PRESCOTT CITY COUNCIL
SPECIAL STUDY SESSION MEETING
TUESDAY, FEBRUARY 7, 2017
PRESCOTT, ARIZONA

MINUTES OF THE SPECIAL STUDY SESSION MEETING OF THE PRESCOTT CITY COUNCIL HELD ON FEBRUARY 7, 2017, in the COUNCIL CHAMBERS located at CITY HALL, 201 SOUTH CORTEZ STREET, Prescott, Arizona.

1. CALL TO ORDER

Mayor Oberg called the meeting to order at 3:00 p.m.

2. ROLL CALL:

Present:	Absent:
Mayor Oberg	
Mayor Pro Tem Lamerson	
Councilman Blair	
Councilman Lazzell	
Councilwoman Orr	
Councilman Sischka	
Councilwoman Wilcox	

3. DISCUSSION ITEMS

A. Presentation and discussion of the Public Safety Personnel Retirement System (PSRPS) funding options, to include consideration of the sale of under-utilized City properties

Mark Woodfill, Finance Director, gave a PowerPoint presentation.

- PSPRS Funding Options
- PSPRS Required Contribution

Councilwoman Orr presented a chart that showed options three and four. She said using some reserves and a possible dedicated sales tax the graph showed the different scenarios. She said if they did $4 million from the reserve fund and a .75 sales tax the unfunded liability went down. In ten years they would be where they were in 2008. She wanted to show this because she kept hearing this was not doable. She said this was a solvable problem. She asked Mr. Woodfill to define the light blue line.

Mr. Woodfill said it was an actuarial of the normal pension cost. He said it could be payable out of the General Fund.

Councilwoman Orr said this would be payable out of the General Fund. It was solvable and could work. She said that whatever was put on the ballet two things needed to happen; first would it pass, and second would it work.

Councilman Blair said that it could be payable out of the general fund, but it would never be paid off.

Mr. Woodfill said there would never be zeros as long as they had police and fire. The City would always have the annual pension plan cost and it was the cost of having insurance.

Councilman Blair said it was the cost of doing business.

Mayor Oberg said he liked the progression of paying it off, but they still did not know the outcome from the Parker/Hall case, or if they were going to have another downturn. They did not know if they were going to make the 2% additional on sales tax revenue, and the rate of return on the markets. He said they would continue to have additional expenses to figure out how to pay for, he thought the .75 would certainly help but he thought it would be a much longer period of time.

Councilman Sischka agreed that they could not sit back and say this would absolutely be paid off in ten years. If it was not paid off and they needed to pay more, then they would need to go back to the people and give them the compelling story why they should continue to pay it.

Mayor Oberg said they might not want to say ten years.

Councilman Sischka said they needed a drop dead date and then to go back to the people.

Mayor Pro Tem Lamerson agreed that turning a 7.5% return on investment would be a mistake. He appreciated looking at taking $4 million out of the reserves. He talked about the common practices for keeping reserves. He said the $4 million might not be the number. He thought the graph was somewhat not complete yet.

Councilwoman Wilcox said none of them had a crystal ball. The numbers were based on educated guesses or best information available. If they used a combination of reserves, and then replenish those reserves from the money they gained in selling excess properties they would be way ahead of the game in ten years. She agreed that they could not say to the voters that they would not get the unfunded liability down to zero percent, there were so many variables. This was a good forecast based on the best information that was available today.

Councilwoman Orr said her third point was to keep it simple. They knew for sure the red line would continue to go up and the sooner that they were able to get focused and get it done, and educate the public, the better.

Councilman Lazzell thought they should explain to the public how the study session goes.

Mayor Oberg said the study session was for the Council's benefit and then he would consider if they would take comments from the public. He said this was an important subject and that they would take some public comments.

Mayor Pro Tem Lamerson did not say that this was not a positive graph, he said it was incomplete. He said next week he hoped they would have a graph that showed if they sold some of property what the graph would like.

Councilman Blair said they made it clear that at the end of the day they would always have a debt or a liability. He said it was a one-time infusion of values by eliminating employees, the library, parks and recreation. He said pretty soon they would end up with nothing; that was what that red line said if we did nothing.

Councilwoman Orr thought it was a positive forecast of what they could think about. She said it took time to sell off land. She felt the graph was positive information for the citizens.

Mayor Oberg said this was good information for the citizens and they could see where they were trying to go; he just wanted to make sure it was as accurate as possible.

Councilman Sischka thought there were people out in the community that wanted them to get to a point that they had nothing, to nuke the general fund, and that was not somewhere he wanted to go. He said whatever solution they came up with it was not going to include that.

Councilman Blair said when they start looking at selling property it showed good faith that the Council was doing something. There was no reason they should be sitting on something that was a liability.

Mr. Woodfill continued and clarified that they were talking about the PSPRS liability which was an actuarial projection that was needed in the trust to pay employees into the future. There were a lot of assumptions and that was how the liability was created. He said what they should have in the bank for both liabilities was $113.9 million, what was in there now was $35.5 million, and what we owe was $79.45 million. That was where the unfunded liability came from. He said if they borrowed it would be at a fixed rate and it was not a funding mechanism it was a finance mechanism. The unfunded liability worked off assumptions and it fluctuated. The investment allocation and earnings did look like a regular retirement portfolio. They were pretty close at tracking the DOW Jones averages.

Mr. Woodfill continued with the presentation.

- Borrowing
- PSPRS Liability
- Why Borrow
- PSPRS Investment Allocation
- PSPRS Investment Earnings

Councilman Sischka asked if the 7.5% was a projection this year or what they would make over several years. Mr. Woodfill said it was a long-term assumed rate of return.

Councilman Sischka asked if it was an average of future retirees. Mr. Woodfill said yes.

Mr. Woodfill talked about alternative to reduce risk.

- Alternative to Reduce Risk
- Borrowing Example 1
- Estimated Interest Rate
- Estimated Values of Payment Options
- Borrowing Example 2
- Estimated Interest Rates
- Estimated Values of Payment Options
- Borrowing Example 3
- Estimated Interest Rates
- Estimated Values of Payment Options
- Summary of Borrowing Option

Michael Lamar, City Manager, said one of the advantages on the incremental chunk investment was that it gave you year-to-year to manage your own cash flow.

Mr. Woodfill said yes, they could do it from operating budgets, or reserves depending how the last year faired. He said if they had a million dollars left over they could put that towards the debt. It was something the Council could consider and allocate each budget cycle.

Councilwoman Orr said they still needed a consistent revenue source.

Mr. Woodfill said absolutely, the City of Prescott needed additional funding to pay the PSPRS liability.

Councilwoman Wilcox encouraged the Council members to look at last year's capital improvement list. She said internal borrowing had a hidden cost and they would need to find the money for the forecasted improvements.

Don Hersh, Real Property Specialist, addressed the Council. He said he receives a lot of questions from the public and one of the more frequent questions was if the City had land they could sell to cover the costs. He said historically when a City property was sold it would go back to the fund that was used to purchase it. The money did not go back to the General Fund where it could help pay the PSPRS liability; so this would not help. He said another question that came up was if the City owned property for various reasons, what were the uses, and why did the City own them. He said it came down to the City infrastructure that the municipality had many services which required many different infrastructures.

Mr. Hersh gave a PowerPoint presentation.

- City-Owned Real Property
- Common Questions and Answers
- Question 1
- Question 2

Mayor Pro Tem Lamerson asked for a clarification and wanted to know if there was a mechanism under state statute that allowed for the sale of property purchased out of one fund, could the funds be channeled back through the a process into the General Fund to pay down the PSPRS.

Jon Paladini, City Attorney, said if the funds were used to purchase the property then the funds would go to the fund it was purchased from. He said it would then require a second step for a transfer of funds to the General Fund to be used for whatever purpose. The question would be what fund was used to acquire the property and then to transfer this money would have to be a grant or a transfer of monies from one of the enterprise funds to the General Fund. It was legally doable, it was literally taking money out of one fund and putting it into the General Fund.

Mayor Pro Tem Lamerson said it was a policy issue.

Mr. Paladini said it was doable. The only legal limitations were properties that were purchased with bond issue and those might have to be returned to not violate that service.

Mayor Pro Tem Lamerson said as they move through the process those are some of the things they had to get to because the whole community was at risk. He said they needed to look at all of the options.

Mr. Lamar said all of these were policy issues that Council had the discretion to make.

Mr. Hersh continued with the presentation.

- Question 3

- City Properties Recommended for Sale by City Staff

Wildland Fire Station No. 7 on 6th Street – General Fund

Mr. Hersh said the property was a 1.38 acre parcel with a small contingency of people who work there, and who could easily be relocated to another area. This could be sold, it would make a great commercial property, and he recommended selling it off in two different parcels.

City Parcels on South Alarcon Street – General Fund

Mr. Hersh said the City owned a couple of parcels by the Boys and Girls Club and those would be good to sell as they were zoned for duplex or triplex units.

Mr. Paladini said the Charter allowed the City to subdivide parcels and sell them off.

Tank Road Tank – Water Fund

Mr. Hersh said this was a quarter acre piece that could be sold. He said a neighbor had inquired to buy the piece if the City would sell it.

Old South Reservoir – Water Fund

Mr. Hersh said was a two and a quarter acre parcel that would be for sale. He said the City did have a liability on this property, as they needed to maintain it. He said it would be a desirable piece of property.

Councilwoman Wilcox thought they should sell the property as is and someone could build a nice three condo unit. The portion below could be used as a parking area.

Councilman Lazzell agreed to put the property up as is.

- City Leased Properties for Possible Sale

Property Adjacent to the Humane Society – Waste Water Fund

Mr. Hersh said there was12 acres that could be sold, or a portion that could be sold.

Mr. Paladini said they were only leasing part of the property. Mr. Hersh said the rest of it was vacant.

Councilman Blair said the property on Sixth Street was worth a lot of money. It was zoned commercial and there were tradeoffs they could look at rather then just looking at a parcel.

Friendly Pines Camp South of Goldwater Lake – Water Fund

Mr. Hersh said currently the property was being leased from the City. It is about 94 acres and had been leased since the 1950's. The City receives $16,000.00 a year from the lease of the property.

- City Properties for Possible Sale

Well #1 Site in Chino Valley – Water Fund

Mr. Hersh said part of the property could be sold as the City only needed a piece of the property. Looking at it with staff it would be about six or seven acres, and he thought it would be good commercial property.

Well #3 Site in Chino Valley – Water Fund

Mr. Hersh said there was a possibility to sell 20 acres.

- Cities Properties No Recommended for Sale

Properties Surrounding Dugan Wells in Paulden – Water Fund

Mr. Hersh said there were some pieces out there that have a lot of water rights and that was why the City had purchased it.

Councilman Lazzell asked if residents that lived there had their own wells. Mr. Hersh said yes.

City of Prescott Properties in the Chino Valley Area – Water Funds

Mr. Hersh said the City purchased the land for the water rights. The area below was tied to the Dell Rio. The permit the City was given from the state was for 900 million gallons, which would be almost half of our water supply.

Councilman Lazzell asked about other revenue sources on the land, such as cattle grazing. Mr. Hersh said the dollar amount for grazing was minimal.

Councilman Blair thought there were opportunities at the Chino property to go out for RFQ's for someone to lease it long-term.

Mr. Lamar said that they were trying to show the public that they were doing everything possible, and an RFQ would make a lot of sense.

Councilman Sischka asked if he ever came up with an estimate of what the properties would mean to the City if some of them were sold.

Mr. Lamar thought that for the ability to negotiate potential purchases maybe they should talk to him offline.

Councilman Blair said long-term they purchased the areas around Watson and Willow Lake for recreation opportunities to do RFQ's and RFP's. He said there were a lot of private properties which the City had purchased. He thought the City could put hookups for RV's and motor homes, and the money could go into the General fund.

Mr. Hersh said that was something they considered and the City would have to put the money upfront for the infrastructure.

Councilman Lazzell asked concerning the properties that were being recommended to go forward, what was next.

Mr. Paladini said selling a piece of real estate, unless it had Charter restrictions, was sold to the highest bidder and the Council would have to approve the final sale. With Council direction staff could go out and list properties. He thought if they were going to talk about specific parcels and purchase property it should be done in executive session.

Councilman Blair asked for an executive session to look about the properties in more depth. Mr. Lamar thought they could have information to them next Tuesday.

Mayor Oberg took comments from the public.

Ed Wolf, citizen, addressed the Council. He asked if the COLA increases were included in the chart. Mr. Woodfill said yes.

Mr. Wolf asked about the influx of new houses and business, and if taxes were increased for more revenue. Mr. Woodfill said that the assumptions were made on the growth of the taxable rate.

Mr. Wolf asked if the federal government managed any land that Prescott could get back and use for resale. Mr. Lamar did not think so.

Mr. Paladini said they did not have any current deals.

Mayor Oberg thought they did get payment in lieu of tax funding from federal lands. Mr. Woodfill said there were some contributions to the County, not to the City.

Deborah Pfingston, citizen, addressed the Council. She talked about the property on Sixth Street. She said the land was important to a lot of people in the community. She was more interested in the front part that contained the station. She asked for the opportunity for the families to have some time to look outside of the box to see what they could use the property for. She asked for time to look at working with the police and public safety to reuse the property. She thought it could be an income source. She was just asking for time to pull a committee together to present options to the Council.

Amanda Marsh, citizen, addressed the Council. She stated she was the widow of Eric Marsh. She said the families had been working all weekend to think of something to do. She was asking for some time to be able to bring some of the options to fruition She talked about the buggies and there was an option to have those donated to a museum; one in Los Angeles County and one to Phoenix. She asked for a way to work together to make this transition that the families could be a part of.

Dennis Light, Fire Chief, said that was doable. He thought the combined value of the buggies was approximately $12,000.00. They were no longer a resource for them, and he would support such a decision if that was a policy direction.

Mayor Oberg said it would take some time to go through the packet to decide what properties would be for sale. This would give them time to put a committee together and come back to talk to the Council.

Mr. Lamar thought a month or two would be practical.

Councilman Lazzell thought that as long as they were showing intent he did not see a rush in making a decision on that particular parcel.

Mr. Paladini said whatever the policy decision was, there was always the opportunity to lease property for a revenue stream to the General Fund as a revenue stream instead of a onetime sale of the property. He thought that was something to consider during the executive session.

Mayor Oberg asked how long it would take to put together a committee and come up with ideas.

Mrs. Marsh said once you light a fire under us we will make something happen.

Ms. Pfingston asked for permission to speak with the fire and police departments, and meet at Station 7.

Mr. Lamar said they were welcome to meet with Fire and Police.

Mayor Pro Tem Lamerson said the word expeditiously did not trump compassion when it came to this topic. He would like to see the opportunity to lease some of the property rather than sell it as once the property is gone it is gone.

David Turbyfill, citizen, addressed the Council. He had dropped off a flyer for the Council. He said he owned a manufacturing facility adjacent to the storage yard. He said during the talks about the sales tax revenue and different things he thought asking for a 1% and then doing a renewal in 4-6 years. He thought past Council's were not doing their job. He was in favor of borrowing from the internal fund, and then paying it back with an interest rate. He thought if Station 7 could be turned into some sort of attraction it would be good.

Jerry Brady, citizen, addressed the Council. He said he had to deal with some of these same issues. He talked about the fiduciary duties of the US Government. He talked about the rate of returns for pension funds and the national debt.

Phil Goode, citizen, addressed the Council. He agreed with the previous speaker. He asked to look at slide 4, PSPRS Required Contribution. He said it was a generally accepted accounting principle. He talked about the rate of return and the increase in the liability. He thought the public needed a clearer understanding of what the .75 would provide. He asked what the current rating was for the City.

Mr. Lamar responded AA rating.

Mr. Goode said Yavapai Regional Medical Center had just financed $50 million worth of bonds for just under 5% interest

Mr. Lamar asked if it was a tax exempt or non-exempt.

Mr. Goode said he did not know that answer. He thought maybe the City would get a better number as their credit rating was better. He said when municipalities acquire assets, then those assets become liabilities.

Ted Ralston, past fuels manager, Prescott Fire, addressed the Council. He thought they had a responsibility to reserve the legacy of the City. He thought the Sixth Street property was a part of the City's legacy. He appreciated the time the Council was giving on the property. He knew the Council did not get a lot of applause and he applauded you for that decision.

Jerry Brady gave additional comments. He talked about the distribution of water rights that were owned. He said they had a water right that was previously owned by marshal law. The issue was that they do not acquire title to the ownership of the water rights, they have a use right. The City has a water right that can only be utilized as a public utility district. He was confident that members of the public would be interested in the City acquiring the use of these property rights.

Dan Bauman, President Prescott Chapter of Firefighter Association, addressed the Council. He clarified information on the permanent benefit. He talked about the permanent benefit increase had gone away across all pension tiers. The only increase was tied to the CPI at a maximum of 2% and this only occurred if there was inflation. He wanted to clarify there was no more permanent benefit increase in the system.

Mayor Oberg said that they covered a couple of the items today, and they had about four more areas to look at.

Mr. Lamar said they were trying to take care of at least two a week until they got through this.

Mayor Oberg asked when the next meeting would be.

Mr. Lamar said he thought it would be next week.

Mayor Pro Tem Lamerson thought it was critical for the staff to take a look at what made sense to get rid of. They did want to maintain things that had potential of bring in revenue into the City.

Brenden McDonough, thought the buggies would be an administrative decision.

Mr. Lamar said that it would be a Council decision as he thought they were worth more than $3,000.00 each.

Mr. McDoungh asked what they could do to help with the buggies.

Mr. Lamar said if there were museums that were interested in the resources they might draft a letter to see what they would like to do.

Chief Light said he could work with them to see what was best to do with this and bring something back for the Council to consider.

4. ADJOURNMENT

There being no further business to be discussed, the Special Study Session Meeting of February 7, 2017, adjourned at 4:54.p.m.

HARRY B. OBERG, Mayor

ATTEST:

DANA R. DeLONG