CITY OF PRESCOTT

CITY COUNCIL STUDY SESSION MEETING

STUDY SESSION MINUTES

TUESDAY, FEBRUARY 28, 2023, 1:00 PM

201 S. Cortez Street
Prescott, AZ 86303
Council Chambers

Phil Goode, Mayor

Brandon Montoya, Mayor Pro Tem	Connie Cantelme, Councilwoman
Cathey Rusing, Councilmember	Steve Sischka, Councilman
Eric Moore, Councilman	Clark Tenney, Councilman

MINUTES OF THE STUDY SESSION OF THE PRESCOTT CITY COUNCIL STUDY SESSION HELD ON FEBRUARY 28, 2023, IN THE 201 S. CORTEZ STREET PRESCOTT, AZ 86303 COUNCIL CHAMBERS.

1. CALL TO ORDER

Mayor Goode called the meeting to order at 1:00 p.m.

2. ROLL CALL

Phil Goode	Mayor
Brandon Montoya	Mayor Pro Tem
Connie Cantelme	Councilwoman
Eric Moore	Councilman
Cathey Rusing	Councilmember
Steve Sischka	Councilman
Clark Tenney	Councilman

3. DISCUSSION

A. Midyear Budget Report for FY2023.

Finance Director Mark Woodfill provided a presentation to Council with the mid-year Budget Report and an update regarding the upcoming budget cycle for FY2024. He added that there are significant legislative attacks on local control that Council will need to consider.

Budget Considerations:
* Legislative attacks on city revenue
* Continue funding employee market compensation plan
* Funding for Airport Capital and Projects
* Public Safety Expansion Needs
* Parks & Open Space Funding
* New City Hall Improvements
* New Budgeting Approach and Workshop Format
* Estimated Impact of Proposed State Legislation (will all impact operating revenues):
    - HB2061 TPT Food Exemption
    - HB2067 TPT Residential Rental Exemption
    - HB2003 Corporate Income Tax
    - SB1033 TPT Exemption Diapers and Hygiene Products
    - SB1245 VLT Restricted to Streets

At this time 22% of what the city pays for with operating revenues would go away if all these items pass.

Mayor Pro Tem Montoya commented that much of the shortfall with many of these bills would be made up with Wayfair funding according to people at State Legislature, and asked if that is accurate.

Mr. Woodfill responded that it is not accurate, and he will cover specifics. Additionally, he reviewed Unfunded Actuarial Liability for PSPRS, the city has paid down $84,576,720 of the unfunded balance. The Fire Department has significant capital needs in their Strategic Plan for the upcoming years that will need to be considered.

FY2023 General Fund Uses of Recurring Revenues:
* Police 37.8%
* Fire 29.7%
* Contingent Debt Service (Airport) 10.4%
* General Government 5.7%
* Community Development 0.9%
* Library 5%
* Recreation Services 7.6%
* Capital & Grant Matches 2.9%

Councilman Sischka asked what the current increase in Sales Tax Revenues is.

Mr. Woodfill responded that sales tax pays for 50% of these types of expenses.
* Intergovernmental is 39.4%
* Property Tax 4.8%
* Franchise Tax 4.2%

* Other 1.3%.

Year to Date Expenditures:
* General Operations– 45% ($49,069,445)
* PSPRS - 29.5% ($2,459,873)
* Non-Operating – 29.4% ($30,999,084)

Taxable Activity as of December 2022:
* Online Retail Sales (Wayfair) - $47,547,206 which will account for approximately $300,000 per year to the General Fund so certainly not enough to compensate for the proposed legislation
* Food tax is huge for Prescott and gives our sales tax base some stability

Councilmember Rusing asked how much money the city can loan itself internally.

Mr. Woodfill responded that internal loans are based on what other expenses are not needed immediately and could be paid back; there isn't an unlimited number. For the circumstance of the new city hall, the commitment was to pay it off quickly so an internal loan made sense.

Councilman Sischka commented that if sales tax revenues are up, but inflation is more as well, the city is actually in the red.

Mr. Woodfill concurred and added that the 2022 CPI increase is 11.5% which will need to be considered during salaries for the new budget cycle. He continued with review of the Transient Occupancy (Bed) Tax figures and commented that they are leveling off which is to be expected and anticipates this will hold steady at 1.2-1.3%. Year to date revenues are up overall. Debt proceeds are water and wastewater loans and come in throughout the year. He continued with a review of the Budgeted Fund Balances which is broken out with fund types.

FY2024 Budget Process:
* Operating Budgets - Feb. 24
* New Personnel & Reclassification Requests - Feb. 24
* Capital/Grant Requests - March 10
* Personnel & Capital Request Review Meetings - April 10-21
* Council Budget Workshops - May 11 & 18, and May 25 (If necessary)
* Adoption of Tentative Budget - June
* Publish Budget & Notice of Hearing - June
* Public Hearing & Adoption of Final Budget - June
* Set Property Tax Rates - July

Councilwoman Cantelme asked if staff has to do an inside audit to "give money back" and if departments have been forced to make cuts in the past.

Mr. Woodfill responded that there is no formal request for an audit, but all department heads do ensure that all positions are being utilized appropriately. With regard to fixed assets the Finance Department is doing a review of that right now. He added that departments have done cuts in the past and people have been laid off because of budgetary shortfalls but that is not planned for at this time.

Councilman Tenney added that if we are asking our departments to make cuts that is reflected in the service level we provide our citizens.

Mr. Woodfill confirmed.

Councilman Sischka asked how many employees we had at peak of city functions.

Mr. Woodfill responded that we had 578 at peak and currently have 548 plus temps.

Mayor Goode commented that we are overly dependent on sales tax for a funding mechanism, with expanded growth and development we are seeing an increase in value of property in the city but property tax doesn't cover the expenses for city services and there is minimal amount that the city would be able to recoup even with increases to those funds. He feels that we should have been taking property tax increase in smaller amounts over the last several years in order to help offset those issues. The city needs to take longer term view on how to manage funds moving forward.

Councilman Tenney commented that it is worth noting that before PSPRS was phased out we were still the lowest sales tax. Property tax income is relatively low but it might be good to look at particularly considering that our Fire and School District is built in.

Mr. Woodfill echoed Council comments.

Councilman Sischka asked staff to address property tax restrictions.

Mr. Woodfill responded there was a Proposition from the legislature to freeze property tax at current levels in or around 2006 and at that time Council felt that sales tax was a better way to fund services and intentionally kept that rate down.

Mayor Goode expressed his favor for a zero-based budget.

Mr. Woodfill commented that if there is any increase over the previous year budget they do have to justify why, but doesn't recommend a true zero-based budget.

Councilmember Rusing reminded the public that all of the revenue collected is applied to the public health, safety and welfare of the community.

This item was for discussion only, no formal action was taken.

4. ADJOURNMENT

There being no further business to discuss, Mayor Goode adjourned the meeting at 2:03 p.m.

PHILIP R. GOODE, Mayor

ATTEST:

SARAH M. SIEP, City Clerk

CERTIFICATION

I hereby certify that the foregoing minutes are a true and correct copy of the minutes of the Study Session of the City Council Study Session of the City of Prescott, Arizona held on February 28, 2023. I further certify the meeting was duly called and held and that a quorum was present.

Dated this 16 day of March, 2023.

AFFIX
CITY
SEAL

Sarah M. Siep, City Clerk