PRESCOTT CITY COUNCIL
STUDY SESSION MEETING
TUESDAY, JANUARY 10, 2017
PRESCOTT, ARIZONA

MINUTES OF THE STUDY SESSION MEETING OF THE PRESCOTT CITY COUNCIL HELD ON JANUARY 10, 2016, 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 1:00 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 by Public Works on the Mid-Year Status of the FY17 Capital Improvement Program (this item will be continued to the meeting of January 24, 2017)

This item was continued to the meeting of January 24, 2017.

B. Presentation and discussion on Public Safety Personnel Retirement System (PSPRS) payment options from the Strategic Plan Committee

Councilwoman Wilcox presented. She said she had been appointed as Chair of the Strategic Plan Committee, along with members Councilman Sischka and Councilwoman Orr. She said the Committee had met six times over the past month, and had held a stakeholder meeting.

She showed a PowerPoint presentation that included:

- Council's Strategic Plan Goals
- Committee Objectives
- Option 1: Implement Business Tax Projected Annual Revenue $3.25 Million
  - Establish an annual business tax based on estimated 10,000 businesses

using a level of public safety impact
- Advantages
- Disadvantages
- The stakeholders group comments
- Not recommended by the committee

- Option 2: Increase Property Tax to Pay the PSPRS Unfunded Liability
  - Estimated property tax impact
  - Advantages
  - Disadvantages
  - The Stakeholders groups comments

- Option 3: Increase City Utility Rates to Pay the PSPRS Unfunded Liability
  - Current water and wastewater rates are set at a level to provide the needed operating and capital expenditures funding
  - Advantages
  - Disadvantages
  - The stakeholders group comments
  - Not recommended by the committee

Councilmember Sischka said the reason that our rates were the highest in the area was because we have one of the most sophisticated systems to get water uphill to the homes. A lot of the surrounding communities were flat and it does not take as much capital to get water to their homes versus what it takes to get to our homes.

Councilwoman Wilcox continued the presentation.

- Option 4: Create a Dedicated Sales (Privilege) Tax
  - Establish ¾ cent tax for ten years dedicated to pay down the PSPRS unfunded liability
  - Advantages
  - Disadvantages
  - The stakeholders group comments
  - Committee favors Council consideration

- Option 5: Create a Dedicated Sales (Privilege) Tax and eliminate City Property Tax
  - Establish ¾ cent tax for ten years dedicated to pay down the PSPRS unfunded liability and eliminate all City property tax
  - Advantages
  - Disadvantages
  - The stakeholders group comments
  - Committee favors Council consideration

- Estimated Tax Burden for Municipal Services
- Points of Agreement by Committee
- Election Timeline Pros and Cons of May vs August Election
- Draft Minutes

Councilwoman Wilcox concluded the presentation and turned the meeting back over to Mayor Oberg.

Mayor Oberg said he had asked Mr. Woodfill to lay out what had been happening in PSPRS over the past 20 years. He said the chart showed that the fund had been going downhill for several years. It was fully funded early on and then starting in the year 2000 there was a significant decrease in the funded ratio based on the fact that the drop program started and the legislature provided generous benefits to police and fire. He thought that was something they needed to be aware of.

Mayor Oberg presented information that showed that even though the market had gone up significantly the fund continued to go down because of the inadequate performance of PSPRS. Significant amounts had been lost in various downturns and he was not sure that PSPRS had good management. He said the rate of return that had been expected on the investments was at 9% in the early 2000's, and had continually gone down. In 2017 it was around 7.5% and in 2016 it was at 7.65%, but the actual return was only .6%.

Mayor Oberg said the problem was that there was a significant underperformance of the investments, and they had to build in additional costs for Proposition 124. He said that even though that might feel that some of the costs of the Parker/Hall lawsuit had been recognized in the recent increase to $81 million, he was not sure that was the case. He thought we would not really know the additional cost of Parker/Hall until next November. He said the case had to go back to the lower court for the determination of several factors.

Mayor Oberg said even though the market had gone up significantly our liability had gone up significantly. He recently had a discussion with people in Phoenix who said that even if the program was making its expected rate of return it would still be underfunded. He said the market was not going to pull this up to something that was sustainable. He said even if they paid off the entire $81 million we will still be in debt, as that was how poor the system was.

Mayor Oberg said this was not anything against the firemen or policemen, and that they were deserving of a retirement. The problem was the system and it needed significant change, and that was why he was working with the legislature. He recently had a discussion with JD Mesnard, Arizona House of Representatives, who indicated that pension reform was not on his radar. After meeting with Mr. Mesnard he thought something needed to be done and he asked his staff to draft a bill to start working on

the issue. He said the bill would include the issue of the expenditure limit, and the ability to increase the limitations in order to pay off PSPRS. Mayor Oberg said of course we would have to wait to see if it passed the legislature and then get signed by the Governor.

Mayor Oberg did not think the market would pull us out of the situation, and that we needed to make major changes. He said the entire pension program was developed by the legislature, the only thing we do is determine the rate of pay of the job. All the benefits and the retirement was determined by the legislature. The problem was that they decide this and they tell us what to pay. He said the state needed to come forward and figure out a state level funding mechanism, bring the retirement system up to 100%, then it needed to be capped and eliminated, and then we go to a new retirement system with a defined contribution 50/50 split. He said that we did not know if Proposition 124 would be making any improvements to the system in the future.

Mayor Oberg said he had spoken with Noel Campbell, Arizona House of Representatives, who was concerned with a May initiative. Mr. Campbell wanted to try and do something more at the capital to get further reform. Mr. Campbell thought hiring people under the old system and allowing this to go to a ballot initiative before the session was over would be pulling the rug out from underneath him. He thought it would reduce the opportunity to make significant changes or have an impact on possible reform at the legislature. Mayor Oberg thought that they needed to pay attention to that issue.

Mayor Oberg said he agreed with the win/win and thought if the City was going to ask the public to come forward with a tax increase, it would be important to give them something in return. He thought dropping the property tax was one way to do that. He thought the best idea was the one that he heard in Phoenix at the legislature, which was to do away with the old system, move to a more sustainable system, and then the public would be willing to step forward and provide support.

Mayor Oberg thought communication would be extremely important. He talked about sales tax on high dollar items. He said it was the state's problem not the City's problem; they gave it to us and we were told to pay it. He thought the citizens of Prescott would be more willing to come forward and find a solution if they knew that the City had done everything we could to get reform out of the legislature.

Councilman Blair asked how much the state debt was for PSPRS. Mr. Woodfill thought the total statewide debt for PSPRS was approximately $7 billion for the unfunded liability.

Councilman Blair said it was something that had been handed down by the state. He said the Governor should understand that it was a state problem and put it on the ballot. He wondered if there was a way that the people could get together and have a people's initiative to put it on the ballot, or did it have to come from the legislature.

Mayor Oberg said he would check with Noel Campbell regarding that issue, but thought that something could come from the citizens.

Councilman Blair said it was affecting everything in public safety and thought the debt would never be paid off across the board, and every community in the state would suffer. He thought the only way to resolve it was to get a state initiative for a 1% sales tax until the debt is paid.

Councilman Lazzell said he was in favor of Option 5, with the elimination of the property tax. He recommended that the language say that the tax would sunset in 10 years or if the debt was paid off earlier. He was in favor of an August Election instead of May.

Mayor Oberg said when he spoke with Mr. Mesnard he informed him that we would like to continue to keep the construction tax and rental tax revenue sources that we have now. He told him that if the state were to take those away that would put us deeper in the hole and impede our ability to pay. Mayor Oberg thought the rental tax was around $2 million, and the construction tax was $800,000 – $900,000. He said if we lost those two sources of revenue then .75% would not do it, they would be looking at 1.0% or 1.25%. He thought by allowing the City time to see what the legislature will do gave the opportunity to see how much more we would need to put in the way of an initiative going forward. He did not think we would know by April if that would be an impact on us.

Mr. Woodfill reported that the unfunded liability was $7.7 billion statewide. Councilman Blair said based on the amount a .6 would raise, a full 1.0% across the state would raise $1 billion in revenue a year, so you would be going into a 7-8 year, 1.0% raise of sales tax to pay off the debt instead of the cities trying to handle it on their own.

Councilwoman Orr thanked Councilwoman Wilcox and Councilman Sischka for the work that the Committee did. She thought they accomplished a lot and was pleased to be talking about the issue. She said when she signed on for this she knew that they had this debt, and this was one of the most critical issues facing our city. She thought it was time that Prescott stepped up and took care of the issue.

Councilwoman Orr said that we complained a lot about what the state does to us, and she said the state was not going to pay this debt. They asked the legislature to pass Proposition 124 last year, and they got good reform. She thought more reform was coming and that the League of Cities and Towns was working on it, however the debt belonged to Prescott. She said it was not our doing, but it was our debt.

Councilwoman Orr said last year they had to pay $5.3 million out of the general fund to pay the debt, and this year they had to pay an additional $1.2 million, and next year it would be more. She wondered at what point in time do they say let’s fix this problem.

Councilwoman Orr said she liked Option 5. She hoped that the Council could go

forward and take care of the problem for the citizens. She believed the citizens wanted that, and that they were expecting leadership from the Council. She believed they had a solution in front of them. She talked about timing and that she had wanted to go in March. She understood the concern, and if August was the way to get the Council on board then they should go in August. She did not want the Council to say that we could not do something until the legislature did something. She thought they would get more reform on PSPRS, but the state was not going to pay the debt for us. Each year they would have to come up with another million dollars, and the longer they kept kicking the can down the road the longer it would take to take care of Prescott.

Councilwoman Wilcox respected Councilwoman Orr's position and thought because Councilwoman Orr had been the head of one of the largest Republican Women's organizations in the United States that she was in a position to know what the legislature would and would not do. Councilwoman Wilcox said that not all cities, counties, and fire districts were in the same boat as Prescott. She said at the League of Cities and Towns meeting a couple of years ago it was pointed out that Prescott was the example of the worst situation. She said we had since seen that the City of Bisbee was in worse shape than Prescott. She said we had very little political power in the legislature, and that Karen Fann had told them that two years ago when she came before the Council. She said Prescott was just one little city amidst a sea of bigger municipalities that had all the power in the state. She agreed that the legislature was not going to solve the problem. She thought the sooner they attacked it the better. She said a tax could always be repealed. She said if the voters approved a tax and they did not need it, then we could repeal it. She said there was no indication that a majority of the legislature would agree on a single solution.

Councilwoman Wilcox asked if it took a 2/3 vote of the legislature to refer a financial measure to the vote of the people.

Jon Paladini, City Attorney, responded that it took a 2/3 vote to change an initiative on a financial measure approved by the people. He said a majority of the legislature and a signature of the governor can refer a ballot measure to the state.

Councilwoman Wilcox said a solution could either come from a citizen initiative or a referendum from the legislature, that are the two ways a statewide ballot measure could be put on an election. Mr. Paladini said that was correct; a citizen initiative or a legislative referral.

Councilwoman Wilcox said a citizen initiative was a long process and changing the constitution was probably a multi-year process. She said they could not afford to wait, the debt was mounting and the interest was increasing. She said it was like a credit card, it increased every day they sat there and did nothing.

Councilman Sischka said the Committee had the type of conversations that were expected. He said the Committee argued, talked about things that were blue sky, and

then they came down to what was being presented. He said they were elected to get things done, not to kick the can down the road. He said it was imperative that we put more police visibly on the street, that we do not brownout fire stations, and that we do what we are obligated by the general fund to do.

Councilman Sischka said they were not there to save the state from PSPRS. They were there to make sure that Prescott and the general fund were viable. They were not going to get involved in doing the heavy lifting for the eventual problem that Phoenix. Mesa, Gilbert, Glendale, and Tucson were going to have. He said they needed to solve Prescott's problem, and that problem was present right now. He thought if they were thinking of waiting for some knight in shining armor from the state to come and solve the problem, they were not thinking correctly.

Councllman Sischka said the problem is right now, and if they did not solve the problem they were looking at another $1.2 million out of the general fund, that they would have to figure out how to pay for somehow. He said the Committee had proposed a great way to pay for it, a way that minimized the obligation for each Prescott resident. He said they needed to take a look at that, to vet it, and get citizen support. He said they needed to go before the citizens and make a compelling argument for what they had proposed, and if they cannot do that, then the citizens could no. He thought they could make a compelling argument and that it was imperative that they solve the issue.

Lucinda Grant, citizen, addressed the Council. She said she had reviewed the information before the meeting. She said there was some interesting information in the *Arizona Republic* for the year 2010 where they did a series about Arizona's state pension funds. She said some cities had their own pension fund and some cities were in the state fund. She thought the state fund was a loser, and thought they needed to find a way to cut the leak. She thought the City should find away to get out of the state pension fund and find the way through other plans. She said to not go bankrupt, but to find other ways to solve the problem. She asked not to cut the library for this. She thought the sales tax sounded like a good idea, but wondered where the numbers came from. She said we needed to have fiscally conservative spending. She did not know if the finance department was adequately budgeting and maintaining oversight for the expenses that were approved.

David Turbyfill, citizen, addressed the Council. He talked about the PSPRS system and that there was a lot of negativity about the HotShots and thought it would be nice if the Council as a whole would help the media explain that the demise of the Granite Mountain HotShots was not the burden on this situation as the State of Arizona had promised $5 million for the members that were fulltime. He said one thing that was an issue was that the Council had taken no action to dispose of the HotShot equipment. He said there was no benefit realized for all the work that all the HotShots did over the years.

Mr. Turbyfill agreed that they should quit placing so much hope on the state level for a

fix. He thought they should continue to work on the issue, but to place hope that the problem would be solved for the cities throughout the entire state when the cities do not have any power was not going to get it done. He thought a sales tax measure or something would have to be done, or at least be an interim step until we started electing people that would go to the legislature with the one focal point. He said the issue of a citizen initiative was raised, but the state legislature was making moves to limit citizen initiatives on ballot measures.

Mr. Turbyfill said when the issue came before the citizens in the past he did not see anyone actively say to the citizens why they needed to do it. He said if they were going to do something then the entire Council needed to be behind it. He said the grant that the Fire Department took to put nine firefighters back on may not have helped the effort, because citizens said we voted no, and you said you were going to cut staff, then you got a grant to add more employees. The citizens saw no loss in service so why would they pay if the Federal Government was going to pay, why would we pay.

Mr. Turbyfill said the real answer was that we needed to grow the sales tax revenue, and we needed to make a reason for people to come to Prescott. He thought the events on the square were creating competition for the business that were already there, and thought they should be looking at events that bring people to Prescott and put people in spending mode for local businesses and not spend money on cash sales that leave the town.

Mayor Oberg said that the state legislature did give the City $5 million for the HotShots and there was a possibility that they would be looking at more funding based on additional people being added to the retirement system. He asked if action was being taken on the HotShot property.

Michael Lamar, City Manager, said yes in terms of the equipment they were trying to find potential buyers or places to donate the equipment. He knew Fire Chief Light was working diligently on the issue.

Chris Kuknyo, Vice President of the Citizens Tax Committee (CTC), addressed the Council. He said the CTC shared many of the Mayor's opinions and thought his efforts were moving on the right track. He said the CTC did not have a position yet, but when the City provided a solid option they would take a side one way or the other. He said the CTC's position was not to declare bankruptcy, while that was an option it was probably one of the worst options. He said that there was a promise made to the policemen and firemen, and they were told what their pension would be. He said it was a contractual promise, and more than that it was a constitutionally protected contractual promise. There was no way to bankrupt their way out of this, and in doing so they would bankrupt approximately $80 million on municipal loans. He said they could not pick and choose what was tossed away.

Mr. Kuknyo said it would be difficult for the CTC to support any tax until the program

itself was revamped at the state level. He was not sure that the state wanted to tackle the problem. He said at this time the unfunded liability was a moving target, and he was not sure we could fix the problem. He said this year the liability jumped from $74 million to $81 million just from one lawsuit. He said the fund did not make its projected returns this year, will this added to the unfunded liability. He talked about the misinformation that was out there. He said there was a thought that this happened because the City did not pay its bills, but that was not true. The City had made every payment that the fund asked them to make. People truly believed it was because the City did not pay the bills. He said we needed to get a firm grasp of the facts before we could move forward. He said the CTC would report their findings at a presentation on February 21, 2017. He said right now the CTC had no position, but they thought the state needed to solve the big picture problem before they considered taxation.

Mayor Oberg said he talked to Noel Campbell who said that Arizona was one of the few states that enshrined the pension system in the constitution, a vast majority of states did not do that and only treated it as a standard contract. There was talk of a bill that would remove the pension clause from the constitution. He thought either removing the pension clause or trying to the state to come up with a funding source would be an uphill battle.

Daniel Matteson, citizen, addressed the Council. He said we needed to do something and that we would sink at the rate things were going. If the state did something several years down the road, we would be paying a lot in interest. He said that not only were we paying on a credit card, but we were paying only the minimum payment. He said we needed to start paying the debt down. He would rather start paying it down and then be happy if the state helped to solve the problem, rather than just waiting for the state to solve the problem and we start to lose services. He was concerned about eliminating the property tax and wondered if we went to zero percent did that mean we could never increase property tax. He was not sure they should jump into that until there was a good explanation. He thought they needed to do a sales tax and that was the best way. He said we could not afford to wait. He could understand waiting until August, but we needed to do this sooner than later and to present a unified front to the citizens of Prescott to explain why it was so important. He said bankruptcy would be a disaster. He thought they should consider Option 4 unless they could give a good reason why the concern about losing the property tax and not being able to bring it back was not a problem.

Ralph Hess, citizen, addressed the Council. He said with regards to the goals of the strategic plan, he thought it might be beneficial for the community to first look at what was important for the community with regard to quality of life before they started looking at each of the individual points.

Mr. Hess said with regards to the PSPRS he was concerned with the never ending loop of looking at sales tax as the only means of gaining revenue to address City services. He knew that was what for us because the state legislature, the constitution, and the

state statutes limited us to sales tax. That was why we kept looking at sources that brought visitors into town so they will spend.

Mr. Hess said regarding the comparison of the tax burden on the various communities, if they looked at all of the neighboring communities even though they were paying more in sales tax all of them were paying a much more significant property tax. His concern was when there was a dip in the economy and you did not have the revenue because of a loss in sales tax. He said everyone knew that you needed alternate sources of revenue and not be depended on sales tax. He thought Option 5 would eliminate the relatively meager property tax that was available.

Mr. Hess thought the same rational for not going with Option 2, not being able to get the voters to change the constitution or the state statutes in order to increase options and opportunity to get additional sales tax, was the same rational that could be used if you tried to go back to the voters to get a property tax. He said if the voters were not going to vote for a constitutional change or a statute change, why would they vote for a property tax.

Mr. Hess said sales tax was disproportionately burdensome on citizens living in poverty. He thought they needed to start looking at other revenue sources. He wondered how to get around the state legislature who continually took away local government revenues. He thought they could look to initiatives, and the League of Cities and Towns could provide some leverage more than just the City of Prescott to see what other revenues were available. He talked about a progressive income tax.

Charlie Arnold, citizen, addressed the Council. He said he had looked at this in a lot of ways and it was easy to go off in twenty different tangents, but the facts were simple. He said the debt related to PSPRS was growing expeditiously every single year, every year that we waited it is only grew more, and there was a viable option on the table; Option 4 and Option 5 both made sense. He said the real question was not, “should we pursue it”, but the question was “when should we go forward as a community to the voters”. He said whatever the option was, the Council needed to come together to say what we need to do for Prescott. He said there were a lot of people who were interested in getting behind this and going out to help educate the public. He said it was easy to poke holes in things that truly did not matter to the problem.

Mr. Arnold said we had an opportunity this year to gage what the state’s temperature was with PSPRS reform. He thought there was some advantage to understanding what they might be willing to do. At the same time, we had missed the opportunity to start paying down the debt last year. His position was and had always been that the Council needed to pick a number, pick a date, and put this forward to the voters, and incorporate the community. He said the community would be there to help support the Council, go out and educate the public and really focus on what mattered. He said every day that they waited it was only going to grow more, become bigger, and become something that would not help Prescott’s future, but sink it.

Mr. Arnold said it would be fantastic to grow the tax base, but that would not happen tomorrow. He thought that should be one of the goals to achieve during the period where they were taking away the weight that was driving the City backwards. If the state was indicating a willingness to work to find true reform, to make sure that the system had some future, it would take years. He thought they should find out if the state was truly interested in doing something, so when they go to the voters they could say this is where the state is headed, this is where the Council wants to head, and ultimately we will follow behind. Mr. Arnold said the question for the Council, was the amount and when. He thought it needed to happen and if it was .75% that was what it would be.

Ceceila Jernegen, citizen, addressed the Council. She said after driving around and taking a look at the community she wondered what had happened to the community in the last 20 years. She thought there was an opportunity to make a difference. She said in 2015 she was the chairwoman for the Prescott Good Governance Committee, and the Committee had met to talk about the issues. She said the Good Governance Committee was behind the Council, and they wanted to bring the charm back to Prescott. She said social media was amazing in the region. She helped several small businesses with their marketing, advertising, and social media. She said with one click she could reach 10,000 residents in Prescott. She urged the Council to move forward on either Option 4 or Option 5.

Mary Beth Hrin, citizen, addressed the Council. She was concerned that having a tax increase would not come close to solving the debt problem, and it would not fix anything. She said the legislature created the problem, they took our contributions every two weeks, they invested it, lost it, and then we get the bill. She talked about the 201 entities that were not fully funded. She said it was a statewide massive problem, and they could not ignore us. She said we could not fix this by doing a sales tax. She was concerned that once a sales tax was initiated there would be tax avoidance and it would drive businesses away, this would cause a decrease in revenue. She said the small businesses would lose money. She said the PSPRS Board in Phoenix expected to make a large return, but they only made a .6 return last year creating a short fall, and because of that they had to make up approximately 15% next year including the interest. She said with the shortfall that the .75 would not be enough, and they were just falling behind each year. She said there had to be a statewide solution.

John Stevens, citizen, addressed the Council. He said he had met with Noel Campbell, David Stringer, and Leonard Gilroy (Reason Foundation). He thought there was some level of willingness and interest at the state level to work at fundamental solutions. He thought the Council was going to come forward with a sales tax proposal. He said there was an increase in the chance of a citizen approval if at the same time the Council could point to actions by the City to reduce spending; if that was privatization of some functions, and no new enrollees in the old system.

Mr. Stevens said to bring on any new City public safety employees at this close date to

the old expensive system did not make a lot of sense. He said the new system was better for the City; and in many ways better for the employees. He thought the City should be able to point to both solutions; more money in the way of taxes and another way was not to spend it elsewhere. He said if you can point to both honestly you would increase the chances of a citizen approval.

Phil Goode, citizen, addressed the Council. He said he had not heard any discussion of bonding, and right now they were dealing with a variable rate. He talked about a public pension debt study and the recommendation of a legitimate expectation of return was around 5%. He discussed the percentages of returns and how we were looking at doubling the liability. He said they were not dealing with a $81 million debt, but more like a $160 million debt. He thought if they could sell some general obligation bonds they could pay off the debt with a fixed interest rate and save a substantial amount of money. He said he was not advocating a tax, but rather be able to float a low interest rate bond, pay the interest off, and then deal with a smaller interest rate to the bond holders. This would be a significant savings.

Councilman Lazzell said the bond idea had been discussed, but not during this meeting. He thought this could be looked at and as they went forward they could look at the pros and cons.

Mayor Oberg said if they had a bond they still had to pay off the bond, and it would not be something they could do from the current funding. They would still have to have some source of revenue stream.

Kathleen Murphy, citizen, addressed the Council. She thanked the City for finally doing something about this. She was in favor of the dedicated sales tax and recommended that they not get rid of the property tax. She thought that she had responsibility to pay taxes because she owned land and received services. She recommended that they go for Option 4. She offered her background in marketing and would be happy to volunteer her time to help the process.

Mayor Oberg asked if we could get some type of legislative action to slightly increase the City property tax to pay PSPRS and that would be in addition to whatever other funding source there was, would she be in favor of multiple options over just a single option. Ms. Murphy said that was correct.

Councilman Lazzell said as a point of discussion if as a body they decided that Option 4 was more viable, that maybe they could save more by using a bond, which would mean a lower increase for Option 4.

Mayor Oberg said it might make sense to look at multiple options or a combination of other options, not just a sales tax increase as a funding source.

Councilman Sischka asked what our ability to bond was. Mr. Woodfill said the City still

had a good credit rating, we were still at a AA rating. There was some capacity in the MPC debt. He said if you bond you had to pay the debt back so you still needed a revenue source. Taxes were considered a dedicated revenue source. He said it was something that was important as they looked forward, but It was something that they needed to evaluate as they proceeded. Right now to exchange a fund that was earning .6 for a fixed rate of 5% did the opposite of what was intended and you would end up paying more. He said this was not a mortgage with a fixed rate of 7.5. The 7.5 was what was used to come to the actuarial valuation, but until PSPRS started earning 7.5 or something over what you could borrow you would not want to exchange the liability for a fixed rate. He said in a few years if the market changed and it started earning more it would be something the City would want to look at as a potential to help reduce the amount that we paid overall.

Councilman Sischka said if the citizens voted to use a sales tax to help pay the PSPRS debt and the state at some point presented an option to help us pay off that debt sooner, how quickly could we sunset our sales tax.

Mr. Woodfill thought the intent he heard from Council was if we were able to pay this off quicker through using debt or using the state revolving loan fund, that the tax would sunset when the liability was paid down. He said all of those things could help reduce that 10 year period that the Committee had brought forward.

Mr. Paladini said the Charter required a vote approval to increase the TPT, there was no corollary to reduce the TPT. The Council could vote to repeal a voter increase of .75% at any time.

Mayor Pro Tem Lamerson thanked the Committee for their work. He agreed with Councilman Lazzell there was never just a few options there was always another one out there somewhere. He said they had talked about potential bonding capacity, and various other ideas early on. He thought they needed to look at this sooner than later, but it might be a little premature. He thought they needed to hear from the State to find out what was on their mind as far as a resolution. He said it would be counterproductive to Noel Campbell's efforts on our behalf if we did not pay attention to what he was trying to do. He thought they were making progress.

Sanford Cohen, citizen, addressed the Council. He thanked the Committee for allowing him to be a part of the dialogue and thought hearing from the fellow business people regarding the possible impact of a sales tax increase was enlightening, especially with regard to the big ticket items. He thought that was cause for concern. He talked about a situation in LaPaz County.

Mr. Cohen said there were real case economic decisions that people made when situations changed. He said there were a number of small business people that were dealing with the impact of the new minimum wage law. He talked about the idea of bonding and some type of shared sacrifice seemed appropriate. He said the voters

already voted on this issue and turned it down. He thought they needed to come up with something more palpable for the citizens. He said unfiltered, direct to the public, locally produced media, was the best way to present the problem.

Mayor Pro Tem Lamerson said Mr. Cohen was the incoming chairman for the Chamber of Commerce Board. He said he would appreciate the Chamber taking a look at the potential for going to the public to ask for a way to redistribute the current 2% sales tax, rather than just asking for more. He said maybe there was another option, like spending what we get differently than what we are doing.

Mr. Cohen said with the new president and CEO of the Chamber of Commerce coming there was a new level of optimism and energy that they think will be contagious in the city, and he thought some of the moves that the City had made with regards to economic development and tourism were good for the economy.

Mr. Paladini asked to clarify some statements. He said local income tax was precluded by state law. He said there was a suggestion that Prescott just opt out of the PSPRS system and do its own, but that was not viable because we were mandated to be in the PSPRS system. State law mandates that we have a police and fire pension system and then that after 1968 that pension system is the PSPRS system. He talked about the suggestion of bankruptcy and said it was a long involved discussion. They have looked at it and it was really not a viable option and in the future as they go forward if the Council wanted to hear a more detailed discussion about municipal bankruptcy they could present it, but it was extremely expensive, probably not viable, and the City probably did not even qualify for it under the insolvency requirements.

Mayor Oberg thanked the Committee and the staff. He thought the Committee needed to take into consideration the comments made by the public and that there might be more options out there, or some combination of options that would work. He asked the Committee to go back and look at what was said at the meeting and see if there were any other options or combination of options that could come forward and be considered by the Council as a whole.

4. ADJOURNMENT

There being no further business to be discussed, the Study Session Meeting of January 10, 2017, adjourned at 2:56 p.m.

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HARRY B. OBERG, Mayor

ATTEST:

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DANA R. DeLONG