CITY OF PRESCOTT
Everybody's Hometown

AGENDA

PRESCOTT CITY COUNCIL
STUDY SESSION MEETING
Tuesday, February 2, 2016
1:00 PM

Council Chambers
201 South Cortez Street
Prescott, Arizona 86303
(928) 777-1100

The following Agenda will be considered by the Prescott City Council at its **Study Session Meeting** pursuant to the Prescott City Charter, Article II, Section 13. Notice of this meeting is given pursuant to Arizona Revised Statutes, Section 38-431.02. One or more members of the Council may be attending this meeting through the use of a technological device.

- **CALL TO ORDER**
- **ROLL CALL**

MAYOR AND CITY COUNCIL

Mayor Oberg
Mayor Pro Tem Lamerson — Councilwoman Orr
Councilman Blair — Councilman Sischka
Councilman Lazzell — Councilwoman Wilcox

I. DISCUSSION ITEMS

A. Presentation of the Mid-Fiscal Year 2016 Budget Report and a preliminary look at Fiscal Year 2017

B. Presentation and Council direction on the implementation of a City business license

C. Legislative Update

D. Discussion of the February 2, 2016, Voting Meeting agenda items

II. ADJOURNMENT

EXECUTIVE SESSION

Upon a public majority vote of a quorum of the City Council, the Council may hold an executive session, which will not be open to the public, regarding any item listed on the agenda but only for the following purposes:

- **(i) Discussion or consideration of personnel matters (A.R.S. §38-431.03(A)(1));**
- **(ii) Discussion or consideration of records exempt by law (A.R.S. §38-431.03(A)(2));**
- **(iii) Discussion or consultation for legal advice with the city's attorneys (A.R.S. §38-431.03(A)(3));**
- **(iv) Discussion or consultation with the city's attorneys regarding the city's position regarding contracts that are the subject of negotiations, in pending or contemplated litigation, or in settlement discussions conducted in order to avoid litigation (A.R.S. §38-431.03(A)(4));**
- **(v) Discussion or consultation with designated representatives of the city to consider its position and instruct its representatives regarding negotiations with employee organizations (A.R.S. §38-431.03(A)(5));**
- **(vi) Discussion, consultation or consideration for negotiations by the city or its designated representatives with members of a tribal council, or its designated representatives, of an Indian reservation located within or adjacent to the city (A.R.S. §38-431.03(A)(6);**
- **(vii) Discussion or consultation with designated representatives of the city to consider its position and instruct its representatives regarding negotiations for the purchase, sale or lease of real property (A.R.S. §38-431.03(A)(7)).**

Confidentiality

Arizona statute precludes any person receiving executive session information from disclosing that information except as allowed by law. A.R.S. §38-431.03(F). Each violation of this statute is subject to a civil penalty not to exceed $500, plus court costs and attorneys' fees. This penalty is assessed against the person who violates this statute or who knowingly aids, agrees to aid or attempts to aid another person in violating this article. The city is precluded from expending any public monies to employ or retain legal counsel to provide legal services or representation to the public body or any of its officers in any legal action commenced for violation of the statute unless City Council takes a legal action at a properly noticed open meeting to approve of such expenditures prior to incurring any such obligation or indebtedness. A.R.S. §38-431.07(A)(B).

CERTIFICATION OF POSTING OF NOTICE

The undersigned hereby certifies that a copy of the foregoing notice was duly posted at Prescott City Hall on _____at _____m. in accordance with the statement filed by the Prescott City Council with the City Clerk.

_____

Dana R. DeLong, CMC, City Clerk

CITY OF PRESCOTT
Everybody's Hometown

COUNCIL AGENDA MEMO

MEETING DATE/TYPES: STUDY SESSION 2-2-16

DEPARTMENT: Finance

AGENDA ITEM: Presentation of the Mid-Fiscal Year 2016 Budget Report and a preliminary look at Fiscal Year 2017

Approved By:		**Date:**
Director:	Woodfill, Mark	1/21/2016
City Attorney:	Paladini, Jon	1/25/2016
City Manager:	McConnell, Craig	1/26/2016

Item Summary

This is the Budget Report at Mid-Fiscal Year 2016 of revenues and expenditures through December 2015. The upcoming budget process for Fiscal Year 2017 will also be discussed.

Recommended Action: Presentation for Council information and discussion - no formal action to be taken.

City of Prescott
Fiscal Year 2016 Budget

Mid-Year Budget Report
February 2, 2016

CITY OF PRESCOTT
ARIZONA

Year-to-Date Expenditures (All Funds) through December 31, 2015

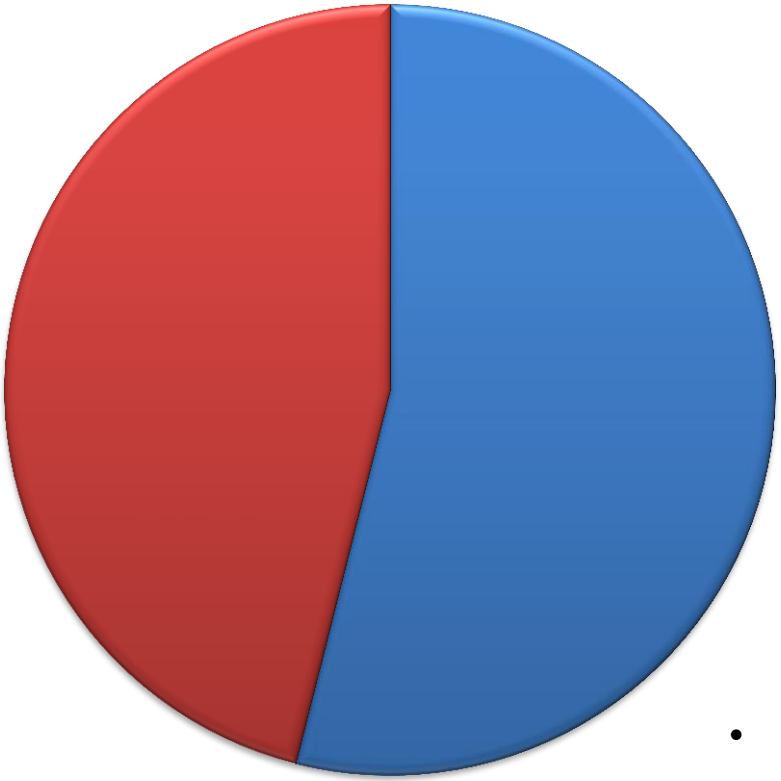
(Note: 50% of year complete)

	FY15 Actual	FY16 Budget	Expenditures as of 12/2015	% Spent YTD
Operating - Personnel	$ 41,888,124	$ 44,671,227	$ 19,839,993	44.4%
Operating - Non-Personnnel	35,046,182	37,283,652	15,886,682	42.6%
Capital	27,703,717	66,468,983	11,756,633	17.7%
Total Budget	$ 104,638,023	$ 148,423,862	$ 47,483,308	32.0%

CITY OF PRESCOTT ARIZONA

Total City Budget

Enterprise
45%

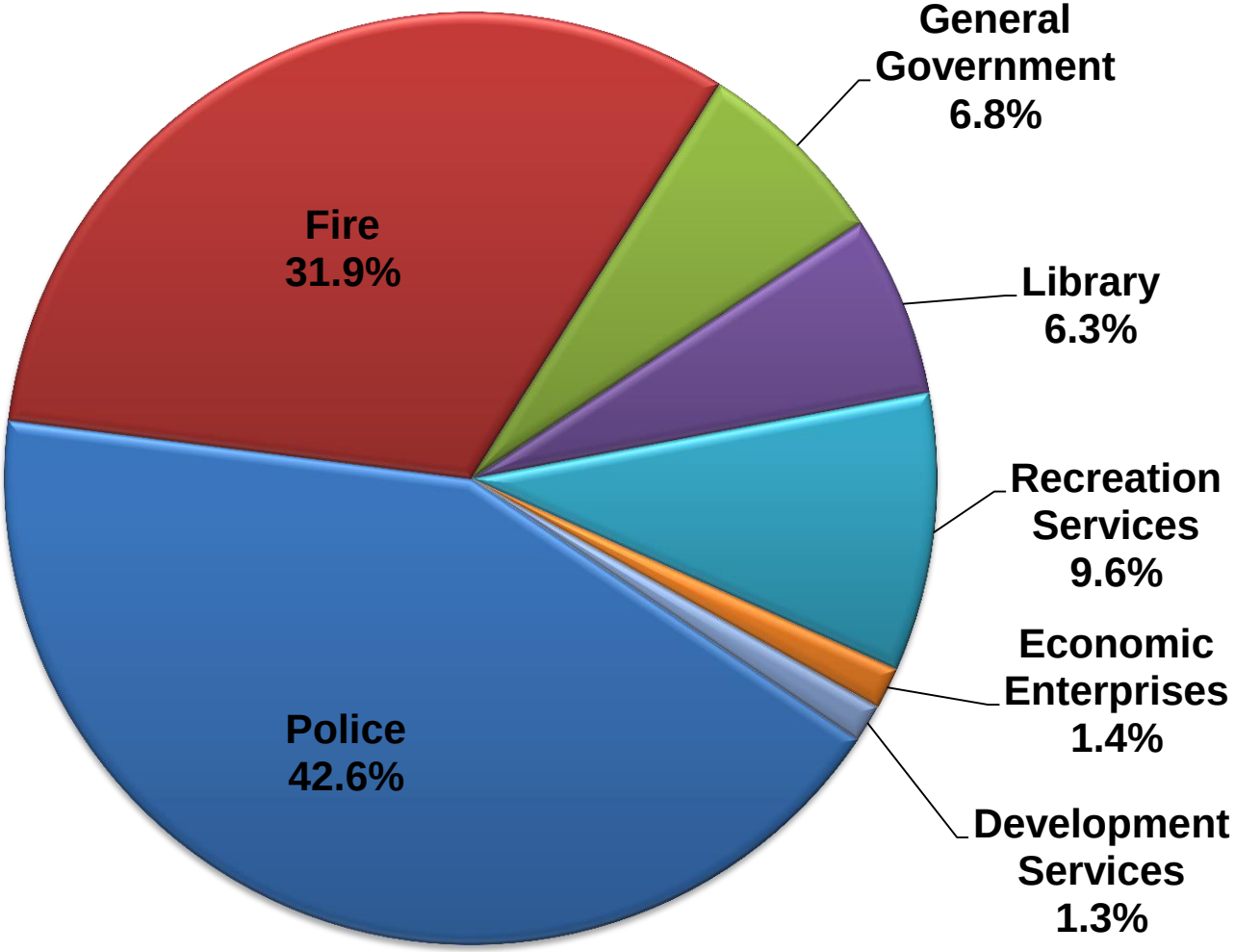


Governmental
55%

- Water
- Wastewater
- Solid Waste
- Airport
- Golf Course

- General Fund
- 1% Streets and Open Space
- Transient Occupancy Tax
- Impact Fees
- Grants
- Acker Trust
- Debt Service

General Fund FY16 Operating Budget
by Department (Net of Program Revenues)



Total Personnel 80.6%

Public Safety 74.5%

Does not include capital or fleet replacement expenses

General Fund Expenditures

(Note: 50% of year complete)

	FY16 Budget	Expenditures as of 12/2015	% Budget
Operations			
General Government	$ 1,293,526	$ 555,644	43%
Budget & Finance	393,421	254,969	65%
Rodeo & Parking Garage	105,386	33,760	32%
Development Services	1,118,073	506,911	45%
Recreation Services	3,104,676	1,370,579	44%
Library	2,360,794	1,066,552	45%
Police Department	12,166,621	5,404,661	44%
Regional Communications	1,279,864	623,425	49%
Fire Department	9,186,340	4,349,751	47%
Economic Enterprises	473,107	269,767	57%
Non-Departmental	357,053	65,503	18%
Total General Fund Operations	31,838,861	14,501,522	46%
Capital Outlay/Projects	2,103,604	165,826	8%
TOTAL GENERAL FUND	$ 33,942,465	$ 14,667,348	43%

General Fund Revenues

(Note: 50% of year complete)

	FY16 Budget	Received as of 12/2015	% Received as of 12/2015	% of Total GF Revenues
Taxes				
Privilege & Use Tax	$ 13,840,000	$ 7,793,081	56.3%	40.8%
Franchise Tax	1,610,000	783,481	48.7%	4.7%
Property Tax - Primary	1,596,518	889,648	55.7%	4.7%
Total	17,046,518	9,466,210	55.5%	50.3%
Intergovernmental				
State Sales Tax	3,806,325	1,815,642	47.7%	11.2%
State Income Tax	4,797,092	2,398,546	50.0%	14.2%
State Vehicle License Tax	2,361,145	1,129,377	47.8%	7.0%
Joint Dispatch	1,279,864	633,150	49.5%	3.8%
Library District	567,270	-	0.0%	1.7%
Fire Contracts	355,623	176,039	49.5%	1.0%
Total	13,167,319	6,152,754	46.7%	38.8%
Licenses & Permits	495,600	325,483	65.7%	1.5%
Service Charges	1,457,800	827,641	56.8%	4.3%
Fines & Forfeitures	498,900	220,512	44.2%	1.5%
Miscellaneous/Interest Earnings	231,100	55,711	24.1%	0.7%
Financing - CAD	1,000,000	-	0.0%	3.0%
Total General Fund Revenues	$ 33,897,237	$ 17,048,311	50.3%	100.0%

General Fund – Fund Balance

(Note: 50% of year complete)

	FY16 Budget	As of 12/2015
General Fund Operations		
Revenues	$ 32,897,237	$ 17,048,311
Transfers In - Bed Tax (Parking Garage, Event OT)	45,000	22,500
Total Revenues/Operating Transfers In	32,942,237	17,070,811
Operating Expenditures	31,838,861	14,501,522
Operating Income	1,103,376	2,569,289
Capital Expenditures and Transfers Out		
Capital Expenditures	2,103,604	165,826
Lease Purchase Financing	(1,000,000)	-
Transfers Out		
Airport Operations	269,483	-
Governmental Grant Operations	280,737	18,584
Total Operating Transfers	550,220	18,584
Airport Capital	380,000	28,859
Airport Capital Grant Match	321,303	175,836
Total Capital Transfers	701,303	204,695
Net Capital and Transfers Out	2,355,127	389,105
Net Change in Fund Balance	(1,251,751)	2,180,184
Fund Balance - Beginning	27,976,354	27,976,354
Fund Balance - Ending	$ 26,724,603	$ 30,156,538
Ending Balance - Detail		
Reserve Policy	$ 6,579,448	$ 6,579,448
Retirement Reserve	2,712,539	2,712,539
Internal Loan	5,138,516	5,138,516
Unassigned	12,294,100	15,726,035
Total Ending Fund Balance	$ 26,724,603	$ 30,156,538

General Fund – Fund Balance

(Note: 50% of year complete)

	FY16 Budget	As of 12/2015
Fund Balance Reserve Policy (based on Operating Revenue)		
10% Reserve for unanticipated expenditures and revenue shortfalls	$ 3,289,724	$ 3,289,724
10% Reserve for timing differences between receipts and disbursements	3,289,724	3,289,724
Total reserve per policy	6,579,448	6,579,448
Reserve for Internal Loans		
Golf Course-operating deficit	4,316,788	4,316,788
Grant Fund-delayed grant reimbursements	25,547	25,547
Structured loan for water and wastewater projects	796,180	796,180
Total reserve for internal loans	5,138,515	5,138,515
Reserve for Existing Retirement Liability	3,091,192	3,091,192
Unassigned-available for one time capital and projects	11,915,448	15,347,383
Total Fund balance	**$ 26,724,603**	**$ 30,156,538**

1% Streets & Open Space Fund

(Note: 50% of year complete)

	FY16 Budget	Rec/Exp as of 12/2015	% Budget
Revenues			
Sales Tax	$ 11,567,500	$ 7,432,589	64.3%
Highway Users Revenue	2,994,582	1,574,286	52.6%
Reimbursement/Partnering	2,400,000	764,271	31.8%
Street Light Fee	233,000	115,070	49.4%
Miscellaneous/Interest Earnings	568,792	291,673	51.3%
Total Revenues	17,763,874	10,177,889	57.3%
Expenditures			
Operating - Personnel	2,673,837	1,195,153	44.7%
Operating - Non-personnel	3,335,201	1,338,634	40.1%
Debt Service	2,245,999	547,499	24.4%
Open Space	730,000	-	0.0%
Capital Outlay/Projects	23,192,609	4,353,702	18.8%
Total Expenditures	32,177,646	7,434,988	23.1%
Other Sources (Uses)			
Transfers In	9,465	132	
Transfers Out	(5,784)	(578)	
Total Other Sources	3,681	(446)	
Ending Balance			
Net Change in Fund Balance	(14,410,091)	2,742,455	
Fund Balance - Beginning	19,890,742	19,890,742	
Fund Balance - Ending	$ 5,480,651	$ 22,633,197	

Transient Occupancy Tax Fund

(Note: 50% of year complete)

	FY16 Budget	Rec/Exp as of 12/2015	% Budget
Revenues			
Bed Tax Revenues	$ 680,000	$ 421,439	62.0%
Liquor License	70,000	67,342	96.2%
Interest Earnings	2,000	709	35.5%
Total Revenues	752,000	489,490	65.1%
Expenditures			
Marketing and Promotion	290,000	154,220	53.2%
Contingency	143,193	-	0.0%
Tourism	142,400	77,751	54.6%
Signature Events	62,400	45,900	73.6%
Support for the Arts	35,000	-	0.0%
Tournaments	30,000	-	0.0%
Courthouse Lighting	30,000	30,000	100.0%
Parks Tourism Venues/Amenities	30,000	30,000	100.0%
Museum Marketing Support - Phippen	15,000	15,000	100.0%
Museum Marketing Support - Smoki	15,000	-	0.0%
Sharlot Hall Museum	25,000	25,000	100.0%
Special Events Overtime	25,000	12,500	50.0%
PDP Contract	20,000	20,000	100.0%
Prescott Frontier Days Rodeo	20,000	-	0.0%
Parking Garage	20,000	10,000	50.0%
Prescott Creeks Match	12,500	-	0.0%
Bandwagon Refurbishing	12,000	-	0.0%
Open Space Management	10,000	1,149	11.5%
Other Events	5,000	3,900	78.0%
Total Expenditures	942,493	425,420	45.1%
Ending Fund Balance			
Net Change in Fund Balance	(190,493)	64,070	
Fund Balance - Beginning	383,715	383,715	
Fund Balance - Ending	$ 193,222	$ 447,785	

Impact Fee Funds

(Note: 50% of year complete)

Updated

	Parks	Fire	Library	Police	Street	Public Buildings
Revenues						
Rent - Fire Station 75	$ -	$ 12,545	$ -	$ -	$ 132	$ -
Interest	1,516	1,747	934	1,767	-	355
Total Revenues	1,516	14,292	934	1,767	132	355
Expenditures and Transfers						
Expenditures	-	-	-	-	-	-
Transfers Out	-	-	-	-	(132)	-
Total Expenditures and Transfers	-	-	-	-	(132)	-
Ending Fund Balance						
Net Change in Fund Balance	1,516	14,292	934	1,767	-	355
Fund Balance Beginning, 7/1	727,020	835,594	448,241	847,662	-	170,234
Fund Balance Ending, 12/31	$ 728,536	$ 849,886	$ 449,175	$ 849,429	-	$ 170,589

Note: These impact fees are no longer being collected.

Other Governmental Funds

(Note: 50% of year complete)

	FY16 Budget	Expenditures as of 12/2015	% Budget
Expenditures			
Grant Funds	$ 4,847,775	$ 320,915	7%
Acker Trust Fund	10,000	-	0%
Miscellaneous Gifts and Donations	235,387	39,172	17%
Debt Service Funds	196,125	7,524	4%
Total Expenditures	$ 5,289,287	$ 367,611	7%

Water Funds

(Note: 50% of year complete)

	FY16 Budget	Rec/Exp as of 12/2015	% Budget
Revenues			
Water Fund			
Water Sales/Alt Water Fees	$ 16,754,273	$ 7,987,079	48%
Water Connection Fees	170,000	104,020	61%
Miscellaneous/Interest Earnings	173,997	152,905	88%
Growth Related Funds			
Water System Impact Fee	1,490,851	492,133	33%
Water Resource Development Fee	851,213	292,262	34%
Total Revenues	19,440,334	9,028,399	46%
Other Financing Sources			
Bond Proceeds - WIFA Draws	-	448,588	0%
Intergovermental Contributions	995,779	-	0%
Total Other Financing Sources	995,779	448,588	45%
Total Revenue and Other Financing Sources	20,436,113	9,476,987	46%
Expenditures			
Operating - Personnel	2,612,134	1,145,478	44%
Operating - Non-Personnel	6,206,459	2,042,489	33%
Debt Service	2,426,963	1,323,991	55%
Projects/Capital Outlay	12,978,133	1,717,076	13%
Aquifer Protection Projects/Capital Outlay	261,000	6,230	2%
Alt Water Sources Projects/Capital Outlay	410,874	95,785	23%
Water System Impact Projects/Capital Outlay	2,859,929	1,097,514	38%
Total Expenditures	$ 27,755,492	$ 7,428,563	27%

Wastewater Funds

(Note: 50% of year complete)

	FY16 Budget	Rec/Exp as of 12/2015	% Budget
Revenues			
Wastewater Utilities			
Wastewater User Charges	$ 11,688,857	$ 5,474,836	47%
Effluent Sales	538,833	295,044	55%
Wastewater Disposal Fee	137,000	87,851	64%
Miscellaneous/Interest Earned	151,756	159,589	105%
Wastewater System Impact			
Wastewater Impact Fees	1,343,549	417,130	31%
Total Revenues	13,859,995	6,434,450	46%
Other Financing Sources			
Bond Proceeds WIFA	2,666,286	62,723	2%
Total Revenue and Other Financing Sources	16,526,281	6,497,173	39%
Expenditures			
Operating - Personnel	2,617,605	1,044,581	40%
Operating - Non-Personnel	2,768,061	1,163,695	42%
Debt Service	4,369,966	2,534,812	58%
Projects/Capital Outlay	6,450,194	618,982	10%
Wastewater Impact Projects/Capital Outlay	3,166,286	20,733	1%
Total Expenditures	$ 19,372,112	$ 5,382,803	28%

Solid Waste Fund

(Note: 50% of year complete)

	FY16 Budget	Rec/Exp as of 12/2015	% Budget
Revenues			
Solid Waste Collection Charges	$ 4,920,000	$2,543,367	52%
Transfer Station Fees	1,200,000	637,911	53%
Landfill Closure Surcharge	120,000	61,437	51%
Recycling Revenue	150,000	52,735	35%
Interest Earned/Miscellaneous	82,500	75,460	91%
Total Revenues	6,472,500	3,370,910	52%
Expenditures			
Operating - Personnel	1,753,982	778,423	44%
Operating - Non-Personnel	4,717,431	1,763,111	37%
Projects/Capital Outlay	1,317,400	408,793	31%
Total Expenditures	$ 7,788,813	$ 2,950,327	38%

Airport Fund

(Note: 50% of year complete)

	FY16 Budget	Rec/Exp as of 12/2015	% Budget
Revenues			
Tie Down and Hangar Rentals	$ 647,105	$ 325,724	50%
Ground Rentals	516,490	241,268	47%
Facility Rentals	201,705	101,776	50%
Fuel Flowage Fee	90,300	34,625	38%
Landing Fees	21,700	2,878	13%
Miscellaneous/Interest Earnings	33,180	55,676	168%
Total Revenues	1,510,480	761,947	50%
Operating Expenditures			
Airport Fire/ARFF	460,748	142,024	31%
Airport Operations - Personnel	699,602	276,258	39%
Airport Operations - Non-Personnel	619,613	312,165	50%
Total Operating Expenditures	1,779,963	730,447	41%
Operating Income	$ (269,483)	$ 31,500	
Capital Outlay/Projects			
Non Grant Capital Outlay	$ 380,000	$ 60,359	16%
Airport Grants			
FAA/ADOT Grants	6,538,789	2,667,505	41%
City Share	321,303	175,836	55%
Total Grant Projects	6,860,092	2,843,341	41%
Total Capital Outlay	7,240,092	2,903,700	40%
Total Expenditures	$ 9,020,055	$ 3,634,147	40%

Golf Course Fund

(Note: 50% of year complete)

	Fiscal Year to Date through		
	12/31/2014	**12/31/2015**	**Change**
Course Operations			
Revenues			
Green Fees	$ 646,342	$ 614,563	*$ (31,779)*
Cart Rental	282,223	292,639	*10,416*
Proshop Revenue	62,720	63,759	*1,039*
Driving Range	72,468	66,838	*(5,630)*
Players Card Sales	66,044	72,186	*6,142*
Miscellaneous	2,489	-	*(2,489)*
Total	1,132,286	1,109,985	*(22,301)*
Expenditures			
Personnel	207,925	232,566	*24,641*
Cost of Goods Sold Proshop	46,756	46,833	*77*
Other Services	160,190	138,836	*(21,354)*
BCG Management Fee	42,000	42,000	*-*
Capital Equipment	2,445	-	*(2,445)*
Total	459,316	460,235	*919*
Rev. over exp. Operations	$ 672,970	$ 649,750	*$ (23,220)*

Golf Course Fund (Cont'd)

(Note: 50% of year complete)

	Fiscal Year to Date through		
	12/31/2014	12/31/2015	Change
Restaurant			
Revenues			
Food Sales	$ 336,216	$ 371,280	*$ 35,064*
Beverage Sales	106,373	110,706	*4,333*
Total	442,589	481,986	*39,397*
Expenditures			
Personnel	158,983	193,543	*34,560*
Cost of Goods Sold Restaurant	173,124	214,364	*41,240*
Supplies	28,269	39,467	*11,198*
Total	360,376	447,374	*86,998*
Rev. over exp. Restaurant	82,213	34,612	*(47,601)*
Net Income before Main., DS & IC	$ 755,183	$ 684,362	*$ (70,821)*
Maintenance	$ 556,704	$ 585,787	*29,083*
Debt Service	67,973	2,759	*(65,214)*
Internal Charges	56,367	60,090	*3,723*
Total Main., DS & IC	681,044	648,636	*(32,408)*
Net Income (Loss)	$ 74,139	$ 35,726	*$ (38,413)*

Golf Course Comments

- Fiscal Year 2016 has had 17 days of lost play due to weather compared to 2 days in Fiscal Year 2015. Estimated revenue loss of $55,000.
- Billy Casper Golf is in the process of completing a rate study which will be used to adjust course rates.
- A $42,000 midyear reduction in the course maintenance budget has been implemented.
- “Advantage” card prices have been increased to provide an additional $13,000 annually.
- Food prices were increased in December 2015 to generate an additional $12,000 annually.

Internal Service Funds

(Note: 50% of year complete)

	Engineering	Facilities	Fleet	Risk Management
Revenues	$ 753,310	$ 769,323	$ 1,175,143	$ 476,728
Expenditures				
Personnel	1,009,309	201,832	285,125	-
Supplies	12,721	58,059	437,900	-
Internal Charges	129,220	50,460	150,817	640
Other Services	16,240	352,175	97,395	722,392
Debt Service	-	-	80,000	-
Capital Outlay	-	-	23,351	-
Total Expenditures	1,167,490	662,526	1,074,588	723,032
Budget Basis Net Income (Loss)	$ (414,180)	$ 106,797	$ 100,555	$ (246,304)

Looking Ahead to Fiscal Year 2017
(July 1, 2016 – June 30, 2017)

Pension Cost Increases

	FY 16 Rate	FY 17 Rate	Increase in Contribution Rates	Estimated Increase in FY 17 Budget	Estimated FY 17 Budget Amount
Az State Retirement System					
(Employees 426)					
City	11.47%	11.48%	0.01%	$ 2,000	$ 2,269,296
Employee	11.47%	11.48%	0.01%		
Public Safety Retirement System					
Fire (Employees 53)					
City Actuarial Rate	74.49%	75.77%	1.28%	$ 462,050	$ 2,739,377
City Alternative 3 year phase-in	63.44%	69.82%	6.38%	239,082	2,516,409
Employee	11.65%	11.65%	0.00%		
Police (Employees 67)					
City Actuarial Rate	66.97%	72.05%	5.08%	$ 703,163	$ 2,992,493
City Alternative 3 year phase-in	55.12%	64.43%	9.31%	386,677	2,676,007
Employee	11.65%	11.65%	0.00%		
Total Actuarial Rate				$ 1,167,213	$ 8,001,166
Total Alternative 3 year phase-in				$ 627,759	$ 7,461,712

Note -

Continuation of the alternative 3 year phase-in rate will be discussed during the FY17 budget process.

Class and Compensation

- Because of the budget challenges over the last 8 years, employee pay is below market causing recruitment non-competitiveness, retention, compression, and employee turnover challenges
- Losing trained employees increases training costs and adversely impacts the delivery of services
- Implementing a market-competitive compensation plan has been identified by Council as a priority for the FY17 budget
- The proposed plan would set the midpoint of the pay grades for each position at the market level of our benchmark cities
- Movement in grades would be 3% per year from entry to midpoint (6 years) and 0% to 3% from midpoint to grade max, based on merit
- The estimated first year cost of implementation (all funds) is $2.5 million
- The estimated additional annual cost of maintaining the pay plan is $800,000 (all funds)

Significant Revenue and Expenditure Items Estimated to Impact the FY17 General Fund Budget

FY16 midyear budget adjustments	$ 1,041,000
FY17 proposed increases in fees and cost recoveries	891,000
Increase in employee health insurance cost	-100,000
Increased pension cost (at full PSPRS actuarial rate)	-1,167,000
Class and market compensation implementation	-1,650,000
FY17 personnel merit adjustments	-260,000
TOTAL	$ -1,245,000

Items still unknown

Increase in local taxable activity	Increase
Distribution of State Shared Revenue	??
Possible State changes to local tax base	Decrease

FY2017 Budget Process

(items in red are public meetings)

- Departments budget kickoff meeting (January 21)
- Mid-Year FY16 budget report to Council (February 2)
- Department missions/goals/org. charts due (February 5)
- Operating budgets due (February 26)
- Personnel requests due (March 4)
- Capital budgets due (March 11)
- Review of budgets by City Manager/Finance (April)
- Council budget workshops (May)
- Adoption of tentative budget (June)
- Publish budget and notice of hearing (June)
- Final hearing and adoption of final budget (June)
- Set property tax rates (July)

CITY OF PRESCOTT
Everybody's Hometown

COUNCIL AGENDA MEMO

MEETING DATE/TYPES: STUDY SESSION 2-2-16

DEPARTMENT: Finance

AGENDA ITEM: Presentation and Council direction on the implementation of a City business license

Approved By:		**Date:**
Director:	Woodfill, Mark	1/21/2016
City Attorney:	Paladini, Jon	1/25/2016
City Manager:	McConnell, Craig	1/26/2016

Item Summary

This presentation is for Council information, discussion, and direction regarding the implementation of a City business license.

Recommended Action: Presentation for Council information, discussion, and direction.

City Business License Program

City Council Workshop

February 2, 2016

CITY OF PRESCOTT
ARIZONA

Introduction

- A business license is an annual registration (registry) of businesses in a municipality providing current location, public safety, and other important information. Uses of the information include assuring compliance with fire, zoning, and building safety codes, as well as drawing a meaningful economic profile.
- Currently, Prescott requires only those businesses subject to Transaction Privilege Tax (TPT) to be licensed with the City (a one-time $25 fee). Businesses not subject to TPT are not required to be licensed; hence, the City does not have an up to date, reliable record of their activities. Examples of business types exempt from TPT include medical, real estate, financial, insurance, engineering, law offices, government and non-profits.
- With the centralization of TPT administration to the Arizona Department of Revenue (DOR), issuance of the City's TPT licenses will be handled through DOR in Phoenix. The City will continue to receive information on the TPT licenses issued by DOR.
- With the DOR centralization, many of the present self-collecting ("non-program") cities, of which Prescott is one, are considering requiring all types of businesses to be registered via business license programs. Of the 15 non-program cities, only 4 (including Prescott) do not have a business license. Three of the 4 have specialty licenses for certain types of establishments such as amusements, those serving liquor, and pawn brokers.

Current City TPT License Statistics

Number of licenses by NAICS categories

	Number of Licenses	Business Physical Location		
		In City	In State	Out of State
NAICS Categories				
Rentals	3,482	3,482	-	-
Retail	2,043	745	54	1,244
Contractors	1,569	301	1,053	215
Other	1,218	615	135	468
Total	8,312	5,143	1,242	1,927

Licenses by taxable activity reported in FY 2015

	Number of Licenses	% of Total Tax Revenue	% of Tax Licenses
Taxable Activity			
$10,000,001+	24	43.99%	0.29%
$1,000,001 - $10,000,000	167	29.12%	2.01%
$100,001 - $1,000,000	841	19.54%	10.12%
$20,001 - $100,000	1,526	4.77%	18.36%
$5,001 - $20,000	3,006	2.37%	36.16%
$1 - $5,000	1,555	0.21%	18.71%
$0	1,193	0.00%	14.35%
Total	8,312	100.00%	100.00%

Purposes/Benefits of a Business license

- Economic information
  - Numbers and types of businesses, geographic locations
  - Trend reports such as migration of businesses in and out of the City, employment, and industries
  - Geographic areas showing business increases or declines
  - Accurate statistics as a business recruitment tool
- Public safety
  - Numbers and types of business operating within the City
  - Accurate contact information in the event of emergency
  - Presence of hazardous materials requiring annual fire and building safety inspections
- Compliance
  - A tool to assist with TPT compliance after centralization of TPT administration at DOR – “to level the playing field”
  - Facilitate enforcement of zoning regulations

Policy Considerations
What and How Activities Should be Licensed

- Meets definition of a business activity
- Has a physical location within the City vs. firms that do not have a physical location, but conduct business transactions with parties within the City
- When separate licenses are required:
  - Each location or separate place of business
  - When multiple professionals are at one location, license only the practice, professional association, or establishment

Examples of Activities that can be Exempted from the Business License

- Residential rentals with less than __ rental properties
- Religious or political organizations, HOAs
- Casual activities such as yard sales
- Farmers markets - sales of food by the producers
- Transient merchants/peddler solicitors
- Newspaper carriers
- Fund-raising events

Enforcement

- City Code Section 1-3-1: penalties
- Failure to obtain a license
- Revocation
  - Non payment of fee
  - Non payment of privilege taxes if applicable
  - Non compliance with other City codes

Information Required on Application

- Location
- Ownership
- Contact information
- NAICS Code–North American Industry Classification System
- Business activities
- Number of employees
- Square footage of facility
- Regulated/hazardous materials

Fees

- Fixed annual license fee solely to recover program costs
- Options:
  - Variable fee based on number of employees, business class, etc.
  - Application fee: in addition to the annual license fee
- Proration for licensing throughout the year
- Grace period for Year 1 implementation
- Penalties – for failure to obtain license prior to commencing business activities (waived during grace period)
- Example of Fees:
  - Chino Valley: $50 license fee, $33 application fee
  - Prescott Valley: $60-$65 annual fee
    - Commercial Rental = $60 plus $5.00 per location
  - Sedona: $25
  - Camp Verde: $50 initial fee, $25 renewal fee
  - Peoria: $75 initial fee, $55 renewal fee
  - Fountain Hills: $35 annual within town, $50 outside town

Implementation

- Setup of system to track the information and administer the license
- Create a web page to simplify and facilitate licensing process for businesses
- Establish the application to gather the desired information
- Establish mailing list and conduct online information campaign to notify business of the new licensing requirement
- Notification of businesses (candidate for outsourcing)
  - Mail letter with instructions
  - Other media outlets
- Canvassing/enforcement
- Personnel required
  - Potential opportunity to reassign current personnel still involved with TPT licensing and collection prior to the start of State collection
- Costs to be determined (for recovery)
  - Initial setup cost
  - Ongoing program expense

Milestones

Council Workshop	2/2/2016
Policy discussion/direction	3/1/2016
Ordinance discussion/direction	4/5/2016
Adoption of ordinance	5/3/2016
Ordinance effective	6/2/2016
Implementation	5/4/2016-11/30/2016
Business registration	12/1/2016-1/31/2017

Council Discussion/Direction

CITY OF PRESCOTT
ARIZONA

CITY OF PRESCOTT
Everybody's Hometown

COUNCIL AGENDA MEMO

MEETING DATE/TYPES: STUDY SESSION 2-2-16

DEPARTMENT: City Manager

AGENDA ITEM: Legislative Update

Approved By:		**Date:**
Deputy City Manager:	Zelms, Alison	1/26/2016
City Attorney:	Paladini, Jon	1/26/2016
City Manager:	McConnell, Craig	1/26/2016

Item Summary

This item is to discuss and determine the Council's support for or opposition to various bills relative to the previously adopted policy objectives guiding City activity pertaining to the 2016 State of Arizona Legislative Session.

February 2, 2016, is the 23rd day of the Second Regular Session of the 52nd Legislature. The status information provided in this report is current as of January 26, 2016. To date, 813 bills have been introduced; on-going review is being accomplished to identify potential impacts.

Attachments

1. Legislative Position Summary (January 26, 2016)

Recommended Action: Presentation for Council information, discussion, and direction.

Bill	Title	Summary	Recommendation
Prescott Legislative Agenda Item – State (or Local) Regulation of Community Residences for Drug and Alcohol Rehabilitation and Recovery			
HB2107	Substance Abuse Recovery Homes (Rep. Campbell)	Authorizes cities and counties to adopt health and safety standards and enforcement mechanisms for "structured sober living homes" including mandatory registration, supervision requirements, and qualifications of house manager	**Support** (Resolution of support being drafted for February 2, 2016 Council Meeting)
Prescott Legislative Agenda Item - Adequately Fund and Reform State Pension Plans			
--	PSPRS Reform	No Bill has been introduced. City 2016 Legislative Agenda supports reform	**Review** Bill (Once Introduced)
Prescott Legislative Agenda Item – Preserve Local Funding Authority/Oppose Preemption of Local Authority/Static, Decreasing General Fund Revenue			
HB2026	Municipal Tax Exemption; Residential Use (Rep. Mitchell)	Prohibits municipalities with a population of more than 100,000 persons located in Maricopa and Pima counties from levying a transaction privilege tax on the business of renting or leasing real property for residential purposes ("residential rental tax"). The bill phases out the existing levies by 25% each year over a four year period, retroactive to January 1, 2016. The impact to cities meeting the criteria is $75 Million. If applied state-wide, the impact is $90 M, and the impact to Prescott would be $1.37 M.	**Oppose** – Although as written, this bill wouldn't impact Prescott, a prior version included all cities, and provisions could expand and impact Prescott
HB2267	Prime Contracting Classification; Repeal (Rep. Cobb)	Attempts to remedy current complex language that resulted from HB2111 (Tax Simplification). Eliminates current prime contracting TPT classification, replaces with manufactured building dealer classification, and requires state to levy new tax at a rate of 2%, and distribute to Cities based on proportionate share of the total value of building permits issued by all municipalities. Prescott receives approximately $2.5 Million annually in construction sales tax (½ General Fund, ½ Streets Fund).	**Oppose** – The complexity of this bill and the system it would create appears to further complicate this tax category, and possibly reduce revenue to Prescott
Prescott Legislative Agenda Item – Preserve Local Funding Authority/Oppose Preemption of Local Authority			
HB2391	Municipalities; Water Rates; Requirements (Rep. Bowers)	Requires a cash flow analysis of costs and expenses to justify rate adjustments. Requires an rate, fee or service charge for new infrastructure or capital improvements to comply with terms of impact fee statutes. Prohibits use of municipal fee or charge to pay costs of acquiring a private utility.	**Oppose** – The impact fee statute language is confusing and unclear, and could hamper the City's ability to assess appropriate, timely fees
Other Bills of Interest			
SB1042	Prescott Historical Society; Continuation (Sen. Kavanaugh)	Extends the Statutory Life of the Prescott Historical Society to July 1, 2024 which provides for the preservation, maintenance, and perpetuation of the Governor's Mansion and the Sharlot Hall Museum and grounds in Prescott. The Society receives funding through legislative appropriation. The FY 2016 and FY 2017 Proposed Executive Budget includes $825,800 from the state General Fund.	**Support** – (Also support related State General Fund appropriation)

City of Prescott – Council Actions on Recommended Positions **January 26, 2016**

Bill	Title	Recommendation	Previous Council Action	Status
HB2107	Substance Abuse Recovery Homes (Rep. Campbell)	**Support**		Passed as Amended - 1/25/2016 House County & Municipal Affairs; Awaiting Assignment in Rules
HB2026	Municipal Tax Exemption; Residential Use (Rep. Mitchell)	**Oppose**		Awaiting Hearing in House Ways & Means
HB2267	Prime Contracting Classification; Repeal (Rep. Cobb)	**Oppose**		Awaiting Hearing in House Ways & Means
HB2391	Municipalities; Water Rates; Requirements (Rep. Bowers)	**Oppose**		Awaiting Committee Assignment
SB1042	Prescott Historical Society; Continuation (Sen. Kavanaugh)	**Support**		1/25/2016 Approved in Senate COW, Awaiting Third Read
--	PSPRS Reform	**Review** Bill (Once Introduced)		Awaiting Bill

Bill	Title	Summary	Recommendation
Prescott Legislative Agenda Item – State (or Local) Regulation of Community Residences for Drug and Alcohol Rehabilitation and Recovery			
HB2107	Substance Abuse Recovery Homes (Rep. Campbell)	Authorizes cities and counties to adopt health and safety standards and enforcement mechanisms for "structured sober living homes" including mandatory registration, supervision requirements, and qualifications of house manager	**Support** (Resolution of support being drafted for February 2, 2016 Council Meeting)
Prescott Legislative Agenda Item - Adequately Fund and Reform State Pension Plans			
SB 1428	PSPRS Modifications (Sen. Lesko)	Provides for provisions for Tier 3 PSPRS retirement system for new hires after July 1, 2017. Establishes a new COLA structure for existing members and retirees (subject to voter approval of Senate Concurrent Resolution (SCR) 1019)	**Support**
SB 1429	Public Retirement Systems; Special Election (Sen. Lesko)	Emergency measures that adds the PSPRS ballot question (SCR 1019) to the education finance special election scheduled for May 17, 2016	**Support**
SCR1019	Public Retirement System Benefits (Sen. Lesko)	Subject to voter approval, amends the pension clause of the Arizona Constitution to provide an exception for certain adjustments to the PSPRS system as described in SB 1428	**Support**
HB 2512	Pension Contributions; Expenditure Limit Exemption (Rep. Coleman)	Allows for an employer to make an excess contribution to PSPRS excluded from the city's expenditure limitation established by the state Constitution. If the City wanted to make an excess payment, it could do so and not have to cut other expenditure to accommodate the payment within the expenditure limit.	**Support –** This bill provides flexibility to the City in future as the remaining Pension reforms begin to stabilize and reduce future pension costs.
Prescott Legislative Agenda Item – Preserve Local Funding Authority/Oppose Preemption of Local Authority/Static, Decreasing General Fund Revenue			
HB2026	Municipal Tax Exemption; Residential Use (Rep. Mitchell)	Prohibits municipalities with a population of more than 100,000 persons located in Maricopa and Pima counties from levying a transaction privilege tax on the business of renting or leasing real property for residential purposes ("residential rental tax"). The bill phases out the existing levies by 25% each year over a four year period, retroactive to January 1, 2016. The impact to cities meeting the criteria is $75 Million. If applied state-wide, the impact is $90 M, and the impact to Prescott would be $1.37 M.	**Oppose** – Although as written, this bill wouldn't impact Prescott, a prior version included all cities, and provisions could expand and impact Prescott
HB2267	Prime Contracting Classification; Repeal (Rep. Cobb)	Attempts to remedy current complex language that resulted from HB2111 (Tax Simplification). Eliminates current prime contracting TPT classification, replaces with manufactured building dealer classification, and requires state to levy new tax at a rate of 2%, and distribute to Cities based on proportionate share of the total value of building permits issued by all municipalities. Prescott receives approximately $2.5 Million annually in construction sales tax (½ General Fund, ½ Streets Fund).	**Oppose** – The complexity of this bill and the system it would create appears to further complicate this tax category, and possibly reduce revenue to Prescott

Bill	Title	Summary	Recommendation
Prescott Legislative Agenda Item – Preserve Local Funding Authority/Oppose Preemption of Local Authority			
HB2391	Municipalities; Water Rates; Requirements (Rep. Bowers)	Requires a cash flow analysis of costs and expenses to justify rate adjustments. Requires a rate, fee or service charge for new infrastructure or capital improvements to comply with terms of impact fee statutes. Prohibits use of municipal fee or charge to pay costs of acquiring a private utility.	**Oppose** – The impact fee statute language is confusing and unclear, and could hamper the City's ability to assess appropriate, timely fees
Prescott Legislative Agenda Item –Oppose Preemption of Local Authority			
SB1057	Crimes; Culpable Mental State; Requirement (Sen. Kavanaugh)	Specifies that for the commission of a misdemeanor classified by a city or town that does not have an expressly prescribed culpable mental state is "intentionally," except a drug offense is "knowingly." Requires an ordinance defining a strict liability offense to expressly prescribe that it is a strict liability offense. Exempts ordinances that involve traffic, building code, or food, health and safety code violations. Effective date of January 1, 2017.	**Oppose** – The proposal requires officers to investigate the "objective" of the person violating a code, and could require changing the designation for each misdemeanor offense in city code to specifically require the offender to be of a culpable mental state rather than "knowingly" breaking the law
HB 2517	Businesses; Professions; Regulation Restrictions (Rep. Peterson)	Limits municipalities, counties, and state agencies from adopting any regulation that applies to business except for purposes of public health, safety and welfare. Would require review of all existing City regulations, and to eliminate or modify any that do not meet this restriction, and then report to the Legislature. The bill also establishes a private right of action, allowing any person to sue the city if they believed they were not in compliance.	**Oppose –** complying with the bill would be costly and could impact the City's ability to properly regulate business, including structured sober living homes
Other Bills of Interest			
SB1042	Prescott Historical Society; Continuation (Sen. Kavanaugh)	Extends the Statutory Life of the Prescott Historical Society to July 1, 2024 which provides for the preservation, maintenance, and perpetuation of the Governor's Mansion and the Sharlot Hall Museum and grounds in Prescott. The Society receives funding through legislative appropriation. The FY 2016 and FY 2017 Proposed Executive Budget includes $825,800 from the state General Fund.	**Support** – (Also support related State General Fund appropriation)

Bill	Title	Recommendation	Previous Council Direction	Status
HB 2107	Substance Abuse Recovery Homes (Rep. Campbell)	**Support**	Support 1/26/2016	Passed as Amended - 1/25/2016 House County & Municipal Affairs; Awaiting Assignment in Rules
HB 2026	Municipal Tax Exemption; Residential Use (Rep. Mitchell)	**Oppose**	Oppose 1/26/2016	Awaiting Hearing in House Ways & Means
HB 2267	Prime Contracting Classification; Repeal (Rep. Cobb)	**Oppose**	Oppose 1/26/2016	Awaiting Hearing in House Ways & Means
HB 2391	Municipalities; Water Rates; Requirements (Rep. Bowers)	**Oppose**	Oppose 1/26/2016	Awaiting Hearing in House Energy & Environment
SB 1042	Prescott Historical Society; Continuation (Sen. Kavanaugh)	**Support**	Support 1/26/2016	Passed Senate 28-0 Ready for House
SB 1428	PSPRS Modifications (Sen. Lesko)	**Support**	Support (in concept prior to bill submittal) 1/26/2016	Hearing scheduled for Senate Finance 2/3/2016
SB 1429	Public Retirement Systems; Special Election (Sen. Lesko)	**Support**	Support (in concept prior to bill submittal) 1/26/2016	Hearing scheduled for Senate Finance 2/3/2016
SCR 1019	Public Retirement System Benefits (Sen. Lesko)	**Support**	Support (in concept prior to bill submittal) 1/26/2016	Hearing scheduled for Senate Finance 2/3/2016
HB 2512	Pension Contributions; Expenditure Limit Exemption (Rep. Coleman)	**Support**		Held in House Government & Higher Education 1/28/2016
SB 1057	Crimes; Culpable Mental State; Requirement (Sen. Kavanaugh)	**Oppose**		Held in Senate Government 1/20/2016
HB 2517	Businesses; Professions; Regulation Restrictions (Rep. Peterson)	**Oppose**		Passed House Commerce 5-3 1/27/2016