



Minutes City Council Issue Review Session December 13, 2007

Minutes of the Tempe City Council Issue Review Session held on Thursday, December 13, 2007, 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 Hut Hutson

Councilmember P. Ben Arredondo

Councilmember Barbara J. Carter

Councilmember Shana Ellis

Councilmember Mark W. Mitchell

Councilmember Onnie Shekerjian

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

Call to the Audience

No one came forward to speak.

Municipal Property Corporation

INFORMATIONAL BACKGROUND available in City Clerk's Office.

DISCUSSION – Presenter: City Attorney Andrew Ching; Dr. Joseph C. Schabacker, President of Municipal Property Corporation

City Attorney Andrew Ching introduced Dr. Joseph C. Schabacker, President of the Municipal Property Corporation and summarized that the Municipal Property Corporation has served the City for many of its financial needs in more than \$76M of bonding capacity for a wide variety of projects. At the time of inception, there were legal limitations to the degree to which the City could finance these projects directly. As a result, citizens came forward and organized this board with the blessing of Council in 1968, and provided debt service over the subsequent decades. The last such project was the Ken MacDonald Golf Course irrigation project in 1992.

Mr. Ching continued that at the November 7, 2007, Municipal Property Corporation board annual meeting at the Mission Palms Hotel, it was noted that the final payment had been issued, that the indenture was satisfied, and that the property was warranty deeded back to the City. All current pending business on behalf of the Municipal

Property Corporation was concluded. The types of projects typically funded by the Corporation can now be funded through other means. There was a discussion at that meeting about future direction, and Council input was desired regarding how to proceed. He had asked the Municipal Property Corporation to convene a special meeting tonight so they could discuss how they wanted to proceed and provide that feedback to Council. Their meeting convened at 5:30 p.m. Some mixed opinions were presented. The members have a strong desire to support and help the City as they have done that over the years, and there is some reluctance to dissolve the group. Because there is no current need for the MPC and because the City has an annual expenditure for the cost of the annual board meeting lunch and Mr. Wesley's legal fees, he would recommend dissolving the Corporation.

Mayor Hallman added that at this point, the City is continuing to pay for the expenses incurred by the MPC, notwithstanding that the Corporation has not been utilized for the past fifteen years. He asked why the MPC is no longer the vehicle of choice or necessity.

Mr. Ching responded that changes in the State statutes have allowed cities to finance projects they could not finance directly back in the 1960's. Other mechanisms, such as industrial development authorities, improvement districts, or increasing the debt limitation have provided opportunities for the City to do things it could not have done previously.

Dr. Schabacker added that he agreed with the statements made because it summarizes what the Corporation has done over the last forty years. The members of the Corporation are willing to serve the City in any way that might be needed.

Mayor Hallman added that he assumed that was true whether or not the MPC exists and that they might be willing to serve in other capacities. There is a strong need for the kind of commitment these people have demonstrated.

Dr. Schabacker responded that he could not speak for the other members, but he could speak for the group in general and they would like to serve the City in whatever way they can. He introduced the Board members present: Dr. William LoPiano, Pat Hatton, Dave Merkel, and John Wesley.

Mayor Hallman stated that as an independent corporation, it isn't for Council to decide. The Board will ultimately decide, but the Board has asked for direction from Council about what Council would like to see happen. He would like to have the talents of the people involved brought to bear on the other boards. For example, a new foundation is being formed that would help support all of the City's charitable organizations. Given the long experience each of the board members has made, he would hope they could help provide leadership and direction to those who are newer to those efforts. Given that the MPC's job is done and the City is bearing some expense for that, and given that there is now a lawsuit filed in Prescott Valley challenging them for ever having a municipal property corporation, his goal would be to avoid any possible litigation against the City or the MPC or its board members. Perhaps now would be the time to close it down. In doing so, he would take the opportunity to recognize the great service of those individuals.

Councilmember Carter asked for an explanation of the difference between the MPC and the Industrial Development Authority.

Mr. Ching responded that the City has a greater scope of control over the Industrial Development Authority (IDA) and back in the 1960's, the IDA did not exist.

Vice Mayor Hutson added that he served for twenty-one years as treasurer for the IDA. The difference is that the IDA deals directly with the prospective client or the developer and acts as the bonding source for that development. However, that bonding source has always been collateralized by some kind of institution so if the project ever collapsed, there was no legal or financial obligation back to the City. The final authority for approval of any bonds issued by the IDA rested with Council. The developer had the benefit of the City's Triple-A bond rating to sell the bonds that were collateralized by an institution with no obligation from the City on recourse.

Councilmember Ellis asked Dr. Schabacker if the board members had seen the material on the Prescott Valley lawsuit and how they could individually be at risk. That would impact her decision.

Dr. Schabacker responded that they heard about it for the first time in their 5:30 meeting today.

Mr. Ching added that he had only become aware of the lawsuit over the last couple of days. They were recently sued by an independent group challenging the authority of the MPC that serves Prescott Valley. The MPC was established to circumvent debt limitations on the city. The question that went unanswered for many years until now is whether that is legally acceptable.

Mayor Hallman stated that from his perspective, especially in the current down cycle and given the amount of funds that are expended, it is not providing a benefit to the community to continue but he didn't want to sound like he was not extraordinarily grateful as someone whose family and children currently are benefiting from all of the projects that the MPC has put together. In fact, he had drafted a proclamation in anticipation of the MPC being in attendance. He read the proclamation recognizing the Corporation's dedicated service and designating December 13, 2007, as Municipal Property Corporation Day in Tempe.

Mr. Ching added that he had placed this on the agenda because at the November 7th annual meeting the consensus of the group was to have an opportunity to hear the feedback from the Council and then to use that information to make their decision.

Councilmember Ellis asked Dr. Schabacker for the results of their vote at today's meeting.

Dr. Schabacker responded that they talked about the personal response of the individual members and felt that if Council felt there was a need to continue the MPC, they would listen to that. If Council's decision was that the MPC has worked themselves out of a job, then they would be willing to use that as part of their decision process. There are one or two members who feel strongly that it should continue to stand in the wings in case they are needed.

Councilmember Ellis added that with the new information about the Prescott Valley lawsuit, she is torn because Council wouldn't want to suggest that the MPC stay a group only to set it up for liability. She asked Mr. Ching when that lawsuit would be resolved.

Mr. Ching responded that it is in its early stages and he didn't have details at this time. He would assume that the MPC would have had to fund a project in order for there to be a controversy. If there had been nothing pending, then there wouldn't be anything to cause injury in a constitutional sense.

Councilmember Carter asked for an explanation of the annual expenses, other than for the annual meeting. Would the expenses for Mr. Wesley decrease now that the bond has been paid?

Dr. Schabacker responded that Mr. Wesley has provided very good service at very little cost. He has not charged his normal fees during the years he has served in this capacity.

Mr. Ching added that Mr. Wesley's bill for last year was approximately \$4,800, which included his time in preparing the annual statement, tax returns, other documents required for the meeting, travel time, and any filing fees.

Mayor Hallman clarified that the fee included preparation of the tax returns for the Internal Revenue Service and the Arizona Department of Revenue, and the annual report to the Arizona Corporation Commission.

Mr. Ching added that there is also a staff resource cost as well.

Councilmember Shekerjian thanked the board for their years of service. She asked Mr. Ching if municipal property corporations are utilized in other communities. Have laws been changed over the last fifteen years that make it easier for cities to utilize other aspects for funding?

Mr. Ching responded that he wasn't sure of the extent to which other communities continue to use municipal property corporations, but laws have changed during the last fifteen years.

Councilmember Shekerjian added that she would recommend the MPC dissolve only on the condition that each of the members commits to being a part of some other organization within the City, as it is important not to lose the institutional knowledge that they possess.

Councilmember Arredondo stated that he felt a recommendation should wait until the next budget process to look at the finances and give staff an opportunity to evaluate whether there are any other things that need to be done.

Vice Mayor Hutson stated that the MPC has served the City well and he would suggest waiting until the next fiscal year to determine a recommendation. It might also be helpful to get more insight into the Prescott Valley lawsuit.

Councilmember Mitchell expressed concerns about the lawsuit. By waiting until the budgetary cycle, more information would be available on the lawsuit. He would defer to the budget cycle and then assess it.

Councilmember Ellis clarified that the MPC is not an official commission of the City, but Council did have a discussion a few months ago about combining certain boards and commissions. The consensus was that even though some of the commissions didn't have an ongoing role, they would be kept in place. She would advocate

for waiting to make a determination until more is known about the lawsuit. It might also be possible to cover some of the services less expensively.

Mayor Hallman summarized that the consensus is to wait until the budget cycle is completed to make a determination whether Council would recommend dissolution of the Municipal Property Corporation. Council can't require the MPC to continue its service and it sounds like at least through June 30, 2008, the City will continue to finance the cost associated with the preparation of the appropriate documents. He would assume that Mr. Wesley would continue to prepare the necessary tax forms and annual report for 2008 whether or not the Board determines to terminate in June or July.

Dr. Schabacker suggested that the meeting of their corporate board following this meeting will take into consideration the general consensus that they will stand by.

CONSENSUS

- Council issued a Proclamation to name December 13, 2007, as Municipal Property Corporation Day in Tempe in recognition of the group's dedicated service to Tempe.
- Council to wait until budget review to determine Council's recommendation.

Follow-up Responsibility: Andrew Ching

Financial Update

INFORMATIONAL BACKGROUND available in the City Clerk's Office.

DISCUSSION – Presenter: Financial Services Manager Jerry Hart

Jerry Hart summarized that at the November 20th Finance, Economy and Veterans' Affairs Council Committee meeting, staff was asked to present a financial update that was largely based upon the October 2007 tax revenue statistical report which Council received on November 15th. The Committee requested that staff present the same update to Council.

Mr. Hart highlighted the October 2007 report.

- Fiscal year-to-date General Fund sales tax revenue growth was approximately 2.9% over the same period a year ago. However, there is a continuing decline in this growth rate since the beginning of the fiscal year. The growth percentage since the beginning of the years has been on a steady downward trend reflecting the economic conditions not only in the State of Arizona but across the country.
- Actual year-to-date General Fund sales tax collection is approximately \$1.1M short of budget expectations, or a budget variance of approximately 4%. All of the communities in the State are being affected, but Tempe is doing comparatively well against the other communities.
- Retail sales tax collection, which comprises about 55% to 60% of overall sales tax collection, is down about 5.5% when compared to the same period last year.
- The slow growth in sales tax revenue collection is impacting sales tax revenue in the General Fund, the Transit Fund, and the Performing Arts Fund.
- Preliminary estimates are that if the current trends continue, sales tax revenue shortfall could be

between \$3M to \$5M.

- Staff is assessing the potential impact to our State Shared Revenues. The State is projecting a \$1B shortfall in its revenue collection this year and it remains to be seen how that will translate into a reduced State Shared Sales Tax figure for the current year for Tempe.

Mr. Hart continued that when the Council adopted the current budget for the General Fund, staff anticipated an approximate \$6M excess revenue over expenditures in the General Fund. Current indications place it in the range of \$1.5M to \$2M, still reflecting an excess of revenues over expenditures for the current fiscal year. Staff has concerns going into the budget process for the fiscal year 2008/2009.

Mayor Hallman clarified that for the current fiscal year we anticipate excess revenues over expenditures, but we will look at conservative budgeting for this year, anticipating a potential downturn exceeding what we sought to achieve. Unlike the surrounding communities, what we have done here has succeeded in doing what we had hoped it would do, and that was stabilize Tempe's economy relative to the surrounding communities. Tempe's total gross sales tax collections are still ahead of last year and from the last month's report, it was \$750,000.

Mr. Hart added that staff is currently working on updating the five-year long-range forecast that is presented to Council every year. That forecast is done for each of the major operating funds of the City, with the General Fund being the largest. That report will reflect staff's comprehensive assessment of where we expect to finish the current fiscal year, as well as the next four years. Staff plans to bring that to Council in January. Despite these challenges, Tempe historically has shown remarkable resilience in dealing with similar financial issues. During the last economic slowdown which began in 2001/2002, a number of proactive steps were taken in an effort to address the challenges. Some of those steps included departments, under the direction of the City Manager, working collaboratively to find solutions to the projected shortfalls. Another significant measure that was taken at the time was the formation of the Ad Hoc Long Range Budget and Finance Committee. He understood that Council intends to re-convene that entity to look at the fiscal challenge with the goal of rectifying it.

Mayor Hallman clarified that the committee had not been dissolved, but Council put out the call to reconvene it in January. Given that Ms. Goronkin is no longer on Council, he has asked Councilmember Shekerjian to fill her spot.

Mr. Hart added that just as Council was proactive in its response to previous similar circumstances, he is confident Council will do whatever is necessary this time. The bond rating agencies were very impressed by the City's proactive approach to its budgetary challenges and that was one of the major points of consideration for the City being given a bond rating upgrade. Many of the surrounding cities waited before effectively address the problems.

Mayor Hallman clarified that staff was seeking direction to go forward with the proactive steps taken last time. Council adopted a finance plan in October 2001, which was not quite six months after it was determined a recession started in March. He would suggest bringing that plan back, fitting it to the current circumstances, taking it through the Finance, Economy and Veterans' Affairs (FEVA) Committee, and bringing it to Council so that in short order we could start moving forward on the proactive effort. Notwithstanding that Tempe's sales tax is doing well, the State Shared Revenue piece tells us that other

communities are not doing so well. The pool of money to be shared by the municipalities is going to shrink. He asked Mr. Hart if that is the direction he was seeking.

Mr. Hart agreed.

Vice Mayor Hutson stated that as Chair of the FEVA Committee, he and Councilmember Mitchell have been watching this closely for several months. The trend was established, so they requested that staff make this presentation to Council. Mr. Hart stated that we will be more than \$1M to the good, that isn't a lot of money and that could very well change next month. It is obvious that if we don't change anything, next year we will not even be close to being in the "black". With the in the budget cycle implementation started, it was his Committee's recommendation to bring this to Council for direction. Staff needs to start now to get ready.

Mayor Hallman added that there are two tracks going on. First, the budget cycle [FY08/09] is starting and should be implemented with the idea that the future years' financial challenges need to be addressed. We are closing out the current year and, notwithstanding that we will remain in balance, any dollar wasted is a dollar that can't be spent on something useful and that we would go forward looking at current possible savings using the same kind of finance plan model that was adopted in October of 2001. Second, the Ad Hoc Long Range Budget and Finance Committee should be looking at institutional changes to see how we can make adjustments in the general budget. Our revenues are not falling, but they are not rising as quickly as they have in the past, and our expenses continue to rise. One advantage the City has is that its salaries are set using the market approach and it is highly likely the other cities' salaries, given their CPIs, are going to be falling drastically, and we should not see the huge wage pressure that we have seen in the past, because their salaries are not going to be moving. They are in worse condition that we are. His expectation is that some of that budget pressure may abate, but we can't count on that. As a result, we need to move ahead. We also have certain costs that are dialed in with inflators that we can't do anything about, such as healthcare costs.

Mayor Hallman summarized that the consensus is to move forward with the three-prong approach.

CONSENSUS

- Councilmember Shekerjian to fill former Councilmember Goronkin's seat on the Ad Hoc Long Range Budget & Finance Committee in January.
- Ad Hoc committee to look at institutional long range changes.
- Staff was directed to go forward with updating the October 2001 plan to address budgetary shortfalls and take back to Council's Finance, Economy & Veterans Affairs Committee for review.

Follow-up Responsibility: Jerry Hart

Alley Service/Trash and Recycling Program Awareness Update

INFORMATIONAL BACKGROUND available in the City Clerk's Office.

DISCUSSION – Presenters: Public Works Manager Glenn Kephart; Deputy Public Works Manager John

Osgood.

Councilmember Arredondo summarized that this update came out of his Public Safety and Neighborhood Quality of Life Council Committee. It is important that the neighborhoods and citizens understand that we have made some inroads.

John Osgood summarized that the issue of the condition of Tempe alleys was discussed at most of the Public Safety and Neighborhood Quality of Life Committee meetings in 2007. With a combination of those discussions and the daily calls and interactions with the citizens, it became clear that we needed to make our community aware, not only of the programs and services and codes and responsibilities that the City has to offer, but also the responsibilities of the property owners and residents. None of this could have been achieved without very meaningful input and interaction with the neighborhood associations and citizens.

Mr. Osgood presented the brochure, "Don't Trash Tempe", a trash and recycling guide to services. It includes alley maintenance, free monthly service for bulk items, special collection services, illegal dumping information, etc. He further addressed the "10-day rule" which states that residents cannot put their bulky item material in the alley or on the curb prior to 10 days prior to the scheduled Monday neighborhood pick-up. This has always been a confusing rule. He showed an insert which outlines the scheduled days and which will assist in helping residents understand the service.

Mayor Hallman suggested that the zones for trash and recycling match the zones for bulky item pick-up.

Mr. Osgood agreed to look at that.

Councilmember Shekerjian commended staff for their efforts. The Education, Technology and Economic Development Committee is in the process of developing a public relations move to recycle batteries through the schools to be incorporated as a lesson for students to better understand recycling. Her committee is also exploring with a councilmember in Phoenix the idea of including a program for plastic grocery bags. These materials on the trash and recycling services could also be used in the schools to provide information to families.

Councilmember Arredondo commended Shauna Warner and Shelley Hearn for their work with the community.

Mr. Osgood added that the brochure was published in-house with the Public Works/Transit marketing staff and the Neighborhood Services office.

Councilmember Arredondo added that staff will return to the next Public Safety and Neighborhood Quality of Life Committee meeting to outline a method for getting this information out to the neighborhoods.

Councilmember Mitchell stressed the importance of getting this information to the neighborhoods. He thanked staff for their hard work.

Councilmember Ellis added her thanks. She learned so much when staff came to her Transportation, Housing and Environment Committee. For example, the soda container boxes are not recyclable because the cardboard

is waterproofed, and the fact that getting things in the recycling bin wet can contaminate the entire contents of the bin.

CONSENSUS

- Staff was directed to look into the possibility of having Trash and Recycling Collection Zones correspond with Brush and Bulky Item Collection Zones for residents' convenience.
- Return to Council's Public safety and Neighborhood Quality of Life Committee to determine how to get information to residents.

Follow-up Responsibility: Glenn Kephart, John Osgood

Formal Council Agenda Items

No agenda items were discussed.

Future Agenda Items

Councilmember Carter suggested a discussion about support for the Tempe Union High School District override election coming in November of 2008.

Mayor Hallman directed Mr. Ching to agendize this discussion. He suggested having the "Let's Talk Tempe" bring the school district together to talk about how bonding works.

Mayor's Announcements/Manager's Announcements

Mayor Hallman welcomed the new City Manager, Charlie Meyer.

Charlie Meyer stated that he started work on Monday and he is very grateful for the opportunity to serve the City of Tempe. He hopes this will be a long and fruitful relationship. He is looking forward to building on the strengths of a terrific organization that is in place and continuing to provide the good leadership that this City deserves.

Meeting adjourned at 7:20 p.m.

Jan Hort
City Clerk