

COUNCIL MINUTES

April 15, 2021

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 April 15, 2021 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
Dee Ann Mickelsen
Jim Smith

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

1. Review and discuss items on the agenda for the April 19, 2021 Regular Council meeting.

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

Conflict of interest: None

Items removed from the consent agenda: None

In response to a question from Councilmember Luna regarding Item 4-b, **(Red Mountain Park Expansion Project – Pre-Construction Services and Construction Manager at Risk (CMAR) (District 5))**, on the April 19, 2021 Regular Council meeting agenda, City Engineer Beth Huning explained the renovation of Red Mountain Park is in the design phase and has a tentative completion date of fall 2023.

In response to a question from Vice Mayor Duff related to Item 5-i, **(Approving and authorizing the City Manager to enter into an Overhead Overlash Facilities Maintenance Agreement with Qwest Corporation, dba CenturyLink QC, for a term of twenty years (Citywide))**, on the April 19, 2021 Regular Council meeting agenda, City Engineer Beth Huning commented this agreement is for the underserved areas of the city.

In response to a question from Councilmember Freeman regarding Item 8-a, **(ZON20-00538 (District 1) Within the 1200 to 1400 blocks of West Bass Pro Drive (south side) and the 1100 block of North Alma School Road (west side). Located south of the 202 Red Mountain**

Freeway on the west side of Alma School Road (30.9± acres). Modification to the Planned Area Development (PAD) Overlay on the property to amend condition #1 of Ordinance No. 4847 to allow development of a new office building and parking garage within an existing office development), on the April 19, 2021 Regular Council meeting agenda, Planning Director Nana Appiah outlined the three items that staff requested of the applicant. **(See Attachment 6)**

Mr. Appiah explained the first item was the Good Neighbor Policy to address landscape maintenance, lighting controls and noise attenuation measure; the second item was landscaping improvement to increase the size of the trees, which has been done; and the third was the garage elevations. (See Pages 22 and 23 of Attachment 6)

2-a. Hear a presentation, discuss, and provide direction for the City's secondary property tax rate and levy for fiscal year 2021-2022.

Deputy City Manager Michael Kennington introduced City Treasurer Ryan Wimmer, who displayed a PowerPoint presentation. **(See Attachment 1)**

Mr. Wimmer stated that although the City does not have a primary property tax, there is a secondary property tax that is used for making payments on debt service or General Obligation (GO) bonds. He explained in November 2020, Mesa voters approved a \$100 million Transportation bond, which is funded by the secondary property tax levy. He remarked at the time the question was being sent to voters, the annual impact to the median value homeowner was \$28. He commented on various factors offsetting the annual impact and that a reduction in the levy will result in a \$10 annual impact to the median value homeowner. (See Pages 2 and 3 of Attachment 1)

Mr. Wimmer summarized the way property tax is calculated and that the taxable value has increased \$254 million. (See Page 4 of Attachment 1)

Mr. Wimmer highlighted the proposed levy and rate for the next fiscal year and explained the tax levy is the total amount needed in order to pay the debt service on the GO bonds that have been authorized. He added an increase of \$3.5 million is needed to pay for the 2020 Transportation bonds. (See Page 5 of Attachment 1)

In response to a question from Vice Mayor Duff, Mr. Wimmer commented the median home sale value is \$279,000.

Mr. Wimmer provided a timeline of the notice of intent to adjust the tax rate, adoption of the final budget, and adoption of the secondary property tax levy. (See Page 7 of Attachment 1)

In response to a question from Councilmember Heredia regarding the notices of tax increase, Mr. Wimmer explained Maricopa County is responsible for administering the property tax and the City's levy represents 10% of the homeowner's total bill. He added the bill has close to 20 different rates or levies and the County does not provide an explanation for them.

Mayor Giles thanked staff for the presentation.

2-b. Hear a presentation, discuss, and provide direction for the City's 2021 capital financing plan.

City Treasurer Ryan Wimmer highlighted the reasons for capital financing, which is to support City infrastructure and to provide quality of life to residents and then explained the municipal financing process. **(See Attachment 2)**

Mr. Wimmer provided an overview of the Debt Service and the Annual Financing Process. (See Pages 4 and 5 of Attachment 2)

In response to questions from Councilmember Freeman, Mr. Wimmer explained this year staff will be using impact fees and development revenue to defease bonds early. He clarified there is no minimum time period to pay off bond debt; the debt can be paid down and structured as needed.

Mr. Wimmer provided examples of active GO and Utility System bond projects. (See Pages 6 and 7 of Attachment 2)

Mr. Wimmer highlighted the 2014 Utility Bond Program and the challenges related to that program. He commented the project list changed from the time the list was compiled until the election, which is difficult to adjust when the bond authorization is committed. (See Page 8 of Attachment 2)

Mr. Wimmer reviewed utility financing methods of other Arizona cities. He explained there are five major types of utility financing and Mesa is the only city that uses utility revenue bonds. He added most cities have started using utility revenue obligations that are specifically backed by utility revenue. He remarked Mesa has issued obligations in the past, as well as excise tax obligations, in lieu of bonds and recommended Mesa consider utilizing obligations with utility financing. (See Pages 9 through 11 of Attachment 2)

In response to a question from Vice Mayor Duff regarding utilizing excise taxes for utilities, City Manager Christopher Brady commented the City has only used that for non-utility projects. He suggested now is the time to consider this option for some of the new projects.

In response to a question from Councilmember Freeman, Mr. Brady explained most other cities do not use bonds for their utilities; however, other cities do utilize GO bonds for streets, parks, and fire stations. He remarked, to date, Mesa has only used bonds for utilities. He added the debt issuances would still come to Council and they are still backed and paid for by utility revenue. He recommended a small number of obligations be issued in 2021, evaluate the process, and keep issuing the remaining authorization. He clarified the remaining authorization will be approximately \$90 million after this year.

Mr. Wimmer provided examples of the 2021 Utility Revenue Obligations and explained these were not part of the 2014 authorization. (See Page 13 of Attachment 2).

Mr. Brady explained there are still revenue bonds to fund projects in the 2014 bond program; however, there are new projects to consider. He stated instead of bumping projects out of the program, new projects can be brought in without affecting the authorization. He added these projects have an urgency that did not exist seven years ago.

In response to a question from Councilmember Heredia regarding overlapping the bond to the obligation, Mr. Brady commented there is no difference from the types of projects that are funded

and how they flow. He stated there are some technical differences on how items are authorized, but from the Council's perspective on the agenda, the resolutions are the same. He provided the example of the central pipeline and that staff looks at the return on investment, and Council sees it as a high-priority, low-cost critical project to be completed as soon as possible as it gives the City another source of water. He clarified the central pipeline was not in the 2014 bond program.

In response to additional questions from Councilmember Heredia related to whether the excise, obligation, or bonds would be used for the 2014 bond projects, Mr. Brady explained there are two years left on the bonds and staff would keep using those, as well as the obligation, and then discuss further with Council.

Mr. Wimmer reviewed the remaining authorization and commented the plan is to sell \$35 million in bonds this year. He stated before the sale, there is approximately \$130 million in available authorization. (See Page 20 of Attachment 2)

Mr. Wimmer provided an overview of the 2021 cost savings, proposed 2021 issuances, and the timeline for the 2021 financing transactions. (See Pages 15 through 17 of Attachment 2)

Mayor Giles declared that it was the consensus of Council for staff to proceed and thanked them for the presentation.

2-c. Hear a presentation and discuss the fiscal year 2022-2026 Capital Improvement Program with a focus on utilities.

Office of Management and Budget Assistant Director Brian Ritschel introduced Budget Coordinator Justin Stadt, who displayed a PowerPoint presentation. **(See Attachment 3)**

Mr. Ritschel provided an overview of the Capital Improvement Program (CIP) funding sources and the operations and maintenance forecast. (See Pages 3 and 4 of Attachment 3)

Mr. Ritschel commented on the completion of improvements and costs at the Greenfield Water Reclamation Plant (GWRP). (See Page 5 of Attachment 3)

Mr. Ritschel presented the proposed utilities projects for FY 21/22 for water, wastewater, natural gas, and electric. (See Pages 6 and 7 of Attachment 3)

In response to a question from Councilmember Thompson regarding redundancy to our natural gas system, Energy Resources Department Director Frank McRae explained the City receives some gas supply from the San Juan Basin, and the Permian Basin. He commented the City does not have transportation rights but is looking into that, as well as why the City's gas supplier did not look into the San Juan Basin.

In response to a question from Vice Mayor Duff regarding projections for utility system fiber, City Manager Christopher Brady explained a consultant has provided preliminary ideas on running fiber to every home and is currently reviewing specific neighborhoods with the greatest need.

Mayor Giles thanked staff for the presentation.

2-d. Hear a presentation, discuss, and provide direction for the Environmental Management and Sustainability department budget.

Office of Management and Budget Assistant Director Brian Ritschel provided an overview of the Utility departments FY 21/22 budget. **(See Attachment 4)**

Mr. Brady explained that even though the net sources and uses is a significant drawdown, staff is monitoring that carefully. He commented a conscious decision was made to draw down the reserve balance to fund operations and debt service without having a significant impact on rate increases. He remarked the hope is that the minimal rate increases each year will begin to make the adjustment and equalize with the expenditures.

In response to a question from Mayor Giles, Mr. Brady stated each year an adjustment will be made; however, the billing and consumption have not been realized.

Mr. Brady cautioned the big demand on utilities from big users creates a big demand on infrastructure; and while current investments are modest, there will be upward pressure in the future to take on more infrastructure. He stated staff is trying to be careful about the timing of projects because with that comes debt service.

Environmental Management and Sustainability Department Director Scott Bouchie presented a series of successes for the department. He discussed the Flare to Fuel project, which is the first phase of the Food to Energy Program and is at 60% design. He stated the project will take existing biogas generated at the Northwest Water Reclamation Plant (NWWRP), treat the biogas to the natural gas pipeline quality standards, and add to Mesa's natural gas utility, to show as usage in solid waste vehicles which are powered by natural gas. He reported at the end of the year, staff will return to Council with a Guaranteed Maximum Price, with the plan to begin construction next year, which should take approximately one year, and have the system online the beginning of 2023. (See Page 4 of Attachment 4)

Mr. Bouchie reported on the Recycle Right Wizard, which is a phone app for residents to find out what is recyclable based on what city they live. He discussed the Household Hazardous Waste facility and stated even though it was closed for part of the year due to COVID, it has still been very successful and received great reviews. He pointed out almost 40% of the material is reused through the swap shop.

Mr. Bouchie commented on the department's digital documents which converted over 50% of commercial customers to long-term service agreements resulting in a greater response. He reported this has saved staff time and assisted the department to secure long-term business.

Mr. Bouchie summarized the continuity of services during COVID, stating as soon as the stay-at-home orders were implemented there was a dramatic increase in the amount of residential solid waste. He thanked the operations staff for managing the increase without interruption in services.

Mr. Bouchie highlighted the Climate Action Plan that was recently presented to Council with four aspirational goals, adding over the next year staff will be reaching out to the community. He outlined the steps, including reduced energy use in all city buildings and at all sites, the Salt River Project (SRP) renewable energy offer, water conservation monitoring the usage to ensure efficient use of resources, and online environmental training. (See Page 5 of Attachment 4)

Mr. Bouchie reported on the challenges for the department, which includes recycling and infrastructure. He recalled the fire at the Salt River Pima Maricopa Indian Community recycling plant almost two years ago. He stated Republic Services still has not begun construction on a new facility; however, the City still has a contract in place to bring them 20,000 tons of recyclable material. He commented on a project that is looking at a master plan at the East Mesa Service Center with a possible transfer station. He said the next step is where that facility would be located and what effect it will have on other departments.

Mr. Bouchie highlighted the public outreach that will be conducted to ensure the community is educated on recycling, water conservation, and the Climate Action Plan. (See Page 6 of Attachment 4)

In response to a question from Mayor Giles regarding the plan for public outreach, Mr. Bouchie reported that will be a Citywide effort with the Public Information Office and the City Manager's Office, which will also include employees that interact with the community on how to conserve and minimize solid waste.

Mayor Giles commented that Council wants to be a big part of the outreach utilizing social media platforms to help get the word out.

Discussion ensued related to investing in a recycling facility, the possible locations for such a facility, and dedicating the appropriate resources.

Mayor Giles requested that in addition to bringing back updates to Council about how Police and Fire are responding to the mental health concerns, he advised that Council would like to be more engaged in the upcoming topics of recycling, water conservation, and the Climate Action Plan.

In response to a question posed by Vice Mayor Duff regarding heat mitigation, Mr. Bouchie stated heat mitigation will be part of the Climate Action Plan. He remarked staff are currently working with ASU on studies regarding mitigation of the urban heat island effect. He pointed out many of the categories within the Climate Action Plan cross over into other areas; for example, mitigating heat helps reduce energy use. He indicated discussions are occurring between Fleet, Energy Resources, and SRP surrounding infrastructure needs to make the shift to electric vehicles.

Responding to an additional question from Vice Mayor Duff, Mr. Bouchie remarked the Dobson underground storage tanks are the two single-walled diesel and gasoline tanks for the old vehicles at the Dobson Ranch substation. He advised the tanks were removed; however, there was indication that one of the tanks leaked and staff are working with the Arizona Department of Environmental Quality (ADEQ) to remediate the site. He pointed out that the City received reimbursement of almost \$500,000 from ADEQ for the work being done at the site.

In response to several questions from Councilmember Freeman regarding the underground tanks, Mr. Bouchie remarked the ADEQ reimbursement should cover almost 100% of the removal costs. He added the next steps will be determined based on the results of analytical data that is being compiled. He reported new tanks being installed use double-walls, are placed in vaults, or are above-ground tanks to avoid environmental concerns if a leak occurs.

Mr. Bouchie indicated due to the significant growth in southeast Mesa, a boundary change will be implemented to help balance out the routes. He described the Western, Central, and Eastern zones. He remarked public outreach will occur to inform neighborhoods of the changes. He briefly

touched on changes occurring as a result of a new stormwater permit from ADEQ, the lighting retrofit project, and the creation of the Climate Action Plan. (See Page 7 of Attachment 4)

Mr. Bouchie outlined the enhancements for FY 21/22 include obtaining another automated side loader for residential pickup, camera system maintenance costs increase, as well as maintenance increases for the fueling station. (See Page 8 of Attachment 4)

Discussion ensued pertaining to the possibility of creating a Materials Recovery Facility (MRF) in southeast Mesa.

Mayor Giles thanked staff for the presentation.

2-e. Hear a presentation, discuss, and provide direction for the Water Resources department budget.

Water Resources Director Jake West introduced Water Resources Assistant Director Chris Hassert, and Deputy Director Seth Weld, who displayed a PowerPoint presentation. **(See Attachment 5)**

Mr. Hassert presented an overview of the City's water system which illustrates the size and scope of the water system. (See Page 2 of Attachment 5)

Mr. Hassert touched on the key performance indicators for water. He explained the target for fire hydrant maintenance is for crews to perform preventative maintenance on 4.2% of the 20,000 hydrants in the city per month. He mentioned this year, as a result of hiring two additional field workers, crews have completed 6% which equates to 1,200 per month instead of the targeted 850. He added the City is underperforming in the performance metric dealing with beneficial use of water which is another indication that the Central Mesa Reuse Pipeline is paramount. He explained the destination for recycled water is the Granite Reef Underground Storage Project (GRUSP); however, if too much water is collecting, GRUSP shuts down which forces the water into the Salt River Basin and the City loses the water credits. (See Page 3 of Attachment 5)

Mr. Hassert stated the City currently has a sizeable backlog in terms of fire hydrant replacements which are essential for Public Safety. He explained the difficulty of some replacements based on the location of the hydrants and are requesting additional funds to hire contractors to help reduce the backlog. (See Page 4 of Attachment 5)

In response to a question from Councilmember Freeman, Mr. Hassert identified Clow as the manufacturer that the City uses to source the hydrants.

Mr. Hassert presented a chart showing the budget for the raw water that the City purchases to treat and distribute to the community. He said the tiers represent the action level on water shortages and the City is currently in Tier 0. He noted next year there is a high likelihood of moving into Tier 1, which would be the first time of declaring a Tier 1 drought shortage since the Colorado River compact was executed in the 1920s. He clarified that does not necessarily mean the City will be facing water shortages, but the cost per unit per acre foot of water will increase. (See Page 5 of Attachment 5)

Mr. Hassert shared the joint venture with the Val Vista Water Treatment Plant will realize a 10% increase next fiscal year based on the fact that the City is planning on treating more water at the plant to make use of the New Conservation Space (NCS) water, which can be delivered anywhere in the system. (See Page 6 of Attachment 5)

In response to a question from Vice Mayor Duff regarding the Drought Contingency Planning (DCP) moving forward and future projections, Mr. Hassert estimated being in Tier 1 beginning in January of 2022 for a couple of years, with the possibility of moving to Tier 2 if the dry winters continue.

Mr. Weld reminded Council that the Central Arizona Project (CAP) Board begins their annual meeting this month and the numbers can certainly change. He reported the difference in tiers runs between 2% to 5% in unit price per each tier, which is significant. He reiterated the Central Mesa Reuse Pipeline is so critical to be able to exchange effluent water for CAP water but at a higher priority and a lower unit price.

In response to an additional question from Vice Mayor Duff in regard to what percentage the City relies on CAP water and whether the City's CAP water supply will be impacted, Mr. Hassert advised the City's raw water portfolio is split equally and the recycled water sent to the Gila River Indian Community (GRIC) bumps up the CAP portion of the portfolio. He commented in any given year the City delivers approximately 60% of the CAP deliveries received.

Mr. Hassert illustrated a snapshot of the wastewater system. (See Page 7 of Attachment 5)

Councilmember Thompson implied the need to begin looking at a way to bring SRP water into the northeast and southeast sections of Mesa to help offset some of the CAP limits.

Mr. Hassert informed Councilmember Thompson part of the plan for next fiscal year is to take delivery of stored NCS water at the Val Vista plant for treatment to move into the CAP service area.

Mr. Hassert stated the industry standard for sanitary sewer overflows is 1 per 100 miles, adding the City has approximately 1,800 miles of sewer. He remarked the target was set at two per quarter, and so far this fiscal year there have been three overflows. (See Page 8 of Attachment 5)

Mr. Hassert presented the budget request on the wastewater side for two additional operators at the Greenfield Water Reclamation Plant (GWRP) based on the expansion at the site that doubled capacity of the plant and the fact that the GWRP is an end-of-the-line plant. (See Page 9 of Attachment 5)

Mr. Hassert outlined the second request for wastewater that deals with maintenance. He added if refurbishment is delayed, refurbishment is no longer cost effective, and a capital project becomes necessary. He commented that due to the GWRP being a joint venture, Mesa's costs would be approximately \$450,000. (See Page 10 of Attachment 5)

Mr. Hassert illustrated the high-level water cost items. He mentioned the reduction for the GWRP is from one-time costs in the current fiscal year that will not apply next year. He remarked the small increases are typically due to inflationary costs. (See Page 11 of Attachment 5)

Mr. Brady elaborated the 91st Avenue plant is located in Phoenix and five other cities share the costs.

Mr. Hassert indicated the chemicals and electricity go together and the numbers are tied to the retiring of the ultraviolet (UV) system, which is a very energy-intensive system. He added

Water Resources will be switching from UV to sodium hypochlorite. (See Page 11 of Attachment 5)

Mayor Giles thanked staff for the presentation.

2-f. Hear a presentation, discuss, and provide direction for the Energy Resources department budget.

Due to time constraints, this item was continued to a future Study Session.

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

3-a. Audit, Finance and Enterprise Committee meeting held on March 15, 2021.

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

Upon tabulation of votes, it showed:

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

NAYS – None

Carried unanimously.

4. Current events summary including meetings and conferences attended.

Vice Mayor Duff –	Sherwood District neighborhood block party Dexcom Facility tour West Mesa Business Alliance virtual meeting Visit Mesa - tour of restaurants and breweries
-------------------	---

Councilmember Luna –	Falcon Field District signage
----------------------	-------------------------------

Councilmember Freeman –	Volunteered - Convention Center POD vaccination National Animal Control week
-------------------------	---

Councilmember Thompson –	National Dispatch week State Legislature - proclamation for recyclers
--------------------------	--

Councilmembers Freeman and Heredia joined Vice Mayor Duff in viewing the new fire apparatus, Ladder 204.

Mayor Giles excused Councilmembers Luna and Heredia at 9:47 a.m. for the remainder of the meeting.

5. Scheduling of meetings.

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

Monday, April 19, 2021, 4:45 p.m. – Study Session

Monday, April 19, 2021, 5:45 p.m. – Regular Council Meeting

Thursday, April 22, 2021, 7:30 a.m. – Study Session

6. 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 15th day of April 2021. I further certify that the meeting was duly called and held and that a quorum was present.



DEE ANN MICKELSEN, CITY CLERK

la/dm
(Attachments - 6)

Secondary Property Tax Levy

FY 2021-22

Ryan Wimmer, Treasurer

April 15, 2021



November 2020 Bond Election



Mesa Moves transportation bond approved (\$100 million)

- Funded by secondary property tax levy

Estimated annual impact to median homeowner: **+\$28**

(Council presentation - 5/21/20)

Estimated Impact to Median Homeowner

2020 Transportation Bonds (\$100 million)	+\$28
New Property (construction, annexation)	-4
Bond Refunding Savings (2020, 2021)	-4
Savings on Prior Issuances (low borrowing costs, high collection rates, etc.)	-10
Net Impact	<u>+\$10</u>

Taxable Property Value

FY20/21 to FY21/22

Formula:

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

	FY20/21	FY21/22	\$ Change	% Change
Taxable Value	\$3.74 billion	\$3.99 billion	+\$254 million	+6.8%
Appreciation of Existing Property			+\$168 million	+4.5%
New Property			+\$ 86 million	+2.3%

Proposed Levy and Rate

	FY20/21	FY21/22 Proposed	\$ Change	% Change
Tax Levy	\$41.7 million	\$45.2 Million	+\$3.5 million	+8%
Taxable Value	\$3.74 billion	\$3.99 billion	+\$0.25 billion	+7%
Tax Rate	\$1.1171	\$1.1319	+\$0.0148	+1%

Annual Cost to Median Homeowner	\$160	\$170	+\$10	+6%
------------------------------------	-------	-------	-------	-----

Formula:

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

Proposed Levy and Rate 7-Year Comparison



Calendar

April 15	Property tax report posted on City website	
By June 6	Notice of intent to adjust tax rate provided on City website, via City social media	
June 7	Public hearing on annual budget and secondary property tax levy	
	Final adoption of annual budget	
	Adoption of secondary property tax levy	
June 21		





2021 Capital Financing

April 15, 2021

Ryan Wimmer, Treasurer



Need for Capital Financing

Infrastructure

- Support new development
- Update aging infrastructure

Quality of Life

- Provide public safety facilities, parks, libraries, streets, utilities

Process

- Funding source for Capital Improvement Program (CIP) projects

Equity

- Infrastructure paid for while in use (intergenerational equity)

Municipal Financing Process

1. City borrows money by selling bonds to investors
2. Proceeds are used to construct City infrastructure
3. City pays back principal with interest for the life of the bonds



Debt Service

Principal and interest payments made to investors

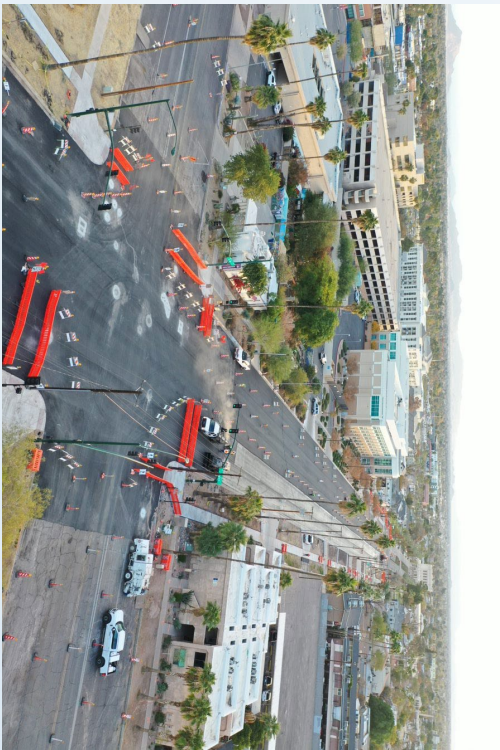
- City typically issues debt with payments due for 20-25 years
- New debt service coordinated with existing debt service to maintain stable payments from year to year
- City's financial forecast includes debt service for existing and future bond issuances

City's Annual Financing Process

City financing team evaluates needs and opportunities:

- **Issue (sell) new bonds** to finance active capital projects
- Reduce interest costs by **refunding (refinancing) existing bonds** at lower interest rates over same timeframe (\$59 million savings in past five years)
- Use available cash balances to defease (pay off early) existing debt (ex: Excise Tax Obligations – Spring Training facilities)
- Retire (pay off) bonds from past issuances that mature (come due)

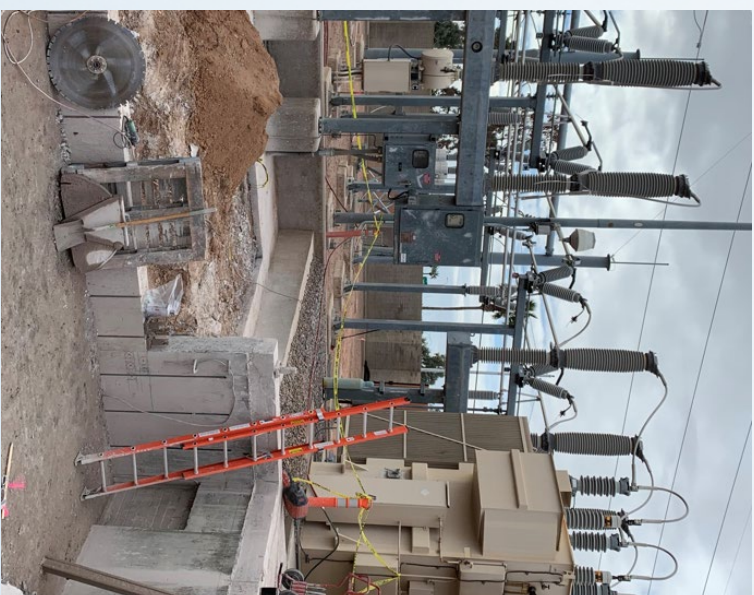
General Obligation – Active Project Examples



Fire Station 221 - Eastmark
Library Improvements
Street Improvements
North Center Street Athletic Fields



Utility Systems – Active Project Examples



Mesa Drive Electric Improvements
Gas System New Mains
Sewer Line Rehabilitation/Repair/Replacement
Water System Main Rehabilitation/Replacement



2014 Utility Bond Program

Timeline

Early 2014	List of project needs compiled
Summer 2014	Council review/approval
Fall 2014	Information package listing projects published
Nov 2014	Voter approval (\$580 million)

Challenges

- Project list outdated as priorities change
 - pressure to complete projects on list, some projects not completed
- Difficult to adjust to meet immediate opportunities that arise
 - examples: downtown Mesa revitalization, growth in southeast Mesa, water re-use pipeline to Gila River Indian Community (GRIC)
- Some authorization spent faster than others
 - examples: Electric, Streets
- Utility infrastructure needs to be maintained/expanded regardless of bond program status

Other Cities - Recent Utility Financing Methods

	Utility Revenue Bonds	General Obligation Bonds	Subordinate Utility Revenue Bonds	Utility Revenue Obligations	Excise Tax Obligations
Mesa	X				
Avondale				X	
Chandler					X
Gilbert				X	
Glendale				X	
Goodyear			X		
Phoenix				X	
Scottsdale					X
Surprise				X	
Tempe		X			
Tucson				X	

Mesa – Prior Obligations Issuances

Mesa has issued Obligations (backed by sales tax revenue) for Council priorities:

- State Route 24 (2009, 2010, 2011)
- Spring Training Stadiums (2013)
- ASU at Mesa City Center(2020)



Utility Obligations Recommendation

Financing method to meet changing capital needs

- Projects and debt issuances would continue to come to Council each year for consideration
- No impact to amount of debt issued for obligations versus bonds
- Debt still backed by and paid for by utility revenue

Utility Obligations Recommendation

Advantages

- Flexibility to respond – ability to more easily adjust project priorities
- Transparency – project decisions made and communicated each year
- Accountability – ability to complete planned projects

Recommendation

- Issue small amount of obligations in 2021 and evaluate
- Continue to use remaining authorization to issue bonds

2021 Utility Revenue Obligations Project Examples

Electric

- City Center Improvements
- Downtown Improvements
- EcoMesa
- Smart Energy - Microgrid
- Substation Improvements

Natural Gas

- Queen Creek Gate Station & High-Pressure Extension

Water

- Central Mesa Re-use Pipeline
- East Mesa Interconnect Pipes
- Signal Butte Water Treatment Plant Expansion

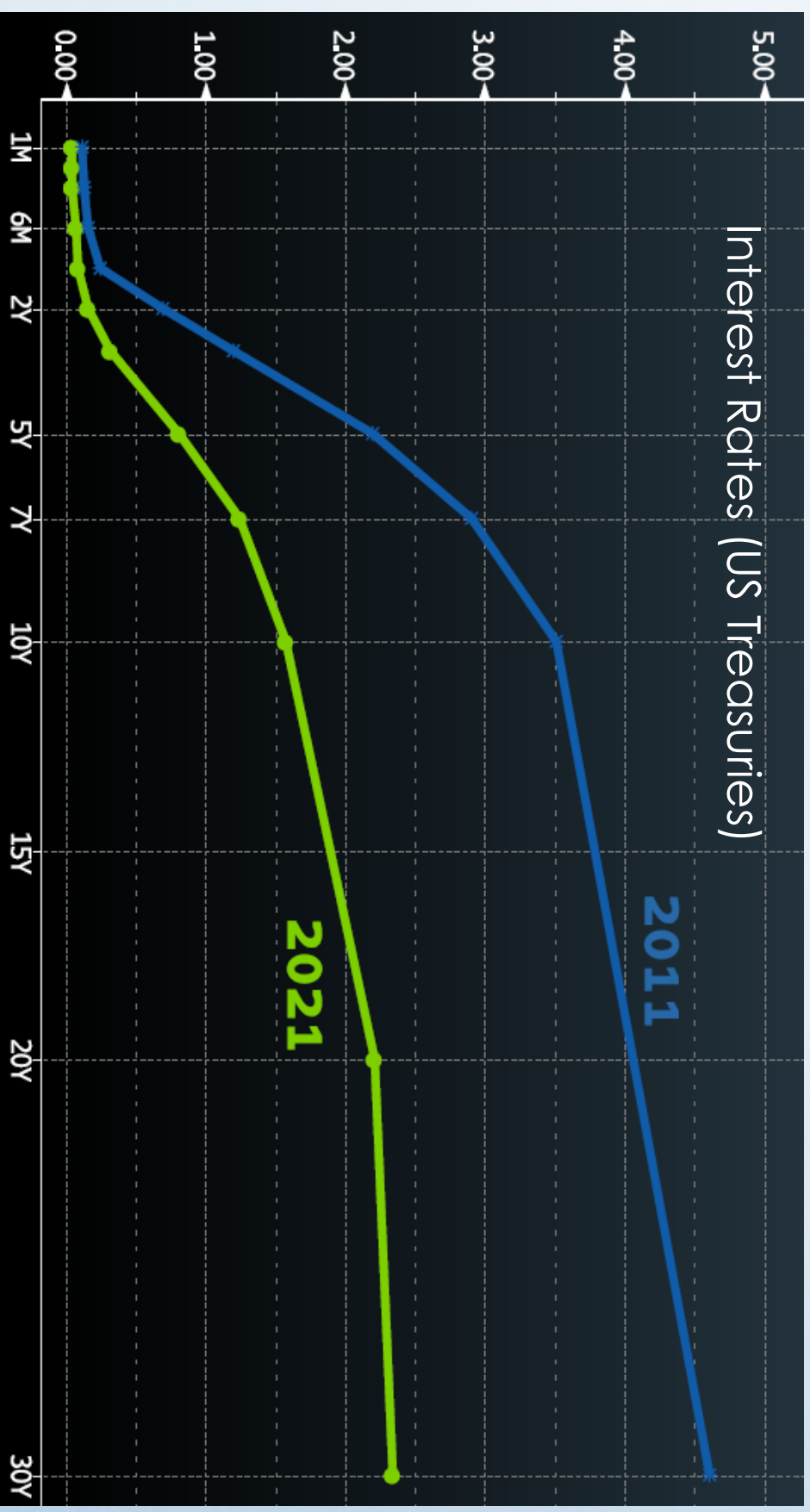
Wastewater

- Broadway Road Sewer Relocation (Union Pacific RR Tracks)
- Northwest Water Reclamation Plant Improvements
 - Aeration Basin Upgrade
 - New Headworks & Grit Removal System

Financing Cost Savings

City Finance team manages debt

- maximizes financing opportunities
- identifies opportunities to reduce financing costs



2021 Financing Cost Savings

Refunding of bonds issued in 2011

- General Obligation Bonds
Estimated* Interest Savings: **\$3 million** (present value)
- Utility Systems Revenue Bonds
Estimated* Interest Savings: **\$18 million** (present value)

TOTAL ESTIMATED* INTEREST SAVINGS: **\$3M + \$18M = \$21M** (present value)

*Estimate based on current interest rates. Actual savings will be determined by market conditions when priced.

Proposed 2021 Issuances

Library – Parks and Culture – Public Safety – Streets

General Obligation Bonds

<i>New</i>	<i>\$20 million</i>
<i>Refunding</i>	<i>\$15 million</i>

Electric – Natural Gas – Wastewater – Water

Utility Systems Revenue Bonds

<i>New</i>	<i>\$35 million</i>
<i>Refunding</i>	<i>\$44 million</i>
Utility Systems Revenue Obligations	
<i>New</i>	<i>\$15 million</i>

Timeline for 2021 Financing Transactions

(may be adjusted due to market conditions)

April 19 Council considers authorization of resolutions

May 3-6 Bonds are priced
May 17-20 Obligations are priced

May 27 Bonds close and proceeds are received
June 17 Obligations close and proceeds are received



General Obligation (GO) Bonds

- Secured by full faith and credit of City (property tax)
- Paid for primarily from secondary property tax revenue
- Projects submitted to voters most recently in 2018 and 2020

Proposed 2021 Sale: \$20,070,000

Purpose	Authorization Year	Available Authorization	Proposed Sale Series 2021	Remaining Authorization
Streets	2013	\$ 9,985,000	\$ 9,985,000	\$ 0
Streets	2020	\$ 100,000,000	\$ 1,050,000	\$ 98,950,000
Library	2018	\$ 18,670,000	\$ 2,010,000	\$ 16,660,000
Parks and Culture	2018	\$ 80,160,000	\$ 2,010,000	\$ 78,150,000
Public Safety	2018	\$ 66,735,000	\$ 5,015,000	\$ 61,720,000
Total		\$ 275,550,000	\$ 20,070,000	\$ 255,480,000

Utility Systems Revenue Bonds

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

Proposed 2021 Sale: \$35,270,000

Purpose	Authorization Year	Available Authorization	Proposed Sale Series 2021	Remaining Authorization
Electric	2014	\$ 3,935,000	\$ 3,935,000	\$ 0
Natural Gas	2014	\$ 33,045,000	\$ 3,195,000	\$ 29,850,000
Wastewater	2014	\$ 43,697,788	\$ 13,680,000	\$ 30,017,788
Water	2014	\$ 48,980,402	\$ 14,460,000	\$ 34,520,402
Total		\$ 129,658,190	\$ 35,270,000	\$ 94,388,190

Utility Systems Revenue Obligations

- To finance utility systems infrastructure
- Secured by utility systems revenue
- Paid for primarily from utility systems revenue
- Provides flexibility in meeting utility infrastructure needs

Proposed 2021 Sale: \$14,720,000

Purpose	Proposed Sale Series 2021
Electric	\$ 5,065,000
Natural Gas	\$ 880,000
Wastewater	\$ 1,760,000
Water	\$ 7,015,000
Total	\$ 14,720,000

Bond Program Savings

2021 Bond Refundings (\$ millions)

2011 General Obligation Bonds (\$17.7M)

Refunded Principal	Nominal Savings \$*	Net Present Value Savings \$*	Net Present Value Savings % of par*
\$14.5	\$3.2	\$3.0	17%

2011 Utility Systems Revenue Bonds (\$54.0M)

Refunded Principal	Nominal Savings \$*	Net Present Value Savings \$*	Net Present Value Savings % of par*
\$44.4	\$21.1	\$18.0	33%

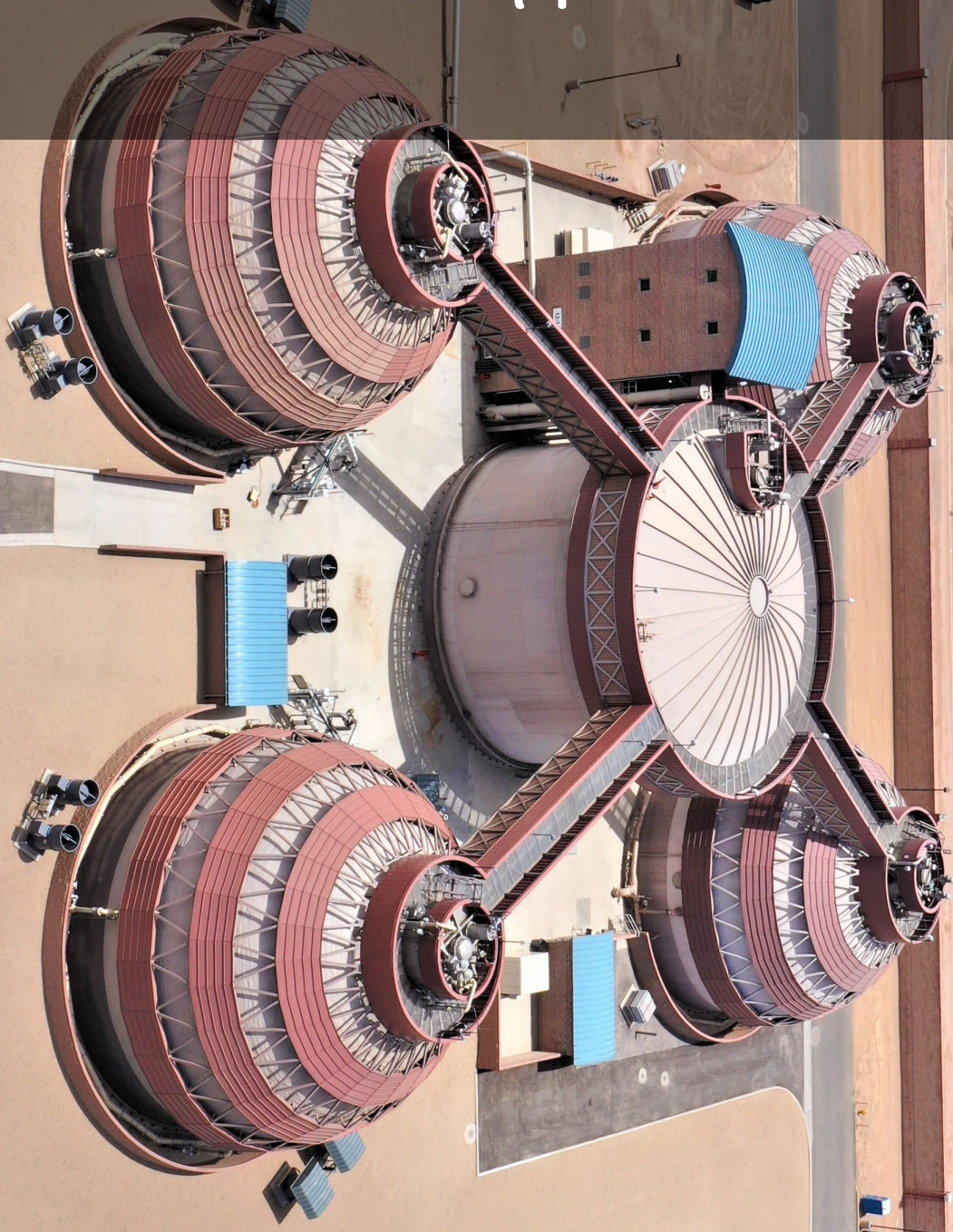
*Estimate based on current interest rates. Actual rates will be based on market conditions when priced.



Utilities Capital Improvement Program Budget FY 2022-2026

City Council Study Session
4/15/2021

Brian A. Ritschel
Management & Budget Assistant Director



Agenda

- Discuss Five Year Utilities Capital Improvement Program (CIP)
- Review Active Utilities Projects
- Next CIP Steps

Utilities CIP Funding Sources

Local Revenues

Utility Revenue Bonds

Utility Revenue Obligations

Operations & Maintenance

- Reviewed throughout the CIP project lifecycle
- Budgeted to ensure City can meet the operational requirements of capital improvements

Examples:

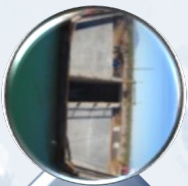
- Plant maintenance costs for expansion of wastewater facility
- Chemical cost to treat wastewater
- Additional staff for water treatment plant expansion



Current Year Completed Project:
Greenfield Water Reclamation
Plant

Total Project Cost: \$210M
(\$127M – Mesa Share)

Proposed Utilities Projects FY 2021-22



Water

Central Mesa Reuse Pipeline

East Mesa Water Interconnect
Pipes

Signal Butte Water Treatment
Plant Expansion



Wastewater

NWWRP Major Plant
Improvements

Sewer Line Replacements

Proposed Utilities Projects FY 2021-22



Natural Gas

Queen Creek Gate Station

Southern Avenue to Country
Club Drive Improvements

Residential and Commercial
Developments



Electric

Substation Improvements

New Electrical Services

Electrical Undergrounding

Next CIP Steps

- April 15th – Utilities CIP Budget Review
- May 1st - Public Notice of Proposed FY 2022-2026 Capital Improvement Program
- May 17th – Public Hearing and Council consideration of FY 2022-2026 Capital Improvement Program
- June 21st – Secondary Property Tax Levy Adoption



UTILITY DEPARTMENTS BUDGET OVERVIEW/ FISCAL YEAR 2021/22

APRIL 15, 2021
CITY OF MESA



mesa.az

Presented by:

- Brian A. Ritschel, Management and Budget Assistant Director
- Scott Bouchie, Environmental Management & Sustainability Director
- Jake West, Water Resources Director
- Frank McRae, Energy Resources Director

Utility Fund Forecast

UTILITY FUND	FY 20/21	FY 21/22	FY 22/23	FY 23/24	FY 24/25	FY 25/26
NET SOURCES AND USES	Projected	Budget	Forecast	Forecast	Forecast	Forecast
WATER	\$383	(\$1,748)	(\$4,133)	(\$956)	(\$5,193)	(\$5,440)
WASTEWATER	(\$12,998)	(\$12,017)	(\$8,951)	(\$9,421)	(\$7,620)	(\$5,520)
SOLID WASTE	\$2,122	(\$5,390)	(\$682)	\$2,481	(\$508)	\$3,166
ELECTRIC	\$3,269	\$704	\$192	(\$446)	\$22	(\$24)
NATURAL GAS	\$2,267	(\$926)	(\$472)	(\$754)	\$65	\$761
DISTRICT COOLING	(\$114)	(\$367)	(\$53)	(\$60)	(\$103)	(\$234)
TOTAL NET SOURCES AND USES	(\$5,072)	(\$19,744)	(\$14,098)	(\$9,156)	(\$13,337)	(\$7,290)
Beginning Reserve Balance	\$136,773	\$131,702	\$111,958	\$97,860	\$88,704	\$75,367
Ending Reserve Balance	\$131,702	\$111,958	\$97,860	\$88,704	\$75,367	\$68,077
Ending Reserve Balance Percent*	30.4%	25.6%	21.9%	19.0%	15.8%	13.8%

with Economic Recession starting in FY 19/20

* As a % of Next Fiscal Year's Expenditures

data as of April 2021

Dollars in Thousands



Environmental Management and Sustainability

Budget & update

April 15, 2021

Successes

- Flare to Fuel
- Recycle Right Wizard
- Household Hazardous Materials Facility Successes
- Digital documents
- Continuity of Services during COVID
- Mutual Aid Agreement

Successes

- Climate Action Plan
- Reduced Electricity Energy Use in City Buildings and All Sites
- SRP renewable energy offer
 - Increases Mesa's renewable energy to 13%
- Water Conservation
 - Parks
 - Buildings
 - Mesa Public Schools – “Every Drop Counts”
- Online Environmental Training

Challenges

- Recycling
- Infrastructure
 - Space Planning
- Staffing
 - Operations Succession Planning
- Public Outreach
 - Recycling
 - Water Conservation
 - Climate Action Plan
- Dobson Underground Storage Tanks
- Fleet Electric Vehicle Charging Master Plan

Significant Changes for FY 21/22

- Boundary Change
- Implementation of new ADEQ Stormwater Regulations
- Greenfield Lighting Retrofit Project
- Facility Automation – Smart Cities Initiative
- Climate Action Plan
 - Aspirational Goals
 - Action Plan

Enhancements – FY 21/22

1. One Growth ASL - \$410k
2. Camera System Annual Maintenance & Parts - \$50k
3. CNG Maintenance Contract Increase - \$160k



QUESTIONS



Water Resources Operational Overview and Budget Discussion April 15, 2021



City of Mesa Water System

-
- 2,480 miles of Water Mains
 - 35 Wells
 - 5 Transfer Stations
 - 27 Pump Stations
 - 21 Reservoirs
 - 24 Pressure Reducing Valves
 - 20,297 Fire Hydrants
 - 63,400 Valves – includes system valves, control valves, and hydrant valves
 - 2 Water Treatment Plants
 - 1 Joint Venture Plant
-

Measuring Success: Water

Fire Hydrant Maintenance

- Target: 4.2% per month
- Average: 6% per month

% of Reclaimed Water to Beneficial Reuse

- Target: 100% per month
 - Average: 75.6% per month
-



Hydrant Replacement Contract

- **Annual Cost: \$250,000**
- Currently 360 outstanding workorders for hydrant replacements
 - Collectively comprises 21,000 hours of backlog (out of service hours)
- 3rd party contract to replace 25 complex hydrants
 - Reduce backlog by 10,000 hours
- Ensures hydrants are ready for service when needed by Emergency Responders
- Reduce liability to City of Mesa



Water Commodity Forecast

Source	FY21/22	FY22/23	FY23/24	FY24/25
CAP Tier 0	\$ 9,842	\$ 10,678	\$ 11,821	\$ 12,667
CAP Tier 1*	\$ 10,750	\$ 11,894	\$ 13,176	\$ 14,183
SRP	\$ 1,636	\$ 1,669	\$ 1,702	\$ 1,736
GRIC	\$ 531	\$ 531	\$ 671	\$ 732
Total Tier 0	\$ 12,009	\$ 12,878	\$ 14,194	\$ 15,135
Total Tier 1*	\$ 12,917	\$ 14,094	\$ 15,549	\$ 16,651

Dollars in thousands
*CAP Shortage

Joint Venture, Chemicals, Electricity: Water

	FY20/21	FY21/22	Variance
Val Vista WTP Obligation	\$7,000	\$7,700	\$700
Water Chemicals	\$2,420	\$2,135	-\$285
Water Electric	\$4,969	\$4,740	-\$229
Total	\$14,389	\$14,575	\$186

Dollars in thousands

City of Mesa Wastewater System

-
- 1798 miles of Sewer Mains
 - 14 Lift Stations
 - 19 Sulfide Stations
 - 1 Odor Control Facility
 - 35 miles of reclaimed water lines
 - 2 Wastewater Treatment Plants
 - 2 Joint Venture Plant
-

Measuring Success: Wastewater

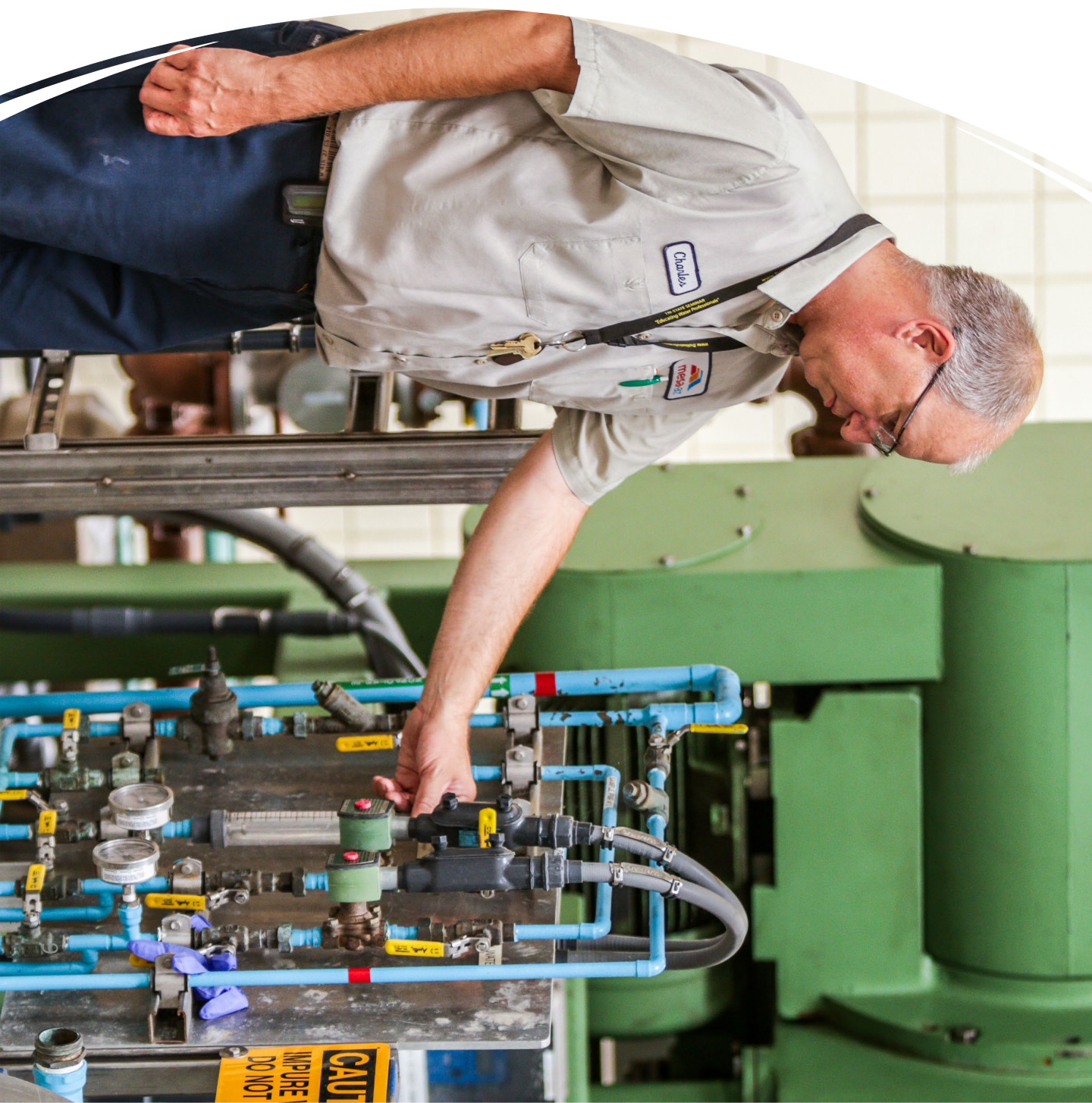
of Sanitary Sewer Overflows (SSO's)

- Target: 2.0 per Quarter
 - Average: 1.0 per Quarter
-



Greenfield Water Reclamation Plant (GWRP Joint Venture) 2 FTE – Water Resources Operator II

- **Ongoing Cost: \$175,672**
 - Position Costs
 - Mesa Cost Share \$73,776(42%)
- **One-time Cost: \$3,000**
 - Computer and Minor Equipment
 - Mesa Cost Share \$1,260 (42%)
- This large, complex, end of the line treatment plant is now the 3rd largest wastewater treatment facility in the State of Arizona
- Two additional positions are needed to adequately support the effective operations of the newly expanded plant 24/7



Greenfield WRP Joint Venture

- **Major Maintenance**
- **One-time Cost: \$1,080,000**
 - Rebuild Thickening Centrifuge Scroll – \$80,000
 - Refurb Primary Clarifier Main Gearbox – \$500,000
 - Refurb Secondary Clarifier #2 Main Gearbox Drive – \$250,000
 - Refurb Primary Clarifiers #1 and #2 Sludge & Scum Pumps - \$130,000
 - Chemical Feed Piping System Parts - \$60,000
 - Equipment Storage Area - \$60,000
- Mesa Cost Share: \$453,600 (42%)
- Reduce the risk of personnel injury, equipment failure and increase critical site operational reliability



Joint Venture, Chemicals, Electricity: Wastewater

	FY20/21	FY21/22	Variance
Greenfield WRP - Mesa Share*	\$3,943	\$3,664	-\$279
SROG (91st Ave WRP) Obligation	\$7,000	\$7,140	\$140
Wastewater Chemicals	\$3,293	\$3,395	\$102
Wastewater Electric	\$3,911	\$3,803	-\$108
Total	\$18,147	\$18,002	-\$145

Dollars in thousands

*Estimated GWRP Mesa Share. Actuals to be 42% of approved GWRP Joint Venture Budget



Questions?





FY 21/22 BUDGET REVIEW

- Energy Resources Department
-proudly providing
- safe
- reliable &
- efficient
- natural gas & electric utility services
- Since 1917!

MESA ENERGY UTILITY INFORMATION

Gas and Electric Utilities purchased in 1917

124 employees

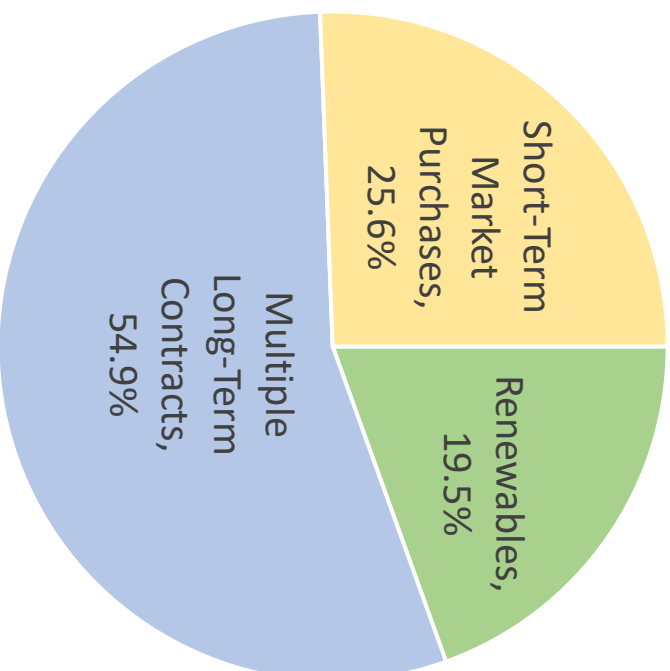
Electric

- 17,000 customers
- 14 miles 69kV transmission lines
- Four 12 kV substations
- 194 miles of overhead distribution lines (43%)
- 259 miles of underground distribution lines (57%)
- 1st Place 2020 APPA Safety Award of Excellence
- APPA Reliable Public Power Provider, Platinum Member 2020-2023

Gas

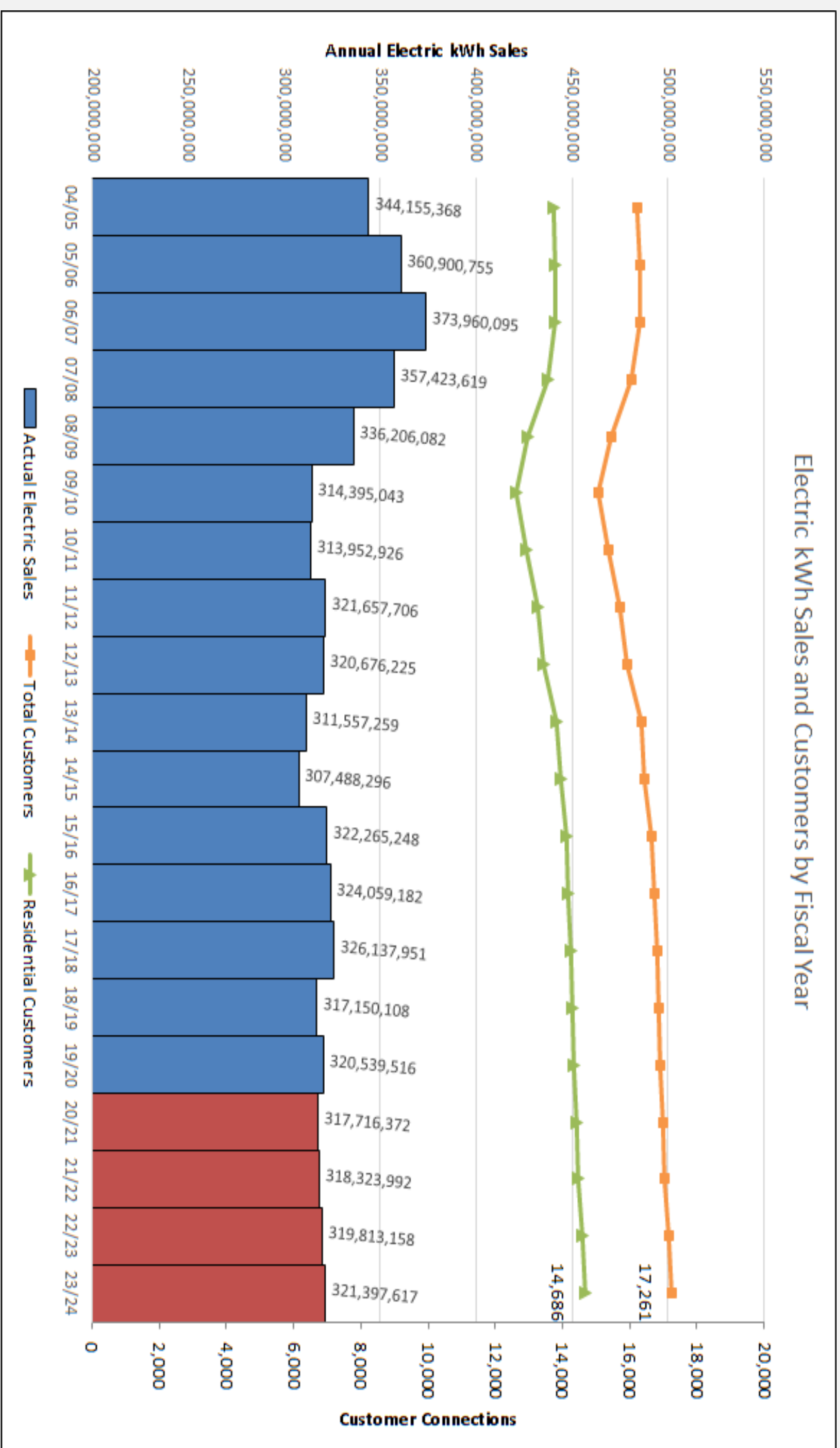
- 69,200 customers
- Five gate stations
- 79 pressure regulator stations
- 153.2 miles of High Pressure main
- 1,249.8 miles of Intermediate Pressure main
- APGA SOAR Silver Award 2019-2022

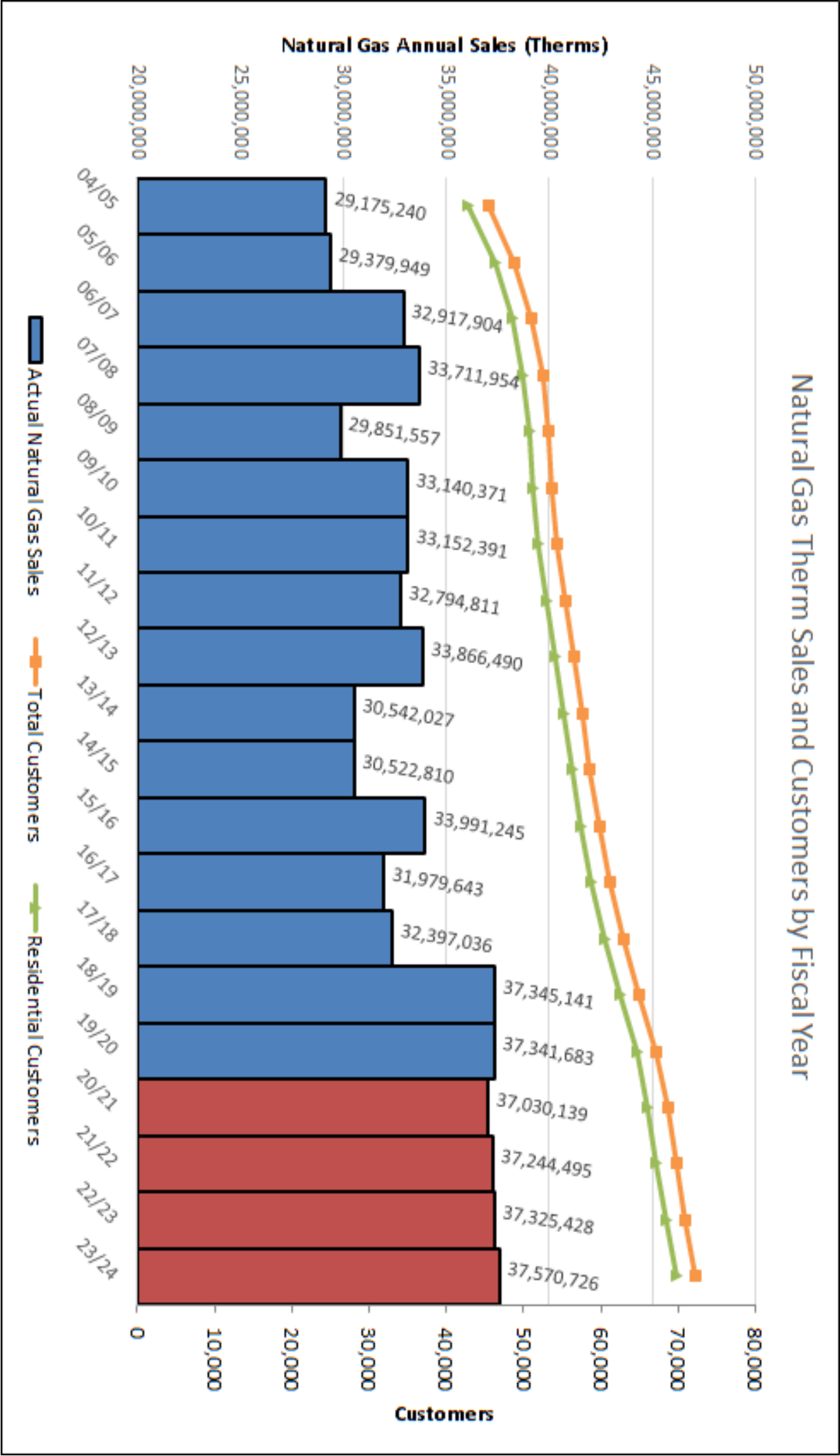
CURRENT ELECTRIC SUPPLY PORTFOLIO



ENHANCEMENT – TWO (2) GAS CREWS

- Ongoing Annual Cost: \$501,648
 - Two (2) Crews of 3 (6 FTE total)
- One-time Fleet/Equipment Cost: \$1,474,000
- Benefits
 - Cost savings compared to outsourcing to contractor: \$983,196
 - Overtime reductions: \$507,711
 - Performance measure improvement
 - Average cost to install residential gas service line
 - Timely completion of corrective maintenance projects per pipeline safety regulatory requirements





HIGHLIGHTS

Community Safety

- Response times
- 96.4% of all Gas calls responded to in 30 minutes or less (Mesa)
- Electric average response time – 16 minutes
- SAIDI (Reliability - Electric Outage Duration)
- 1.69 minutes of interruption per customer through February (Target 10.238)
- Lost time accidents
- Electric – 976 days without a lost time accident
- Gas – 1,178 days without a lost time accident

Support Growth in Development

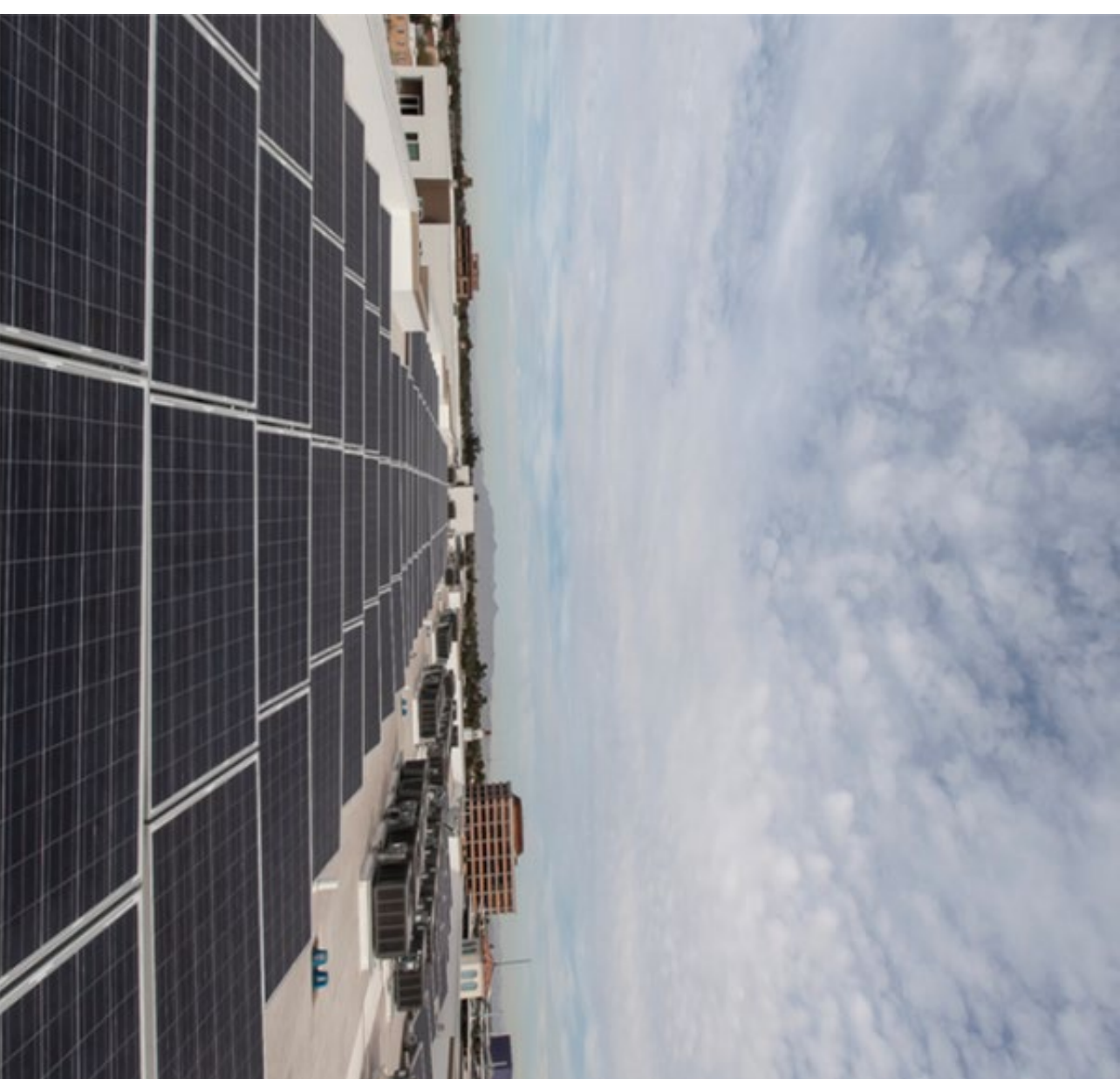
- Customer Attraction/Retention/Economic Development Electric and Gas Service

Support Small Business Assistance

- Downtown Small Business Attraction Electric Service

Customer Programs

- Summer Electric Assistance (SEA Program)
- Renewable Energy Service Rider



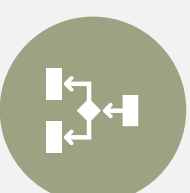
NEAR TERM CHALLENGES



OMS, Smart Meters
& Smart Energy



Connecting &
Communicating
with our customers



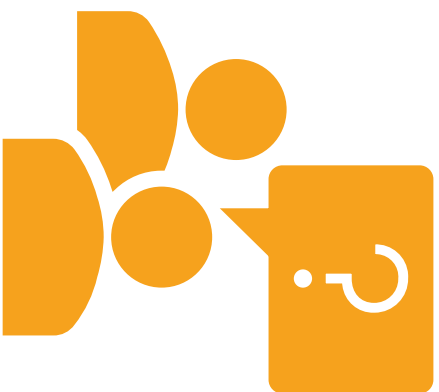
Meeting our
customers' energy
wants & needs



California and Texas
Market Instability
Impacts



Renewable Energy
& Sustainability



QUESTIONS?