

# **Bond Case Briefs**

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## **Mesa Prompts Bond Backlash as Debt Doubles Over 7 Years.**

Mesa, Arizona, which doubled its debt load over seven years to replace fire trucks, transform desert into parks and rebuild roads, faces a backlash as it asks residents for permission to sell \$580 million more in bonds.

Mesa voters have passed 19 consecutive bond measures since rejecting one in 2000. Since then, the population has grown 16 percent to 458,000, making the community 15 miles (25 kilometers) east of Phoenix bigger than Atlanta and Miami.

As city leaders ask for approval of Mesa's largest-ever bond package — backed by water, sewer, electrical and gas fees — opponents are knocking on doors and making phone calls urging a "no" vote. For the first time since at least 2000, they've written and paid for a ballot argument against a city bond plan. The resistance to more borrowing echoes a municipal-issuance slowdown nationwide, with sales about 6 percent below last year's pace, data compiled by Bloomberg show.

"We're talking to people around the city, and most of them are extremely concerned about the city's debt," said Tracy Langston, 42, a resident and volunteer for Vote Smart Mesa, which opposes the bond measures. "The policies of the current city leadership are not sustainable for the next generation. It's our children and grandchildren who are going to have to pay for this."

### **Desert Bloom**

As the desert east of Phoenix bloomed into housing developments and shopping centers, Mesa's population tripled since 1980. Officials used bonds to build roads, parks, a light-rail system, police and fire stations and a spring-training stadium for Major League Baseball's Chicago Cubs, and until 2008 repaid the debt from the general fund. That year, the city began taxing property to pay voter-approved debt.

Mesa is the most-populous U.S. city that doesn't tax property for government operations, leading it to rely on revenue from municipally owned electrical, gas, water and sewer utilities to support services including police and fire protection, said Mayor John Giles, a 54-year-old Republican. Some debt goes toward bolstering those utilities, with user fees repaying the obligations, Giles said by telephone.

### **Bondholder's Content**

The city has a reasonable amount of debt considering its developing suburban fringes and aging downtown neighborhoods, said Todd Curtis, who manages the \$274 million Aquila Tax-Free Trust of Arizona from Phoenix.

"I don't consider them big debt spenders," Curtis said. "I'm quite content with Mesa debt from a credit perspective."

Aquila owns about \$4.5 million in Mesa utility bonds and would consider buying more if the bond measure is approved next month, he said.

Standard & Poor's isn't as sanguine about the borrowing. In May, the company cut Mesa to AA-, its fourth-highest grade, citing a "very weak" debt profile, with interest payments consuming 10 percent of the budget and the city relying on state transportation grants to cover debt payments for infrastructure.

In June, Mesa sold tax-exempt general obligations, including 10-year debt priced to yield 2.57 percent, or about 0.3 percentage point above benchmark munis, data compiled by Bloomberg show.

### **November Decision**

The measure on the Nov. 4 ballot would build a water-treatment plant, repair electrical lines, replace water pipes and convert wooden power poles to steel, according to ballot arguments. The city is taking on debt because it postponed some improvements during the recession, Giles said.

"There's no question this is a large bond issue," he said. "The city will be paying down some of this bond debt soon because we're selling some of the agricultural property we own" south of Mesa.

Mesa has about \$4,700 in long-term debt per resident, third-highest among the eight Arizona municipalities with populations of 100,000 or more, according to the cities' fiscal reports. Scottsdale and Phoenix have higher per-capita burdens, at \$6,200 and \$4,800, respectively.

City leaders in Mesa have relied on utilities to fund infrastructure that should be paid for with general obligations, to avoid overcharging residents and businesses on utilities, said Gene Dufoe, a 74-year-old resident who's volunteered for the campaign against the bonds. Dufoe, who described himself as a conservative, said officials are testing the patience of residents for taking on more debt.

### **'Legitimate Needs'**

Opponents and backers haven't run polls on the measure, which needs a simple majority to pass. Opponents raised \$551 as of Sept. 15, the most recent campaign-finance deadline, according to filings with the city clerk's office. The campaign to promote the bonds raised \$350.

In a blog posting analyzing Mesa's debt, Dufoe said former Mayor Scott Smith, who unsuccessfully ran for the Republican nomination for Arizona governor this year, was largely responsible for the borrowing increase. Smith took office in 2008, when the city's long-term debt load was \$1.1 billion, according to an annual fiscal report. By 2013 that had risen to \$2.1 billion.

"They have legitimate needs," Dufoe said. "I just don't agree with how they're paying for them."

Smith, 58, president of an executive-consulting firm, said Mesa has borrowed to accommodate growth, and he disputed claims that the burden was high relative to population or property values.

"The question is what level of debt is appropriate can't be measured simply with a raw number," he said, adding that he supports the \$580 million package.

His successor, Giles, said bond critics aren't accounting for Mesa's population growth and the need to finance water and power lines and services such as public safety.

"We are not overextended in terms of debt," Giles said. "I can't remember a bond not being successful in Mesa."

Bloomberg

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