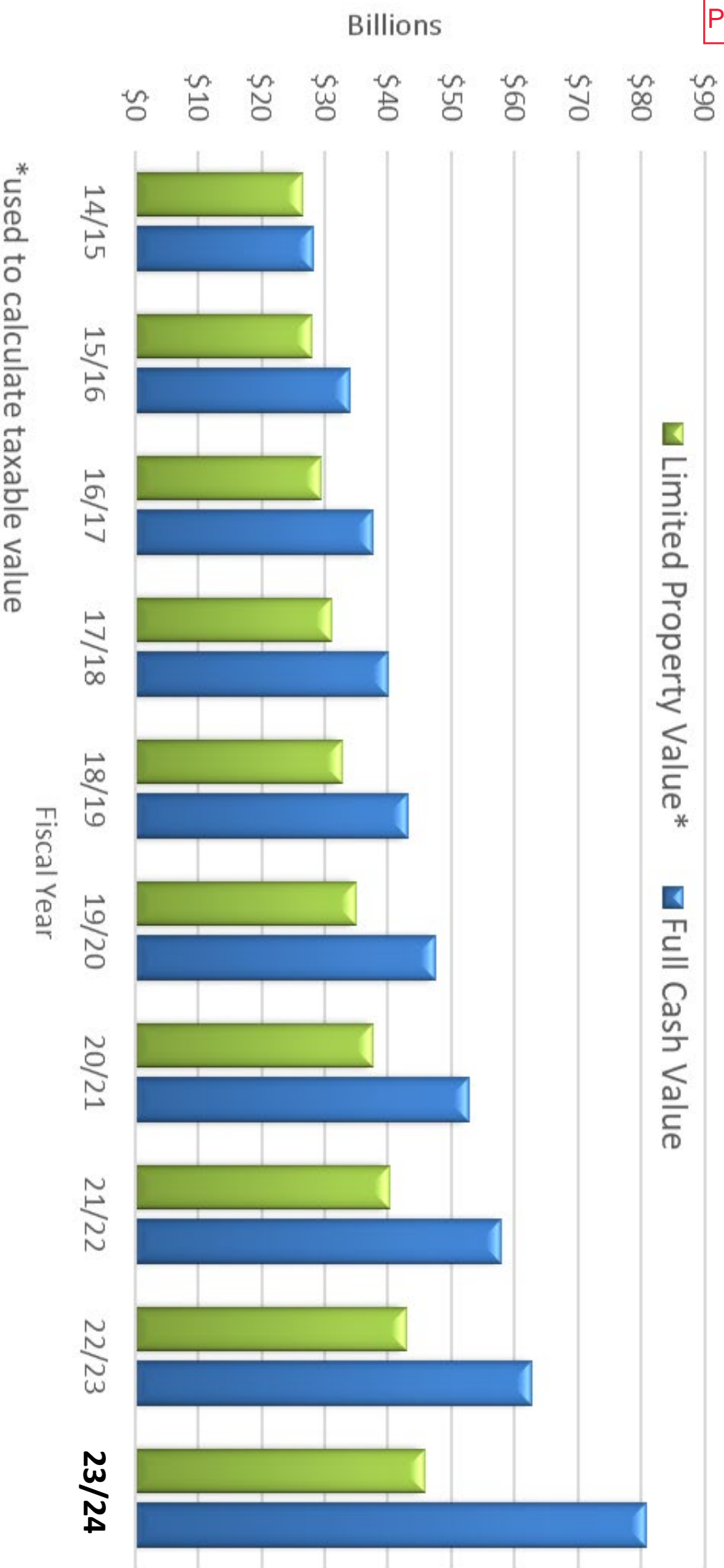
Property Values and Property Tax

Ryan Wimmer, Treasurer

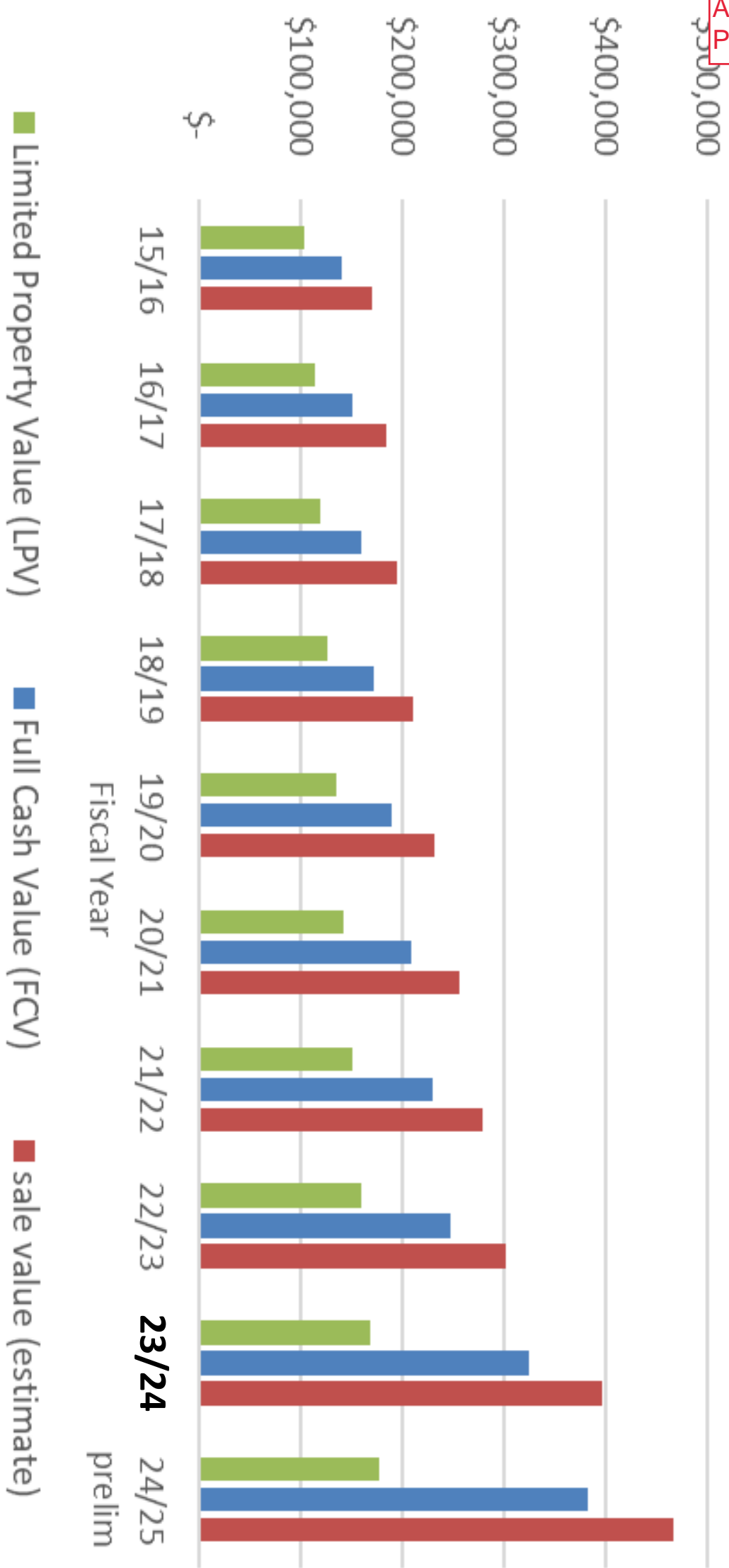
June 5, 2023



Total Property Value in Mesa

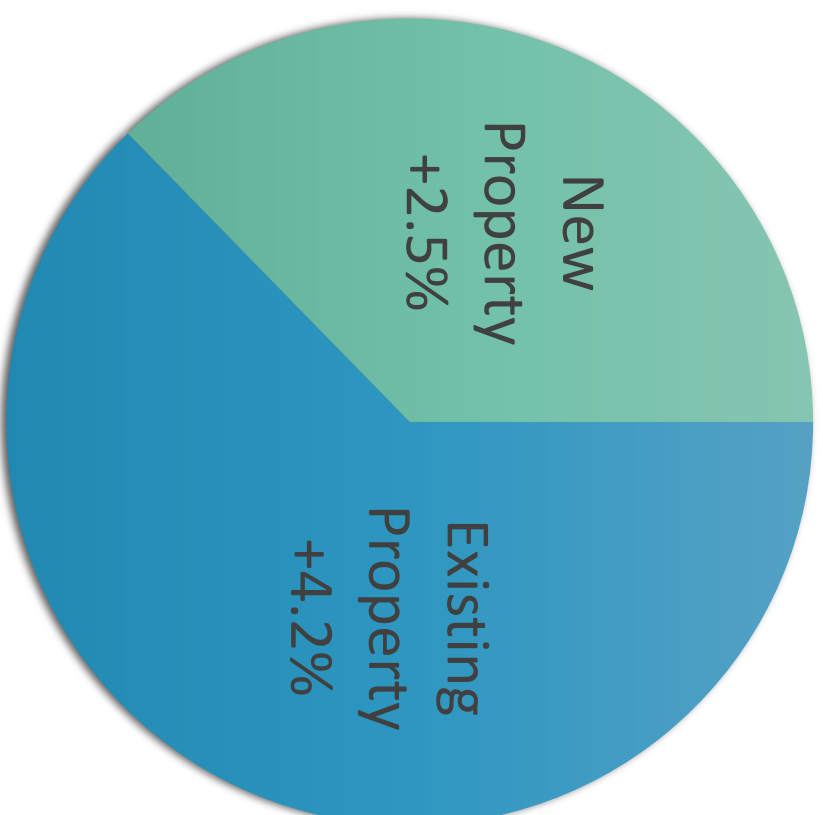


Median Residential Property Values in Mesa



FY 2023-24 Taxable Property Value

+6.7%



Property Tax Types

Type	Use	Mesa
Primary	general operations	No
Secondary	payments on general obligation bonds	Yes

General Obligation Bond Elections

Mesa voter-approved bond questions

Purpose	Bond Election					
	2008	2012	2013	2018	2020	2022
Streets - Transportation	✓		✓		✓	
Public Safety	✓		✓	✓		✓
Parks - Culture - Library		✓		✓		

A "YES" vote shall authorize the City of Mesa governing body to issue and sell \$157,000,000 of general obligation bonds of the City of Mesa to be repaid with secondary property taxes.

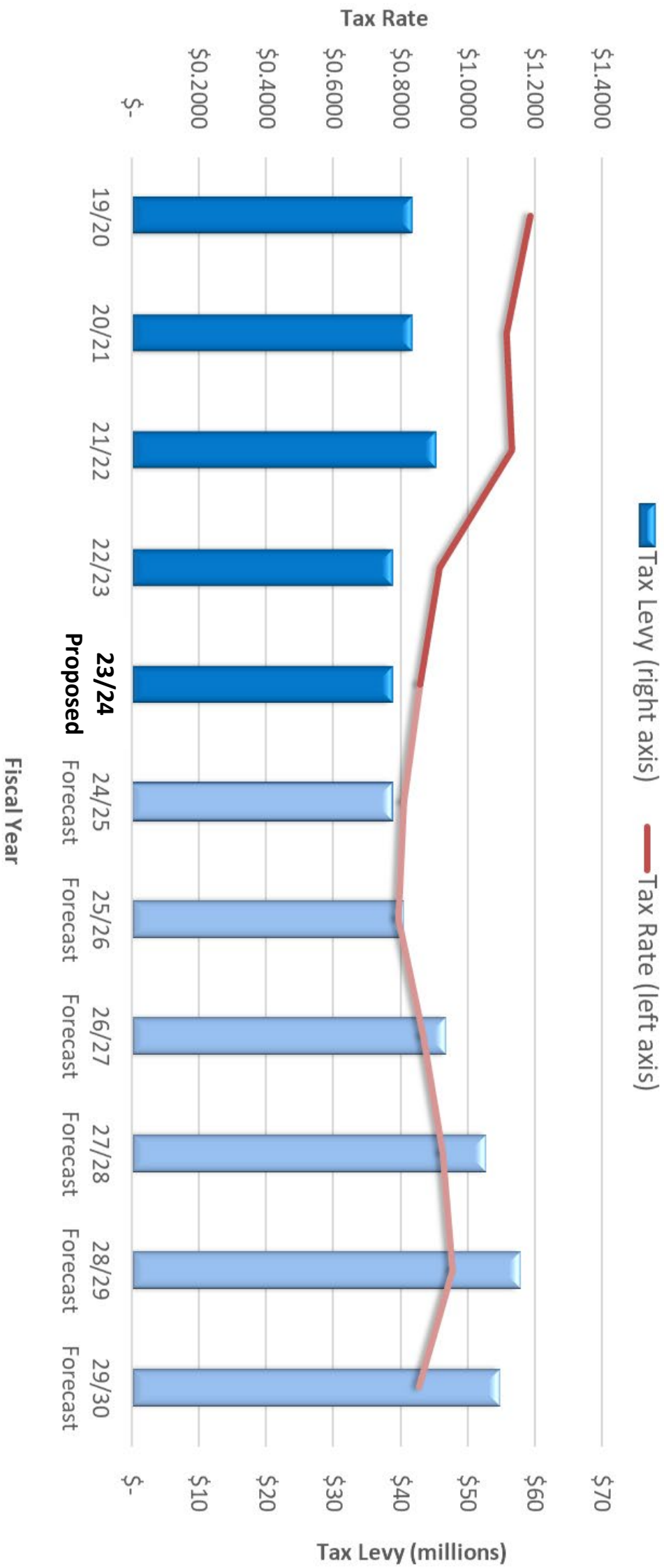
-Question 2, 2022 General Election ballot

Proposed FY 2023/24 Tax Rate and Levy

	FY22/23	FY23/24 Proposed	\$ Change	% Change
Taxable Property Value	\$4.2 billion	\$4.5 billion	+\$0.3 billion	+6.7%
Tax Rate (per \$100 of taxable property value)	\$0.9157	\$0.8582	-\$0.0575	-6.3%
Tax Levy (rounded)	\$38.8 million	\$38.8 million	-	-
Annual Cost to Median Homeowner	\$146	\$145	-\$1	-0.4%

Taxable Property Value * Tax Rate = Tax Levy

Tax Levy and Rate - History and Forecast



Calendar

June 5	Public hearing on annual budget and secondary property tax levy
	Final adoption of annual budget
June 19	Adoption of secondary property tax levy

m.e.s.a.az



Median Residential Property Values in Mesa

FY 2023-24

Property Value	Median Value	Description
sale value (estimate)	\$396,098	value based on comparable sales (from Fall 2020 to Fall 2021)
Full Cash Value (FCV)	\$324,800	a percentage of comparable sale value (target 82%)
Limited Property Value (LPV)	\$168,801	used to calculate taxable value (increases 5% each year but cannot exceed FCV)

casted General Obligation Debt Service

