



## Minutes City Council's Finance, Economy & Veterans' Affairs Committee January 15, 2008

Minutes of the City Council's Finance, Economy & Veterans' Affairs Committee held on Tuesday, January 15, 2008, 3:00 p.m., in the 3<sup>rd</sup> Floor Conference Room, Tempe City Hall, 31 E. 5<sup>th</sup> Street, Tempe, Arizona.

**Committee Members Present:**

Vice Mayor Hut Hutson, Chair  
Councilmember Mark Mitchell

**City Staff Present:**

Brenda Buren, PD, Supp Svcs Dir  
Mark Day, Sr Budget/Fin Analyst  
Tom Duensing, Dep Financial Svcs Mgr  
Andy Goh, Dep Pub Wrks Mgr  
Jerry Hart, Financial Svcs Mgr  
Shelley Hearn, Comm Relations Mgr  
Jan Hort, City Clerk  
Glenn Kephart, Pub Wrks Mgr  
Tom Mikesell, Lead Budget/Fin Analyst  
Adam Williams, Sr. Budget Analyst

Dave Park, Asst. City Attorney  
Jon O'Connor, Dep. H.R. Mgr  
Mark Richwine, Parks & Rec Mgr  
Nancy Ryan, Rio Salado Mgr  
Chris Salomone, Comm Dev Mgr  
Kay Savard, Specialty License Coord  
Larry Shobe, Eng. Svcs. Admin  
Bruce Smith, License/Collection Supvr  
Jay Taylor, Fleet Dir.  
Sam Thompson, Dep Mgr, Park Svcs

**Guests Present:**

None.

*Vice Mayor Hutson called the meeting to order at 3:01 p.m.*

**Agenda Item 1 – Public Appearances**

None.

**Agenda Item 2 – Regulatory Licenses Appeal Processes**

Bruce Smith summarized that the City currently has 36 specific regulatory license types with a variety of appeal process methods for denial, renewal, revocation, or suspension. Staff would like to bring those into conformity and similarity. Some of the licenses involve the City Council in the appeals process when the Council has acted as the decision maker in granting the license. Staff recommends three options for the appeal process:

Option 1 –

Hearing by a contracted hearing officer:

- After-hours (requires City Council approval)
- Teen dance hall (requires City Council approval)
- Adult-oriented managers/providers
- Amusements
- Itinerant merchants
- Massage establishment
- Used goods

City Council acting as the hearing body:

- Adult-oriented business

Option 2 –

- Contracted hearing officer responsible for hearing all license appeal cases.

Option 3 –

- Create a license appeal board to be responsible for hearing all license appeal cases. This would be a Council-appointed body to meet only when an appeal is filed.

Mr. Smith added that customers also have option of referring their appeals to Superior Court if they are dissatisfied with a staff hearing officer or City Council decision. Some ordinances specify a hearing officer, some go straight to City Council, and some have no provisions for hearings. Staff desires to make the ordinances consistent. He added that the City issues three types of licenses that are regulated by a State governing board. Those three types are liquor licenses, off-track wagering, and bingo. In those cases, the City makes a recommendation to that board and the board has the final decision. After hours licenses and teen dance hall licenses require City Council for the appeals process.

**DIRECTION: Prefer Option 1. Staff was directed to take all three options to City Council at an Issue Review Session.**

### **Agenda Item 3 – Golf Program Equipment Leasing**

Sam Thompson summarized that staff is seeking Council direction to seek competitive bids to lease golf equipment for the golf program. Currently, no equipment has been purchased in more than seven years. The equipment life cycle is dwindling, and at least ten pieces of equipment need to be replaced to keep the courses sustainable. A lease program is the most economical and feasible solution to the equipment needs and staff is recommending utilizing a 3 to 5 year lease program with a projected cost of approximately \$40K per year. At the end of the lease program, the Parks Department would own that equipment. The equipment would be utilized at both golf courses.

Vice Mayor Hutson asked whether that cost could be absorbed.

Mark Richwine responded that the impact of this lease could be absorbed in the Ken MacDonald operating budget. Staff has implemented a number of cost-saving measures. This

equipment can be used throughout the Parks maintenance operation, and it could be absorbed into park sites if necessary.

**DIRECTION: Move forward to Council.**

**Agenda Item 4 – Overhead Power Lines Undergrounding cost impact on residential property owners**

Andy Goh summarized that staff is seeking direction to modify the current City Code pertaining to undergrounding of overhead power lines for single-family residential property. Currently, there is no distinction between residential, commercial, or individual. It is becoming more expensive for property owners to expand their houses and also satisfy this requirement. For a 50-foot lot with overhead power lines in the alley, the cost could be from \$10K to \$15K to satisfy this requirement. Staff would like to modify the ordinance to make it optional for property-owners to do that and make it more feasible to upgrade homes in older residential neighborhoods. This condition exists typically in the northern half of the City.

Councilmember Mitchell asked for clarification that when someone adds on to their home, they would have to pay a fee.

Mr. Goh responded that if the power line is on their side of the alley, this would apply. This would apply to the distribution lines. This issue arises on the average of one or two cases per month.

Vice Mayor Hutson and Councilmember Mitchell supported a residential exemption for non-attached single family residences.

**DIRECTION: Referred to Council at an IRS meeting in February.**

**Agenda Item 5 – License for Special Use – Right-of-Way Encroachment**

Andy Goh summarized that more and more development projects within the downtown area propose to encroach in the street right-of-way. Staff proposes three options to address this issue:

- Option #1 – not to allow development to encroach into the street right-of-way
- Option #2 – allow encroachment with a fee for an annual lease of the right-of-way
- Option #3 – negotiate a contract for the outright sale of the City's right-of-way

Staff recommends Option #2 for an annual encroachment license fee tied to the market value of land and the term of the lease. This would be administered by Engineering.

Vice Mayor Hutson stated that he would prefer getting the money on an annual basis and would prefer Option #2. He suggested that the lease be renewable for 5 or 10 years to allow appraisals.

Glenn Kephart added that by presenting this issue at IRS, the developers would be aware of the process. Currently, there is not rule.

**DIRECTION: Referred to Council at IRS.**

**Agenda Item 6 – OPEB Update**

Tom Duensing summarized that the first draft of the actuarial study was received last week. He anticipated returning to the committee at the next meeting with a draft of the report which will indicate the amount of the liability to be disclosed on the financial statement. A Request for Proposal (RFP) was issued for an administrator for the program for the new hires (July 1, 2007, and subsequent), but no proposals were received. Currently, staff is in discussion with the City's benefits consultant to determine the feasibility of either a new RFP or the possibility of using a cooperative agreement with another municipality. Staff will return to the committee with further information.

Vice Mayor Hutson directed staff to check with the other cities for the possibility of a joint agreement. The City put in \$10M last year, and we are \$1M short. Nothing will go in this year, so that's \$4M short. There's nothing in the budget for next year, so that's \$23M short. He asked if the 5-sided partnership is talking about present employees.

Mr. Duensing responded that the employee groups are waiting for the long range forecast to be presented to the Council, and at that point the groups will convene to discuss issues to rein in the cost for the present employees.

**Agenda Item 7 – Long Range Forecast**

Jerry Hart acknowledged Tom Mikesell, Mark Day, and Adam Williams for their effort on this forecast. He summarized that In March/April, the impact of the credit crunch, especially in retail sales, was apparent. As early as April of last year, a negative trend in growth was noted and that has continued. With the most recent sales tax report, year-to-date actual sales tax collections are about .2% to .3% ahead of the same period as last year in the General Fund. At the beginning of the fiscal year, it was 7.6% and it has continued to decline and by the end of the fiscal year it is expected to be approximately 3.5% behind sales tax collection last year. Although Tempe is not impacted to the same degree as the surrounding communities, we are still impacted. The effect of the slowing housing market has made credit much harder to get, so even for those who want to take advantage of home equity, it is tougher. Overall year-to-date retail sales are down, 5.1%. Retail sales, as a component of the total sales tax revenues in the General Fund, comprise about 55% to 60%, so a 5% decline is significant. Staff is anticipating that sales tax revenue for the current fiscal year will fall about \$5M short and a \$1.5M surplus is anticipated. The intent was for a \$6.2M excess which was intended to address OPEB.

Mr. Hart continued that this forecast is a five-year forecast of all of the major operating funds and the purpose is to provide a financial outlook as a guide in resource allocation decisions. This forecast does not include OPEB funding, nor the future planned development projects, but it does include the Tempe Marketplace. There will be retail components that have not been factored into the forecast.

Vice-Mayor Hutson asked when the first payment on Pier 202 was due.

Chris Salomone stated that the second draw-down of a minimum of \$8.5M is due in August.

Mr. Hart added that the first payment of \$8.5M was received in August and that is not reflected in the FY 07/08 numbers for the General Fund. He continued that the forecast contains the following assumptions:

- No recession, however, continued slow housing market until FY 09/10
- No additions of new programs or expansion of existing programs
- No approval of any operating budget supplemental requests or new CIP operating impacts
- No new revenue sources
- No significant increases in existing user fees
- Flat sales tax revenue growth through FY 08/09
- Continuation of existing programs
- Continuation of employee step increases and the annual market adjustments (personal services represent 80% of the operating budget in the general fund)
- No changes in state shared revenue allocation formulas (in the FY 11/12, the impact of the next census will affect about a \$3M reduction)

Vice Mayor Hutson suggested that Amber Wakeman look into capturing an increase in ASU beds in the census.

Mr. Hart added that the rate of growth of personal services expenditures exceeds the rate of growth of our revenue. On the expenditure side, a certain level of staffing is maintained and that level and the cost associated with that continues to grow despite whatever happens on the revenue side. In looking at the general fund total revenue from 06/07 through 11/12, there is no actual overall decline in revenue. This is unlike the last economic slowdown when there was about a \$13M reduction in revenue from one year to the next. Also, effective July 1, 2008, there will be a significant increase in the City's contributions for public safety retirement. Just that line item alone is expected to grow by about \$3M from 07/08 to 08/09. That is largely attributable to the significant increase in the contribution rate. The employee contribution rate is fixed by statute, so any shortfall in the retirement system funds is solely the responsibility of the employer.

Vice Mayor Hutson asked about the fee increase for Water/Wastewater and whether a three-year step increase had been approved.

Mr. Hart responded that in 2005, Council approved a three-year water and sewer rate increase. Currently, a rate consultant working with the Water Utilities Department is looking at the current rate structure.

Vice Mayor Hutson asked if that also includes a contribution into OPEB.

Mr. Hart responded that at this point in the study, that factor has been added. For both Water/Wastewater and Solid Waste, staff will be coming forward by mid-year with information to Council on the necessity for increasing rates for both programs.

#### Water/Wastewater

Mr. Hart summarized that what is primarily driving the deficit is the intensive capital program with increasing debt service cost. Information will be coming forward to Council with respect to

a rate increase for the water utilities program. This increase would pay the debt service as well as the increased associated operating costs.

Councilmember Mitchell asked Mr. Hart to break out the debt service.

Mr. Hart responded that user fees are designed to cover all of the operating costs of providing the service, and also to repay the bonds issued to finance the capital improvements. The fees have to be set sufficient to cover all of that, and the fees have to take into consideration the financial policy of the Council to keep the water utilities fund balance reserve at a certain limit, which is currently 100% of operating revenue. That policy, plus the operating cost, including debt service cost associated with the program, is what drives the size of the rate increases.

#### Solid Waste Fund

Mr. Hart summarized that this fund is doing well. No deficits are projected until 09/10. The last rate increase went into effect this past November, but nonetheless, no bonding is issued for this program. The primary capital need is the equipment, and those trucks are cash-financed. The need to continue to replace the trucks and the increasing costs of providing services which continue to rise with the market adjustment, increase in healthcare costs, etc., is what drives the need for the rate increase. Staff will come forward later in the year with a proposal for Council consideration.

He added that for both the Water/Wastewater Fund and the Solid Waste Fund, Tempe's rates continue to be very competitive. The surrounding communities are faced with the same cost pressures, so there is an expectation that there will be rate increases in surrounding communities. Staff is working on updating the cost of services study as of January 1 and will be providing that to the committee.

#### Performing Arts Fund

Mr. Hart summarized that the major revenue source, again, is sales tax revenue, and this fund is being impacted by the slowdown. From 07/08 to 08/09, basically flat growth in sales tax revenue is projected for this fund. The performing arts tax expires January 1, 2021. As of June 30, 2007, there was approximately \$15M in the Performing Arts Fund. That balance will be utilized to sustain the fund with all of its operating costs up to the time the tax expires, and then Council will need to make a decision.

#### Transit Fund

Mr. Hart summarized that the largest revenue source for this fund is basically sales tax revenue and flat revenue growth is projected in 07/08 to 08/09, and then the revenue growth begins to pick up. Light Rail operations are scheduled to begin in December 2008/January 2009. Staff continues to work on the operations agreement so the forecast includes what we believe the costs will be. This projection does include, to the extent the neighborhood circulator program has been implemented, the cost of everything north of US 60, but anything south of US 60 is not included. It does anticipate the operating cost associated with the Transportation Center, as well as the East Valley Bus Maintenance Facility.

#### Rio Salado and Community Facilities District Funds

As of June 30, 2007, there is only \$3.5M left in reserve. Staff has been working with the development community to encourage development around the Lake. Developments currently

on the table (such as Marina Heights) will contribute to future revenues to offset the expenditures.

Mr. Hart added that the Ad Hoc Long Range Budget and Finance Committee will have its first meeting on Thursday to begin the process of looking at ways to close the gap.

Councilmember Mitchell asked Mr. Hart to look into COLA.

Mr. Hart added that this long range forecast will be brought to Council at the IRS on January 24, 2008.

**Agenda Item 8 – Future Agenda Items**

Status of reclaimed water.

***Meeting adjourned at 4:15 p.m.***

Prepared by: Connie Krosschell  
Reviewed by: Jerry Hart

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Jan Hort, City Clerk