



Minutes City Council Issue Review Session March 26, 2009

Minutes of the Tempe City Council Issue Review Session held on Thursday, March 26, 2009, 6:00 p.m., in the City Council Chambers, Tempe City Hall, 31 E. Fifth Street, Tempe, Arizona.

COUNCIL PRESENT:

Mayor Hugh Hallman
Vice Mayor Shana Ellis
Councilmember P. Ben Arredondo
Councilmember Mark W. Mitchell
Councilmember Joel Navarro
Councilmember Onnie Shekerjian
Councilmember Corey D. Woods

Mayor Hallman called the meeting to order at 6:20 p.m.

Call to the Audience

CIP Work Session

INFORMATIONAL BACKGROUND available in City Clerk's Office.

DISCUSSION – City Manager Charlie Meyer; Financial Services Manager Jerry Hart

Charlie Meyer summarized that this package includes recommendations that are consistent with the funding available.

Jerry Hart provided an overview of the proposed Five-Year Capital Improvements Program (CIP) for Council's review. This program reflects the current CIP approved by Council last year at this time with very few changes. He summarized the key assumptions.

- Current property tax rate of \$1.40.
- Reduced overall secondary assessed valuation beginning in FY 2010/11 due to projected declining property values, including both commercial and residential. The median valuation for owner/occupied homes in Tempe is projected to go down by about 7%, and based on the early estimates from the County, for FY 2010/11, that valuation is projected to go down by another 13% to 14%. Of the City's

property tax base, commercial/industrial properties represent the largest share.

- A continuation of necessary rate increases in the Water/Wastewater program. A five year plan was introduced several years ago to increase rates by 80 cents in each of the following five years, principally driven by the enhancements being made to comply with various regulatory agencies. All of the cities in the state are faced with the same regulations.
- The potential deferred receipt of the remaining Rio East (Southbank) proceeds to FY 2012/13 and thereafter. The \$8M payments remaining from the developer would be at interest, so that interest money would go back into the general fund to help pay for the operations of the Lake. The interest rate is 8%.
- The deferred allocation of funding for the replacement of the rubber dams to FY 2012/13 and thereafter. Assumption is also made under the proposed agreement with Bridgestone that we will have to in the future begin setting aside funding for the eventual permanent replacement of the dams. With the Rio East proceeds, which are projected to resume in FY 2012/13, we will begin setting aside money from those proceeds to accumulate sources of funding to eventually replace the dams.

Mayor Hallman asked for clarification that it isn't the Rio East money but the Gray Development money that is coming into a sinking fund at \$800K per year.

Mr. Hart clarified that is the other piece of the funding source. The total estimated cost of the project at this point for the permanent replacement is approximately \$24M, with \$16.8M coming from Gray Development and the balance from the Rio East money.

- The use of the approximately \$2M of unallocated funds in the Capital Improvement Reserve (there is approximately \$9.1M in that reserve, about \$2M of which had not been allocated to any project). When putting this plan together, the money that was available was used to balance the plan.
- No federal stimulus funding. To the extent the City is successful in gaining federal stimulus money, the gain has the potential of freeing up resources currently committed to those projects to either reducing the amount of bonding that we have to do, or potentially allow to achieve other projects that are not currently on this funded plan.

Mr. Hart added that this plan does not include the lease of the rubber dams from Bridgestone. Estimates are \$3M to make that project happen. The \$3M in costs is anticipated to be fully reimbursed by Bridgestone. That is not included in the plan. In the final CIP plan that staff brings for adoption, the \$3M for the temporary replacement of the dams will be reflected in FY 2009/10. That will be fully reimbursed. Secondly, it has been brought to staff's attention that we are also highly likely to receive approximately \$6.5M of federal grants for the expansion/modifications of the East Valley Bus Operations and Maintenance Facility. That is not reflected in the proposed plan. It would be \$6.5M in grants plus \$500K of design money, so a total of \$7M is anticipated to be completely covered by grant funding, and that will be reflected when the final proposed CIP is brought to Council.

Mayor Hallman asked about the award of funds for water improvements and whether that is reflected.

Mr. Meyer responded that at this point none of the stimulus projects are reflected in this proposed CIP.

Whatever the City gets in stimulus projects will make a very fluid CIP because it will be changing constantly for the next year or two.

Mayor Hallman summarized that this is just the opening meeting and no decisions will be made tonight. Essentially, last year's Five-year CIP (years 2, 3, 4 and 5) moved forward and will now be years 1, 2, 3 and 4 and a year is added to the back end. He asked Mr. Hart to point out the areas, given the potential reductions in cash from reductions from valuations, where staff felt changes were necessary.

Mr. Hart responded that this program reflects what was in the existing CIP, so there were really no projects in the existing CIP that were eliminated as a result of the declining valuation.

Mayor Hallman explained that the \$1.40 rate is the same; but valuations have come down. He asked what the reduction in valuation of properties in Tempe has been over the last seven years, including this projected 13% to 14% reduction in FY 2010/11. He added that combining the rise in the property values, and including the projected potential reduction for FY 2010/11, at the end of 2010, Tempe properties will still have a valuation increase of a little more than 50%. There was a 72% run-up in valuation over a five-year period ending 2007/08. Reductions will only start to chip away at that huge increase in valuation that property owners saw during that period of time. Residents should not go away thinking that they are going to see a reduction in property taxes for this year. In fact, the way that the 2009/10 property tax payments will come in, that first property tax payment isn't due until November, so people will be making a property tax payment this April for last year.

Mr. Hart agreed.

Mayor Hallman continued that one of the issues we face is that while everyone is reading about downturns and thinking about downturns, the average resident will see an increase in their property tax.

Mr. Hart added that specifically for owner/occupied properties for FY 2009/10 the median value, based on the information from the County, is projected to decline by 7.7%.

Councilmember Woods asked for an estimate of how much more property owners would be paying.

Mayor Hallman stated that on average it would be on a median of about \$160K. It would be something like \$25 but that was calculated without changes to valuation. The median is calculated, but nobody looks at the slide up in valuation. The property tax increases are limited to 10%, so we calculate it as if peoples' homes stayed static. We don't calculate the fact that their valuations also increased.

Mr. Meyer added that in comparison to where we were last year in terms of putting together a CIP, we did not have a voter authorized bond referendum and we do now. That bond referendum is guiding the current year (2008/09) as well as the next four years. We are now adding a fifth year onto this process with this new CIP (2013/14). The voters of Tempe have not yet authorized General Obligation (GO) bonds for that fifth year, but we decided to separate the language of GO bonds and unauthorized GO bonds to see which projects were funded with the funds that the City residents authorized in the last bond referendum. Essentially, nothing in the

fifth year is authorized because we built a five-year plan, including this year, around this last authorization that was just recently conducted.

Mayor Hallman added that the work last year was to set ourselves up so that our authorization would include the five-year plan from last year, so it only goes through the fourth year of this one. Sometime down the road, we will have another bond election that will include the current fifth year.

Mr. Meyer added that the GO bonds are paid by water revenues in the case of the Water utility, but in the case of most others, they are paid for by the secondary property taxes. Staff does an analysis to determine if there is enough income stream from the secondary property tax to pay it off over its life, which is oftentimes a twenty-year life. That analysis has been done by Financial Services staff. With the projections for rises and falls in property values, there is enough money to pay for those bonds. We also need to have the discussion of whether or not we keep a reserve for coverage to prove to a bondholder that we have the ability to pay those bonds. Coverage gets tight. We are not in a position today, with the kind of volatility there is in property values, to recommend that we start to cut back capital projects based on that coverage issue, but Council does need to know that there is some coverage issue out there.

Mayor Hallman clarified that it is an 8% coverage ratio, a rolling 8% and asked how that is being handled.

Mr. Meyer summarized that what we look at is whether, in any given year, there is a percent coverage. There may be years where the coverage is well above the 8% reserve, but there are years in the forecast right now where the coverage does not reach the 8%.

Mayor Hallman clarified that, on average, it is an 8% coverage.

Mr. Meyer added that after consideration, staff wasn't ready to say that we should start cutting back on projects because of not meeting the 8% criteria in each of the years that were forecasted out. Staff thinks we should fulfill the projects that the voters authorized. In a year or two, for FY 2013/14, we will have a better handle as to what capacity we need to bond in those out-years.

Mayor Hallman asked, for future consideration, the total analysis of cash flow on secondary property tax in our other sources. In our prior year's effort, we identified the sources and uses of cash. It was confusing how that should come together, but he would like a sense of the amount of coverage that we have in any given year, and the projected flows of secondary property tax for covering our bonds. His position on property tax has been pretty well known. The voters have approved a set of bonds and the obligation is that we must fulfill those bonds. Given the coverage ratio issue, it sounds like we will bump up against the \$1.40. Having gone to the ballot on these kinds of things, he wanted to make it clear where we will have to come out.

Mayor Hallman continued that he also wanted to make clear to the public that there was a story in yesterday's business section of the Arizona Republic which talked about the fact that Tempe had a huge number of foreclosures in the prior month. It was thirty. That story went on to describe the large number of foreclosures that other communities were facing. It would be helpful for the next presentation if Mr. Hart could also give the relative reductions in valuations for the other communities. For someone to hear that there is a 7% reduction in

Tempe valuation in the FY 2009/10 year and not understand that in almost every community around us, the reduction has been significantly more than that, does a disservice. .

Mr. Hart noted that the Council schedule shows a follow-up CIP meeting, if necessary, on April 2nd

Mayor Hallman agreed that the April 2nd meeting would not be needed.

Mr. Hart continued that the next step will be to bring forward the CIP budget for approval.

Mayor Hallman added that he would like to see the numbers.

Mr. Hart agreed to provide those numbers.

DISCUSSION ONLY – NO CONSENSUS

Ticket Surcharges

Mayor Hallman summarized that he asked for this to be placed on the agenda so information could be provided to Council. There was discussion about how to gather additional revenue and one proposal from the TCVB led to a discussion about surcharges on tickets for Tempe Beach Park. He wanted to share an event schedule he had received. The schedule also shows the amount of the City subsidy for events. Council set a policy a couple of years ago to try to extract full reimbursement for the costs that the City expends in having these special events, with some exceptions for events that the community supports.

He continued that one Councilmember made a solid point about trying to impose the costs of events on the events themselves. He looked at the events that are outside of Tempe Beach Park because the City also subsidizes those events and he suggested that Council give direction to investigate more thoroughly the concept of surcharges on all events that the City is subsidizing. ASU is the host of the Insight Bowl, but the Bowl Foundation is the beneficiary of the tickets for that event. It would seem rational to seek some kind of surcharge on tickets for the Insight Bowl. With 50,000 fans to the Insight Bowl, a \$50 or \$100 ticket could warrant an \$8 surcharge. Multiplied by 50,000 tickets, that would amount to \$400K which would go a long way.

Several of these events are sponsored by the TCVB. For example, the TCVB sponsors the Summer Triathlon for \$12,500, but the City also adds \$12,500. What's nice about that event is that we spend about \$37K in costs to throw that event and the event pays us back for those costs. The Tempe Music Festival is another example of an event where our costs are almost \$28K, but the event reimburses the City for all of those costs. The Insight Bowl, for example, costs the City about \$325K in services and we get nothing back. Then we throw in a payment of \$750K so it is \$1,075,000 and that seems exactly like the kind of event Vice Mayor Ellis was talking about with ticket surcharges. The people who enjoy it pay those costs. There are very few other events that don't pay their own costs. The TCVB wants the P F Chang's Rock 'n Roll Marathon and they pay \$75,000 and the City also pays \$75,000, but that is another event where the City pays all of the costs. We don't share those

costs with the TCVB. Even if we got the TCVB to pay half of the costs of those events they have asked the City to do, we could probably go a long way toward solving some of these budget problems. We should be looking at our partner at Insight Bowl to be imposing the same kind of surcharge we would ask Kiwanis to put on their 4th of July event.

Councilmember Woods stated that he didn't recall that Council said a \$4 or \$8 surcharge was a nominal fee. He didn't think Council agreed to do a surcharge at all.

Mayor Hallman clarified that the TCVB made it clear and several Councilmembers talked about the fact that those were ideas that should be explored. He wanted to make sure Council had full information about it. If we were going to examine events in Tempe Beach Park, that we should be fair and not be treating our friends differently than those we may not have relationships with. The Insight Bowl makes a lot of money and asking them to have a ticket surcharge is at least as sensible as asking every event in Tempe Beach Park to impose a surcharge, especially when the surcharge in many of those instances falls on our residents. He thought the goal was to have these events pay for themselves.

Councilmember Arredondo recalled that there was consensus for City staff to visit with these three agencies to come up with ideas and return to Council with recommendations. He thought these were preliminary items and there could be more. To go ahead and determine a surcharge doesn't seem right without an analysis.

Mayor Hallman stated that he understood the consensus was that staff should continue to investigate, but the discussion left a lot of holes in the information, and he thought it was important given the direction that was being sought by the TCVB, rather than an increase to the bed tax. Does that consensus include that we are looking at all of those things, including the bed tax?

Councilmember Arredondo clarified that his view was that Council was going to allow staff to explore everything. Some of the nonprofits might even have other ideas and they need to have a stage to present what they are doing. It has to be done away from the political atmosphere.

Mayor Hallman stated that he thought Council's role was to set a budget and there is a \$2.7M issue. It is unfair to pretend that is not a political process. He felt the brunt of the politics of this when he viewed that it was inappropriate to set up a false solution like imposing \$4 and \$8 surcharges as if that wouldn't have an impact on our social service agencies which hold event. Councilmember Shekerjian had noted that she was worried that raising the price per person for the Fourth of July event, for example, could be a significant hit for residents. The City doesn't get any reimbursement of its services for that event and spends \$140K in services to help the Kiwanis Club raise money. The reason he focused on the ones he did was because it was the TCVB that proposed a surcharge, and he thought the proper response was to look at the events they have asked the City to host and see how much the City pays for those events that help their beneficiaries. He merely raised the question of why they would ask us to charge people to use Tempe Beach Park when the three events he just named account for \$1.25M of the costs we are trying to recoup? He just wanted to have a fair discussion.

Councilmember Navarro agreed with Councilmember Arredondo. The staff would be more appropriate to investigate all possibilities. He would like to see all of the ideas rather than talk about just one.

DISCUSSION ONLY – NO CONSENSUS

Formal Council Agenda Items

None.

Future Agenda Items

Councilmember Navarro asked to look at waiving upsizing the water meters for a single family home, specifically for fire protection sprinkler systems.

Mayor Hallman suggested putting that on the agenda for the Quality of Life Committee which covers public safety and staff can do a full analysis and present it.

Mayor's Announcements/Manager's Announcements

None.

Meeting adjourned at 7:00 p.m.

Jan Hort
City Clerk