PRESCOTT CITY COUNCIL
STUDY SESSION MEETING
TUESDAY, FEBRUARY 2, 2016
PRESCOTT, ARIZONA

MINUTES OF THE STUDY SESSION MEETING OF THE PRESCOTT CITY COUNCIL HELD ON FEBRUARY 2, 2016, in the COUNCIL CHAMBERS located at CITY HALL, 201 SOUTH CORTEZ STREET, Prescott, Arizona.

◆ **CALL TO ORDER**

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

He reminded the citizens that the meeting schedule had changed to the first and third Tuesdays of the month. He said he would not take public discussion at the Study Session meetingbecause the topics would come up again in the future.

◆ **ROLL CALL:**

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

I. DISCUSSION ITEMS

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

Mark Woodfill, Finance Director, showed a PowerPoint presentation, which included:

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

Mr. Woodfill noted that the mid-year presentation had a few columns added to the year-to-date expenditures, namely the FY15 Actual, the budget for FY16 and expenditures as of 12/2015. He said staff also separated operations into personnel and non-personnel categories and noted that there was an extra pay period in the second half of the year. The City of Prescott stood at 32 percent of its budget spent to date.

- Total City Budget

55 percent of operations were government and 45 percent were enterprise, which were business type functions like water, wastewater, solid waste, airport and the golf course.

- General Fund FY16 Operating Budget by Department (Net of Program Revenues).
- General Fund FY 16 Operating Budget
- General Fund Expenditures

Mr. Woodfill noted that the Budget and Finance Department was front loaded and their payment to the Department of Revenue was paid early for the entire year. All departments except Finance and Economic Enterprises were under budget. He said the cost for the 4th of July attributed to the overage in Economic Enterprises.

- General Fund Revenues

Mr. Woodfill pointed out that sales tax was above the projection at 56 percent. He added that sales tax collection was fairly evenly distributed throughout the year. The revenue was in a good position at mid-year.

- General Fund – Fund Balance

Mr. Woodfill identified a net increase in the fund balance of $2,180,000.00 at mid-year and said the year, as a whole, was budgeted to be down using the portion of the fund balance at $1.3 million. The current fund balance was $30,156,538.00.

The Council had two reserve policies in place. One was a 10 percent for unanticipated shortfalls of expenditures to revenues. The other was 10 percent for timing of distributions.

He added that there were other items in the fund balance that were not available because they were being used for operations across the City. Examples were the golf course operating deficit from the past few years and a structured loan for water and wastewater projects. He explained that there was also a reserve for existing retirement liability.

- 1% Streets & Open Space Fund

Mr. Woodfill confirmed that with the new ballot initiative, as of January 1, 2016, for Streets Sales Tax was only available for street maintenance and could not be split between streets and open space. He said it was still called the Streets and Open Space Fund, but may be renamed in the budget process.

Mr. Woodfill added that the project at Goldwater Lake and $230,000.00 for rights-of-way across state land for trails made up the Open Space expenditures. The transfer in money was from the Street Impact Fee and the transfer out was related to the time and attendance program.

- Transient Occupancy Tax Fund

Mr. Woodfill noted that the liquor license revenue was moved into the fund, and added that the revenue could only be spent for tourism related activities. The Bed Tax was well above projections at 62 percent.

Councilman Lazzell asked if the liquor license fee was billed to people who served liquor or sold liquor. Mr. Woodfill said it was billed to both.

- Impact Fee Funds

Mr. Woodfill clarified that all of the fees listed were phased out with the new legislative rules. He said the only thing budgeted in the governmental impact fees was $10,000.00 in the Parks Impact Fee for a picnic expansion.

- Other Governmental Funds

Mr. Woodfill noted that there was $4.8 million in the fund for grants, but the City would not get that many grants. However, the money had to be budgeted.

Councilman Lazzell asked if the lake acquisition was done with open space money. Mr. Woodfill said it was done well before Open Space was passed and it was done with a separate election to purchase the lakes through a general obligation bond

- Water Funds

Mr. Woodfill reminded the Council that a rate increase was present on the February bill. He noted that it was difficult to project impact fees for water and wastewater because there were 10 districts with a different rate. He continued to discuss other financing sources, including the WIFA draws and intergovernmental contributions.

- Wastewater Funds

Mr. Woodfill noted that there was a rate increase that went into effect on February 1, 2016. He discussed the APS rebates the City got for some motors. The impact fees were set at the amount of the study done and said it was difficult to predict. He noted that the personnel expenditures were low due to turnover.

- Solid Waste Fund

Mr. Woodfill explained that recycling revenue was down due to the price of oil falling. He said it was still a good program because the City did not have to pay the tipping fees at the landfill if they recycled.

- Airport Fund

Revenues were coming in as expected. The personnel costs were down due to hours charged to capital grant projects.

Councilman Lazzell asked about landing fees. Mr. Woodfill said he would follow up on the answer to that question.

- Golf Course Fund

Mr. Woodfill reminded the Council that the City outsourced the management of the course to Billy Casper in the past two years and said he did not have a lot of history to compare the numbers to. Revenues were down from the previous year due to weather and other items. The restaurant had an increase in revenue, but costs were increasing too much. The golf carts were paid off, thus diminishing the debt service.

- Golf Course Comments

Mr. Woodfill noted that 17 days were lost due to weather, compared to two days the previous year. Billy Casper was in the process of looking at rate changes, and a $42,000.00 reduction in maintenance had been implemented. The cost of the “Advantage” card would bring in another $13,000 annually and food prices would be increased.

- Internal Service Funds

Mr. Woodfill said the engineering fund was running at a significant loss and staff was working with them to reset the rates they charged. Facilities and Fleet were both doing well and Risk Management was showing a negative. Much of that was related to going to the Risk Retention Pool about three years ago, worker’s compensation, and the timing of insurance payments and when proceeds were collected from individual departments.

- Looking Ahead at FY 17

- Pension Cost Increases

Mr. Woodfill noted that the numbers for FY17 showed a minimal AZ State Retirement System increase. The three year phase-in was adopted for public safety beginning FY16. The option for FY17 and FY18 would be to continue the phase-in or go to the full actuarial rate. He showed both options.

- Class and Compensation

Mr. Woodfill noted that, due to budget challenges, employee pay was well below market causing non-competitiveness, retention, compression, and turnover challenges. He talked about training costs and the adverse affects to the City of Prescott.

The implementation of a market-competitive compensation plan had been identified by the Council as a priority for FY17. The proposed plan would set the midpoint of the pay grades for each position at the market level of the benchmark cities. He noted that it would take six years from entry to midpoint to get to the market level, at about three percent per year. Increases would be strictly merit based after that from zero to three percent. The first year estimates would require $2.5 million to implement the plan. The estimated additional annual cost to maintain the plan was $800,000.00.

Craig McConnell, City Manager, said the Human Resources Department would make a presentation to the City Council on February 16th. The Council would be able to see how the amounts were calculated.

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

Mr. Woodfill said the mid-year adjustments brought in an additional $1,041,000.00. The proposed fee increases and cost recovery methodologies for FY17 would come to Council in the next few months. They were anticipated to bring in an additional $891,000.00 in the General Fund. There may be a potential health insurance increase, increased pension cost, class and compensation implementation and FY17 personnel merit adjustments, combined with the midyear budget adjustment and increase in fees that would equal a negative $1,245,000.00.

Mr. Woodfill said the items that remained unknown were increased local taxable activity, distribution of State Shared Revenue and possible state changes to the local tax base.

- FY2017 Budget Process

Mr. Woodfill verified the due dates for the budget items and meetings.

Councilman Sischka thought he would have had more questions if he had the materials in advance. Mr. Woodfill said he could email questions if he would like.

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

Mark Woodfill, Finance Director, showed a PowerPoint presentation that included:

- City Business License Program

- Introduction

Mr. Woodfill gave the definition of a business license and discussed its uses. He noted that the City of Prescott currently required only those businesses subject to Transaction Privilege Tax to be licensed with the City for a one-time $25.00 fee. Of the 15 cities that collected their own taxes, Prescott was one of four that did not have a business license.

Craig McConnell, City Manager, said the City was still receiving emails that were mixing together the business license and the business tax. He said staff was only presenting information about potential adoption of a business license and that it was not a business tax. He added that it was a registry, and not for the generation of tax revenue.

Mr. Woodfill continued:

- Current City TPT License Statistics

Of the 8,300 licenses, 3,500 were for rental property. He noted that there were approximately 1,000 licenses that brought in roughly 93 percent of all the sales tax revenue.

- Purposes/Benefits of a Business License

Mr. Woodfill listed economic information, public safety and compliance.

Councilman Blair asked how much the City was missing out on by not having business licenses. Mr. Woodfill said it was hard to tell. Councilman Blair said he supported a business license.

Mayor Pro Tem Lamerson said he was concerned with zoning. He voiced that residential neighborhoods were being used for more than what they had been zoned for.

Councilman Sischka asked if this would require the City to hire more people to implement the program. Mr. Woodfill said it would depend on the structure of the license.

- Policy Considerations – What and How Activities Should be Licensed

Mr. Woodfill talked about the things that should be taken into consideration.

- Examples of Activities that can be Exempted from the Business License
- Enforcement
- Information Required on Application

Councilman Sischka said he was in favor of a business license fee. He questioned whether the program would take so much staff time that it would not be worth it. Mr. Woodfill said the fees could always be set to cover the costs. He said the issue was whether the City of Prescott needed the data to help with the compliance of tax.

Councilman Sischka said it had been tried several times in the past. He asked what the biggest downfall to the program was and if it could be overcome.

Mr. Woodfill said the issue was whether people felt the information was necessary enough to inconvenience the businesses to collect it and impose the fee.

- Fees

Mr. Woodfill felt annual fees were important so people would update their information. He gave examples of local municipalities and the fees charged.

- Implementation

Mr. Woodfill said implementation was complicated and staff did not want to make it difficult for business owners. He said a tracking system had to be set up on the computer and the City already used the module for tax licensing. He noted that there had to be a web interface, and added that recovery costs would be determined, based on initial setup costs and the ongoing program expense.

- Milestones

The meeting and implementation dates were suggested.

- Council Discussion/Direction

Mayor Pro Tem Lamerson said his priority was to discuss demands on public safety as a whole. He said he was a firm believer in consumption taxes like the false alarm fee. He wanted to identify items that put a demand on the City, above and beyond, normal living expenses.

Councilman Lazzell said he felt the people in favor of the license worked for the City of Prescott. In the beginning he was totally against the tax, then heard some good arguments and thought the tax might be a good idea. He questioned how it would be enforced. He said that as a business owner, this would be death by a thousand cuts. He would not support the tax.

Councilman Blair said he understood those points. However, he spoke to a man who had several rental properties in town and the man asked if the drug rehab residences would also be paying taxes. He thought that people operating in the community should pay their fair share.

Councilman Lazzell asked if there was a $35.00 fire inspection fee already in place. Mr. Woodfill said, yes, it is a one-time fee for TPT businesses.

Mayor Pro Tem Lamerson thought this could be handled differently than licensing everyone. There was a discussion about hazardous materials.

Councilman Sischka said Prescott needed to figure out why neighboring communities could have a successful business tax and Prescott could not make it happen

Mayor Oberg said it should be advertised as revenue neutral. He felt that staff should look at gathering a minimum amount of essential information. The City was trying to figure out what type of business was in town, which would help with economic development. He said that if staff was going to gather information, it should be useful and asked if it would be fair to a business tax to make sure people had a business license.

Jon Paladini, City Attorney, said the City Charter allowed for the City to issue business licenses and to charge a business tax. The Charter did not give the City separate authority to charge tax based on sales/revenue. He said that because they were from the same section of the Charter, he felt the business license had to precede the business tax.

Councilman Blair said he looked at this as being an economic development issue, and said the City was losing tax revenues it needed.

There was a discussion on enforcement.

Mayor Oberg said there were two Council members absent, but he asked staff to pursue the topic with the calendar presented.

C. Legislative Update

Alison Zelms, Deputy City Manager, presented. She said there were over 1100 bills introduced. She passed out information from the Aarons Company and the bills they were tracking for the City of Prescott. The other item was a report of approximately 53 bills. Ms. Zelms said there were bill numbers for PSPRS changes as well as an additional bill related to the expenditure limit for cities and towns should they choose to make extra payments in a year.

Ms. Zelms gave brief updates on the following bills:

HB 2107 - Substance Abuse Recovery Homes, no action, but a lot of discussion among the legislature.

SB 1428, SB1429, SCR1019 are the three pension system related bills. 1429 and 1019 were procedural bills to place a portion of the pension modification bill on the ballot. The three sets of bills were scheduled for a committee hearing the next morning. She noted that Mayor Oberg had been requested to speak. SB1429 was an emergency measure. SB1428 provided provisions for Tier 3 PSPRS retirement system for new hires after July 1, 2017 and established a new COLA structure for existing members and retirees, subject to voter approval.

HB2512 - allowed a City to make an expenditure limit exemption for a one-time or one-year payment in excess of what the City had budgeted for pension obligations.

SB 1057 - Crimes; Culpable Mental State; Requirement changes a few requirements for the perpetrator. They would need to be charged with intentionally breaking the law. The recommendation was to oppose the bill.

HB 2517 – Businesses; Professions; Regulation Restrictions would require every City and Town to go through every regulation they had that could be considered a barrier to entry into the business market of the City. Examples would be a business licenses, TPT licenses, and health and safety ordinances for sober living home. The bill would limit municipalities, counties and state agencies from adopting any regulation that applied to business except for purposes of public health, safety and welfare. The bill passed out of committee the prior week.

Mayor Oberg asked if there was any information on the bills the Council supported, PSPRS or drug rehab. He asked if the Arizona State Legislators had signed on. Ms. Zelms responded that HB 2107 was being moved through the process by Representative Noel Campbell, the other two legislators were on the drug rehab committee. The City of Scottsdale said they would also be signing in support of the bill moving forward. The League of Arizona Cities and Towns, as well as roughly five other organizations also signed on in support of the bill. She noted that she may ask the Council to help out at any hour of the day, depending on where the scales were tipping. She noted that the Prescott Chamber of Commerce was also planning to sign in.

Mayor Oberg said he would be glad to send thank you notes to supporters of the bill, if appropriate.

Councilman Sischka asked where Senator Pierce stood on the recovery home situation. Ms. Zelms said he was on the ad hoc committee and did not have additional information.

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

Mayor Oberg asked if anyone had any questions on that voting meeting agenda that evening.

Jon Paladini, City Attorney, asked that this section of the agenda be limited to questions and that staff would bring the answers back at the regular meeting. He asked that the Council limit debate on the issues until the public was there and could offer comments.

Councilman Blair asked for the exact amount of money that was left in the Parks and Recreation Impact Fee Fund, and to have the information prior to the Voting Meeting.

II. ADJOURNMENT

There being no further business to be discussed, the Study Session Meeting of February 2, 2016, adjourned at 2:50 p.m.

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HARRY B. OBERG, Mayor

ATTEST:

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DANA R. DeLONG