AGENDA

PRESCOTT CITY COUNCIL
SPECIAL MEETING – BUDGET WORKSHOP #3
Tuesday, April 14, 2015
9:00 AM

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 **Special Meeting – Budget Workshop #3** 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**
- ♦ **PLEDGE OF ALLEGIANCE**
- ♦ **ROLL CALL**

MAYOR AND CITY COUNCIL

Mayor Kuykendall
Mayor Pro Tem Kuknyo
Councilman Arnold
Councilman Blair
Councilman Lamerson
Councilman Lazzell
Councilwoman Wilcox

I. DISCUSSION ITEMS

A Presentation by Segal Waters Consulting of personnel classification and compensation study findings and recommendations

B Sales tax options for unfunded liabilities, public safety, streets, and open space

C Other Budget Topics

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: SPECIAL MEETING 4-14-15

DEPARTMENT: Human Resources

AGENDA ITEM: Presentation by Segal Waters Consulting of personnel classification and compensation study findings and recommendations

Approved By:		**Date:**
Director:	Jacobson, Mary	04/03/2015
City Manager:	McConnell, Craig	04/07/2015

Item Summary

Segal Waters Consulting will present the results of the classification and compensation study completed for the City, to include methodology, benefits, focus group comments, wage surveys, application of the results to all current positions, pay plan recommendations, and compensation adjustments. The information will be of use in formulating budgets for Fiscal Year 2016 and subsequent fiscal years.

Background

During the FY 15 budget process, Council expressed concerns regarding higher than average employee turnover, in turn leading to a question of whether the City is providing compensation comparable to other Arizona entities. In Fall 2014, City Contract No. 2015-027 with Segal Waters Consulting was approved in the amount of $80,000 to: survey wages and benefits; facilitate City employee focus groups to directly solicit suggestions, opinions, and concerns regarding benefits; analyze current City pay and public safety pay plans and provide recommendations; and apply benchmark data to job families.

Standard personnel management practice is to update classification and compensation data every five years; the City's most recent update was in 2001. The independent work done by Segal Waters Consulting will assist in evaluating the City's position in the employment market, as well as accomplish other objectives outlined below:

- Provide total compensation market survey results with benchmarked titles distributed to Arizona public sector employers as well as private sector markets and methodology used to gather, evaluate and make recommendations.
- Update benchmarked City job descriptions and apply to other job titles and

grades.

- Evaluate current pay structures to identify ways to consolidate job classes and pay ranges/pay steps where feasible.
- Compare City benefits package with peer employers to include medical, dental, vision, paid time off through surveys, questionnaires and employee focus group meetings in order to evaluate the City employee benefit package.
- Provide recommendations for benefits and bringing employees to market wage levels while factoring in current benefits, longevity, and cost of living.

Recommended Action: Presentation for financial planning and budgeting; no formal action recommended to be taken at this meeting.

2015 General Employee & Public Safety Total Compensation Study

Presentation to Prescott City Council

Andrew Knutson, CCP
Project Manager/Consultant
April 14, 2015

Segal Waters Consulting

Presentation Outline

Benefits

- Focus groups to start the project
- HR Custom Employee Questionnaire via Survey Monkey

Compensation Philosophy

Methodology

- What is benchmarking?
- City department review of benchmark positions for accuracy before sending out the survey
- Public and private employers participated

Compensation

- How will we incorporate the other positions into the study?
- Pay plan recommendations
  - Police/Fire trends for pay plans
- Job Families/Grade changes

Overall recommendations

Benefits – Focus Groups and City Online Survey

- We started the project with two days of employee focus groups to gather employee opinions of pay and benefits.
  - Approximately 130 individuals from the City participated

- Prior to the focus groups, the City sent out a survey to all employees asking questions about preferences regarding pay and benefits.

Benefits Results

- Significant results from the City's survey and Focus Groups
  - 94.33% (333 out of 353 responses) said that they would utilize Vision coverage if available **(Reinstating Vision is the most overwhelming recommendation)**
  - 73.85% (257 out of 348 responses) said that they would utilize tuition reimbursement if available
  - 63.71% (223 out of 350 responses) said that they were not satisfied with paid time off accrual caps
  - 55.26% (189 out of 342 responses) said that they were not satisfied with the amount accrued per pay period
  - 70.86% (231 out of 326 responses) said that they would **not** rather work for an employer that provides excellent benefits, even if their pay is below average.
  - 60.92% (198 out of 325 responses) said that increasing salary is more important than improving benefits

Compensation Philosophy

- A compensation philosophy is a formal statement that documents an organization's position about employee compensation. Employers can benefit from being transparent about their compensation philosophy and having an official pay strategy.

- The City of Prescott has an effective compensation philosophy, which is stated below:
  - It is the policy of the City of Prescott to pay its employees at prevailing wages paid for similar occupations in selected Arizona public sector organizations.
  - The purpose of this plan is to attract, retain, and motivate employees through financial compensation commensurate with the employee's performance, responsibility, and contribution toward the City's goals.
  - An affordable market-oriented pay system that keeps city pay ranges externally competitive while preserving internal equity will be maintained through periodic review and adjustment.

Methodology

- Benchmarking takes a sample of common jobs and compares them to other peer organizations to assess competitiveness of pay and/or benefits. It's a way to define reference points for making comparisons.
  - Benchmarking has been a standard practice in the industry for decades
  - Jobs common to other organizations
  - Jobs that represent the variety of job families and pay grades in the City
  - City Departments reviewed benchmark positions for accuracy before sending out the custom survey to peer organizations
    - Example: Benchmark Accountant position
      - Linked jobs includes: Budget Analyst, Privilege Tax Auditor, Privilege Tax Supervisor, Senior Accountant and Sr. Budget Analyst.

- 14 public sector peer organizations were used for the custom survey and 3 published sources to represent the private sector

Methodology – Custom Survey Peers/Published Sources

- 1) Kingman, AZ
- 2) Oro Valley, AZ
- 3) Casa Grande, AZ
- 4) Marana, AZ
- 5) Goodyear, AZ
- 6) Surprise, AZ
- 7) Apache Junction, AZ
- 8) Bullhead City, AZ
- 9) Flagstaff, AZ
- 10) Prescott Valley, AZ
- 11) Sierra Vista, AZ
- 12) Yavapai County
- 13) Maricopa County
- 14) Central Yavapai Fire District

- **Published Sources**
  - Economic Research Institute
  - Milliman AZ Survey
  - Towers Watson

Methodology – Sample Detailed Market Data Sheet

APPENDIX B

City of Prescott

Detailed Market Data (Adjusted)

Accounting Clerk - Tax Administrative/Professional						
Respondent	Matching Job Title	Workweek	Pay Range Minimum Base Salary	Pay Range Midpoint Base Salary	Pay Range Maximum Base Salary	Average Salary
Custom Survey Data Sources						
Apache Junction, AZ	Tax Processing Clerk	40.0	$30,581	$36,698	$42,814	NA
Casa Grande, AZ	Accounting Clerk	40.0	$30,901	$36,743	$42,585	NA
Flagstaff, AZ	Account Clerk	40.0	$32,650	$35,766	$38,881	NA
Goodyear, AZ	Account Clerk	40.0	$33,229	$41,279	$49,329	NA
Oro Valley, AZ	Accounting Clerk	40.0	$31,877	$39,846	$47,815	NA
Sierra Vista, AZ	Account Clerk	40.0	$28,084	$34,403	$40,722	NA
Yavapai County	Account Clerk II	40.0	$29,821	$35,207	$40,594	NA
City of Prescott		**40.0**	**$31,262**	**$38,074**	**$44,886**	**NA**
Custom Survey Market Average			**$31,021**	**$37,135**	**$43,249**	**NA**
City of Prescott as a % of Custom Survey Market Average			**101%**	**103%**	**104%**	**NA**
Published Survey Data Sources						
ERI - All Industries	Accounting Clerk	40.0	$30,270	$35,107	$39,943	NA
Milliman - Arizona Study	Accounting Clerk	40.0	$29,778	$37,282	$44,785	NA
Towers Watson - South Central Region	Accounting - Entry	40.0	$27,101	$34,003	$40,905	NA
City of Prescott		**40.0**	**$31,262**	**$38,074**	**$44,886**	**NA**
Published Survey Market Average			**$29,050**	**$35,464**	**$41,878**	**NA**
City of Prescott as a % of Published Survey Market Average			**108%**	**107%**	**107%**	**NA**
City of Prescott			**$31,262**	**$38,074**	**$44,886**	**NA**
Overall Comparator Market Average			**$30,035**	**$36,299**	**$42,563**	**NA**
City of Prescott as a % of Overall Market Average			**104%**	**105%**	**105%**	**NA**

NA = Data Not Available

All data is adjusted based on geographic differences in the cost of labor, effective date of published data, and/or differences in workweek definition, as applicable.

The overall market average is an average of the custom survey market average and the published data market average.

The Respondent ranges were also aged to July 1, 2015 using the World at Work 2015 Projected Adjustment of 3%.

For ranges with an effective date after July 1, 2014 a prorated percentage was determined. No salary range was adjusted more than 3%.

No Actual Salaries were adjusted.

Methodology: Total Compensation Methodology

To determine the total compensation costs for each peer city, the sum of factors below was calculate for each benchmark:

- The calculated midpoint of the base pay range (average of the minimum and maximum base pay rates)
- Total employer costs for all health related benefits (most populated medical plan, prescription drug, dental, and vision premiums), weighted by Prescott’s current enrollment distribution among coverage tiers in the City’s comparable medical plan
- The current actual costs associated with the defined benefit retirement plan

Methodology – Total Compensation Data General Ees

Benchmark Title	Benchmark ID	Prescott Vs. Market	Base Salary	Annual Employer Cost of Benefits		Total Comp Costs
			Overall Pay Range Calculated Midpoint	Weighted Total Health Cost	Total Retirement Benefits	
Accounting Clerk - Tax	1	**Prescott**	$38,074	$8,704	$4,371	$51,149
		Market	$36,299	$9,382	$4,154	$49,834
		Prescott as % Mkt	***105%***	***93%***	***105%***	***103%***
Administrative Assistant	2	**Prescott**	$40,997	$8,704	$4,706	$54,407
		Market	$42,286	$9,382	$4,839	$56,506
		Prescott as % Mkt	***97%***	***93%***	***97%***	***96%***
Administrative Specialist	3	**Prescott**	$39,988	$8,704	$4,591	$53,282
		Market	$37,557	$9,382	$4,298	$51,236
		Prescott as % Mkt	***106%***	***93%***	***107%***	***104%***

Methodology – Total Compensation Summary Gen Ees

Summarizing all **benchmark data for the general employee group**, overall, the City is competitive.

- The City's pay range midpoint is **98%** of the market average
- The City's weighted total health cost across all general employee benchmarks is **93%** of the market average
- The City's total retirement benefits across all general employee benchmarks is **99%** of the market average
- The City's total compensation costs across all general employee benchmarks is **98%** of the market average

(Segal Waters considers anything between 95% and 105% of the market average as being competitive with the market)

Overall Average	Prescott Range Midpoint as % of Overall Pay Range Midpoint	Prescott as of % Market Annual Employer Cost of Benefits		Prescott as of % Total Compensation Costs
		Weighted Total Health Cost	Total Retirement Benefits	
	98%	***93%***	***99%***	***98%***

Methodology – Total Compensation Data – Fire

Benchmark Title	Benchmark ID	Prescott Vs. Market	Base Salary	Annual Employer Cost of Benefits		Total Comp Costs
			Overall Pay Range Calculated Midpoint	Weighted Total Health Cost	Total Retirement Benefits	
Fire						
Battalion Chief	1	**Prescott**	$88,350	$8,704	$52,710	$149,763
		Market	$92,886	$9,379	$25,620	$127,885
		Prescott as % Mkt	***95%***	***93%***	***206%***	***117%***
Fire Captain	2	**Prescott**	$66,117	$8,704	$39,445	$114,266
		Market	$74,410	$9,379	$20,524	$104,313
		Prescott as % Mkt	***89%***	***93%***	***192%***	***110%***
Firefighter	3	**Prescott**	$47,641	$8,704	$28,422	$84,766
		Market	$53,585	$9,379	$14,780	$77,743
		Prescott as % Mkt	***89%***	***93%***	***192%***	***109%***

Methodology – Total Compensation Data – Fire

Summarizing all **benchmark data for the Fire group**, overall, the City is very competitive with retirement benefits, but less competitive with pay and health

- The City's pay range midpoint **92%** of the market average
- The City's weighted total health cost for Fire benchmarks is **93%** of the market average
- The City's total retirement benefits for Fire benchmarks is **198%** of the market average
- The City's total compensation costs for Fire benchmarks is **113%** of the market average

(Segal Waters considers anything between 95% and 105% of the market average as being competitive with the market)

Overall Average FIRE	Prescott Range Midpoint as % of Overall Pay Range Midpoint	Prescott as of % Market Annual Employer Cost of Benefits		Prescott as of % Total Compensation Costs
		Weighted Total Health Cost	Total Retirement Benefits	
	92%	*93%*	*198%*	*113%*

Methodology – Total Compensation Data – Police

Benchmark Title	Benchmark ID	Prescott Vs. Market	Base Salary	Annual Employer Cost of Benefits		Total Comp Costs
			Overall Pay Range Calculated Midpoint	Weighted Total Health Cost	Total Retirement Benefits	
Police						
Police Lieutenant	5	**Prescott**	$86,237	$8,704	$43,351	$138,292
		Market	$89,910	$9,379	$24,869	$124,158
		Prescott as % Mkt	***96%***	***93%***	***174%***	***111%***
Police Sergeant	6	**Prescott**	$69,077	$8,704	$34,725	$112,506
		Market	$73,897	$9,379	$20,440	$103,716
		Prescott as % Mkt	***93%***	***93%***	***170%***	***108%***
Police Officer	7	**Prescott**	$52,458	$8,704	$26,370	$87,531
		Market	$56,699	$9,379	$15,683	$81,760
		Prescott as % Mkt	***93%***	***93%***	***168%***	***107%***

Methodology – Total Compensation Data – Police

Summarizing all **benchmark data for the Police group**, overall, the City is very competitive with retirement benefits, but less competitive with pay and health

- The City's pay range midpoint **94%** of the market average
- The City's weighted total health cost for Police benchmarks is **93%** of the market average
- The City's total retirement benefits for Police benchmarks is **171%** of the market average
- The City's total compensation costs for Police benchmarks is **109%** of the market average

(Segal Waters considers anything between 95% and 105% of the market average as being competitive with the market)

Overall Average POLICE	Prescott Range Midpoint as % of Overall Pay Range Midpoint	Prescott as of % Market Annual Employer Cost of Benefits		Prescott as of % Total Compensation Costs
		Weighted Total Health Cost	Total Retirement Benefits	
	94%	***93%***	***171%***	***109%***

Compensation – What About Other Positions?

How will we incorporate the other positions into the study?

- First, we recommend grade assignments for benchmark jobs based on the market study findings. We first identify the grade that is within 5% of the market average at the midpoint.
- Next, we recommend grade assignments for non-benchmark jobs by looking at job families and comparing job content similarities and differences, such as minimum education and experience qualifications, scope of responsibilities, supervisory role, skill requirements, decision-making responsibilities, as well as current grade relationships, and slot the job into an appropriate grade.

Compensation – Police and Fire Trends

- For the custom Police survey, only 2 out of the 12 respondents utilized a step plan for Lieutenants, while 3 of the 12 respondents utilized a step plan for Police Officer and Police Sergeant
- For the custom Fire survey, only 2 out of the 7 respondents utilized a step plan for Firefighter, Fire Captain, and Battalion Chief

Overall Recommendations

- Without dedicated budget, it is difficult to make specific recommendations. However, below are general recommendations and estimated costs assigned.
  - Reinstate Vision Benefits (City Cost $230,000)
  - Reinstate Full Tuition Reimbursement - (City Cost $50,000)
  - Institute a pay plan which assigns an amount to each year of service for a longevity factor and to address compression, but also work with supervisors and directors to employee assess skill and experience to move those below market to market; merit only would apply beyond market.
    - 2% would equal 1.5 Million
    - 3% would equal 1.9 Million
    - 4% would equal 2.2 Million
  - Establish new min and max points with 40% range between
  - Evaluate and assign all positions within new pay ranges
  - Eliminate approximately 10 positions from Job Families no longer filled or relevant to City service levels
  - Determine if Public Safety positions should be included in a general employee pay schedule or step plan.
    - If the decision is to proceed with a step plan, determine realistic steps with a merit factor.

Questions?

Sales Tax Options for Unfunded Liabilities, Public Safety, Streets, and Open Space

Keeping Our Quality of Life Begins Here

City Council Budget Workshop #3
April 14, 2015

CITY OF PRESCOTT ARIZONA

Funding Challenges

- Police and Fire Public Safety Personnel Retirement System (PSPRS) unfunded long-term liabilities – currently $70 million and projected to grow to $165 million over the next 22 years
- Public safety funding – if the PSPRS unfunded long-term liabilities issue is solved, the General Fund will be able to support, not have to cut, the services and levels to which our community is accustomed
- Streets system pavement management (maintenance, rehabilitation, reconstruction) – $283 million replacement value of 600 lane-mile inventory; current rehabilitation backlog $72 million
- Open space maintenance, including watershed management, competes for increasingly scarce General Fund dollars with public safety (71% of General Fund operating budget in FY 15); effective 1/1/16 there will be no dedicated funding source for acquisition of property or easements
- Erosion of the municipal tax base by actions of the legislature expanding exemptions (e.g., 2014 exemptions for construction contracting, 2015 bill to phase out residential rental tax that would have been a $1.2 million hit to the City's General Fund)

Pension Costs and Increases

	FY 15 Rate	FY 16 Rate	Increase in Contribution Rates	Estimated Increase in FY 16 Budget	Estimated FY 16 Budget Amount	Estimated Average Change per Employee	Estimated Average Annual Cost per Employee
Az State Retirement System							
(Employees 426)							
City	11.60%	11.47%	-0.13%	$ (26,000)	$ 2,335,063	$ (59)	$ 5,480
Employee	11.60%	11.47%	-0.13%			(59)	5,480
Public Safety Retirement System							
Fire (Employees 53)							
City Actuarial Rate *	59.66%	74.49%	14.83%	$ 705,347	$ 2,885,631	$ 10,226	$ 51,363
City Alternative 3 year phase-in	59.66%	63.44%	3.78%	277,317	2,457,601	2,606	43,744
Employee	11.05%	11.65%	0.60%			414	8,033
Police (Employees 67)							
City Actuarial Rate *	50.27%	66.97%	16.70%	$ 699,540	$ 2,884,840	$ 10,835	$ 43,451
City Alternative 3 year phase-in	50.27%	55.12%	4.85%	182,833	2,368,133	3,147	35,763
Employee	11.05%	11.65%	0.60%			389	7,559
Total Actuarial Rate *				$ 1,378,887	$ 8,105,534		
Total Alternative 3 year phase-in				$ 434,150	$ 7,160,797		

Notes *

The large increase is the result of repeal of certain parts of SB1609 related to the Permanent Benefit Increase (PBI) of 4% annually regardless of the funded status of the plan.

An alternative 3 year phase-in of this increase is available at the City's discretion.

Preliminary FY16
General Fund Revenues

	FY15 Budget	FY16 Budget	Change	% Chg Budget	% of Total
Local Taxes					
Sales/Use Tax	**$ 13,840,000**	**$ 13,840,000**	$ -	0.0%	**42.2%**
Primary Property Tax	1,570,938	1,596,518	25,580	1.6%	4.9%
Franchise Taxes	1,636,000	1,610,000	(26,000)	-1.6%	4.9%
Total Local Taxes	$ 17,046,938	$ 17,046,518	$ (420)	0.0%	52.0%
Intergovernmental Revenues					
State Sales Tax	$ 3,600,149	$ 3,689,507	$ 89,358	2.5%	11.3%
State Income Tax	4,822,959	4,797,092	(25,867)	-0.5%	14.6%
State Vehicle License	2,199,130	2,361,145	162,015	7.4%	7.2%
Joint Dispatch	1,327,197	1,279,864	(47,333)	-3.6%	3.9%
Library	564,444	567,270	2,826	0.5%	1.7%
Other	357,223	357,423	200	0.1%	1.1%
Total Intergovernmental Revenues	$ 12,871,102	$ 13,052,301	$ 181,199	1.4%	39.8%
Licenses and Permits	$ 547,900	$ 495,600	$ (52,300)	-9.5%	1.5%
Service Charges	1,201,499	1,344,800	143,301	11.9%	4.1%
Fines and Forfeitures	492,400	498,900	6,500	1.3%	1.5%
Miscellaneous and Interest	292,300	320,300	28,000	9.6%	1.0%
Total General Fund Revenue	$ 32,452,139	$ 32,758,419	$ 306,280	0.9%	

Local Sales/Use Tax is the only major source of General Fund revenue over which the City (through its voters) has control

Meeting the Funding Challenges

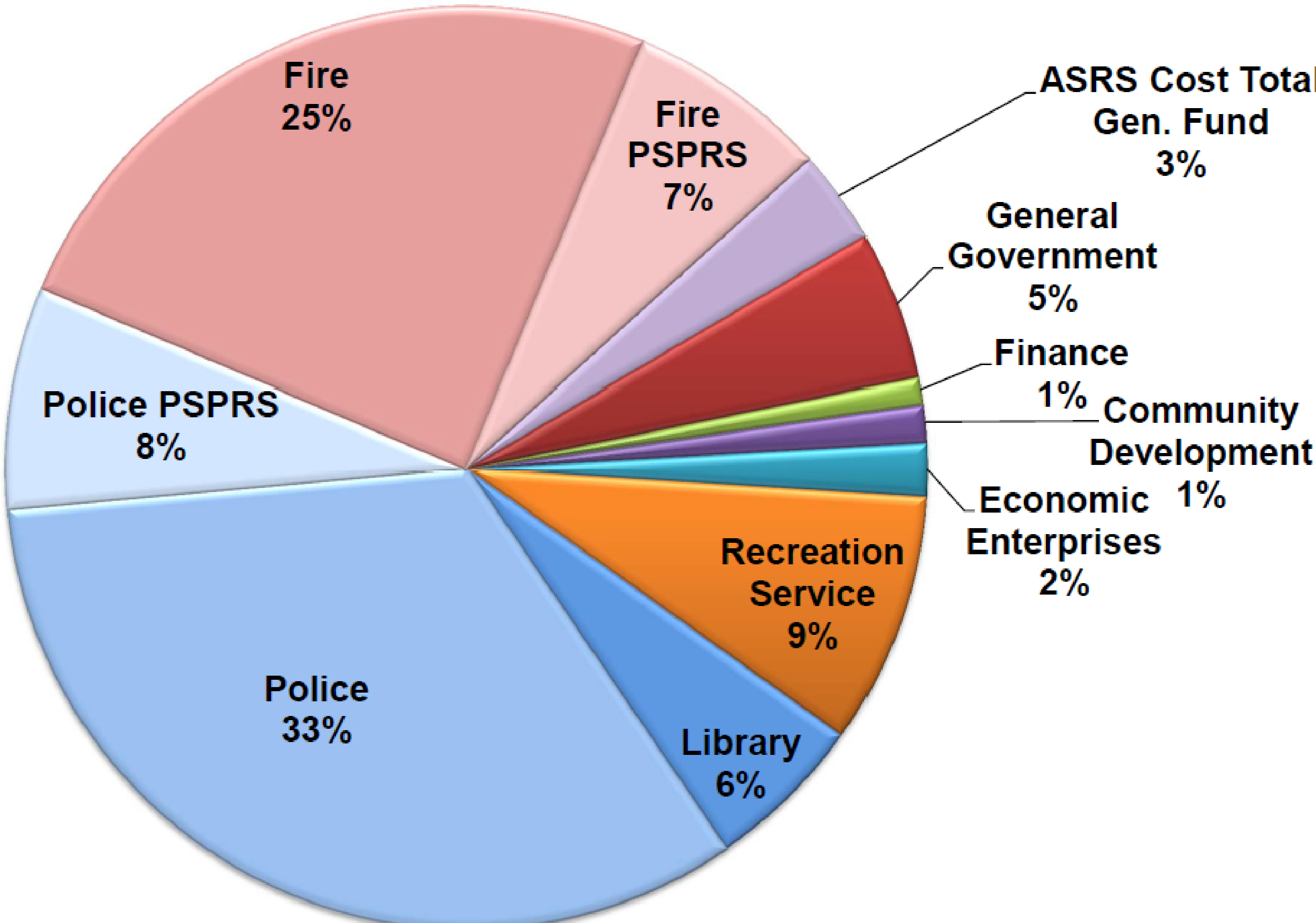
- The state and federal governments aren't going to provide the money to accomplish it
- City primary property tax only provides 5% of General Fund revenue, and minimal increases are allowed annually per state law (over 80% of the property tax collections in the City go to the Prescott Unified School District, Yavapai College, and Yavapai County)
- HURF (fuel taxes collected by the state and returned to cities and counties) at $2.97 million for FY 15 is less than in FY 04, and only 18.3% of the City's FY 15 Streets and Open Space budget of $16.4 million supporting street operations, maintenance, and rehabilitation
- Given the municipal funding structure in Arizona after many years of adverse legislation, sales tax is the only real source the City has to meet streets, public safety, and other increases in General Fund expenses

Ignore the Funding Challenges, Pay the Price

- Don't count on the state or federal government to bail out Prescott
- Inaction will unleash a downward spiral leading to an inevitable, devastating impact on City finances, and in turn, its core services and amenities
- Each year General Fund services/levels, including public safety, will have to be reduced to pay down the PSPRS liability for which the City is obligated; this will adversely affect response times, EMS services, traffic enforcement, and visibility of community-oriented police programs
- The City's ISO rating will be affected, driving property insurance costs higher
- Capital needs (vehicles and equipment) required to provide public safety services will erode the General Fund reserve balance
- The City's bond rating and debt capacity will be downgraded, increasing the cost of borrowing when necessary
- The following series of charts presented at the April 7th workshop illustrate the deterioration in General Fund finances and services that will result if no action is taken regarding the PSPRS unfunded liabilities

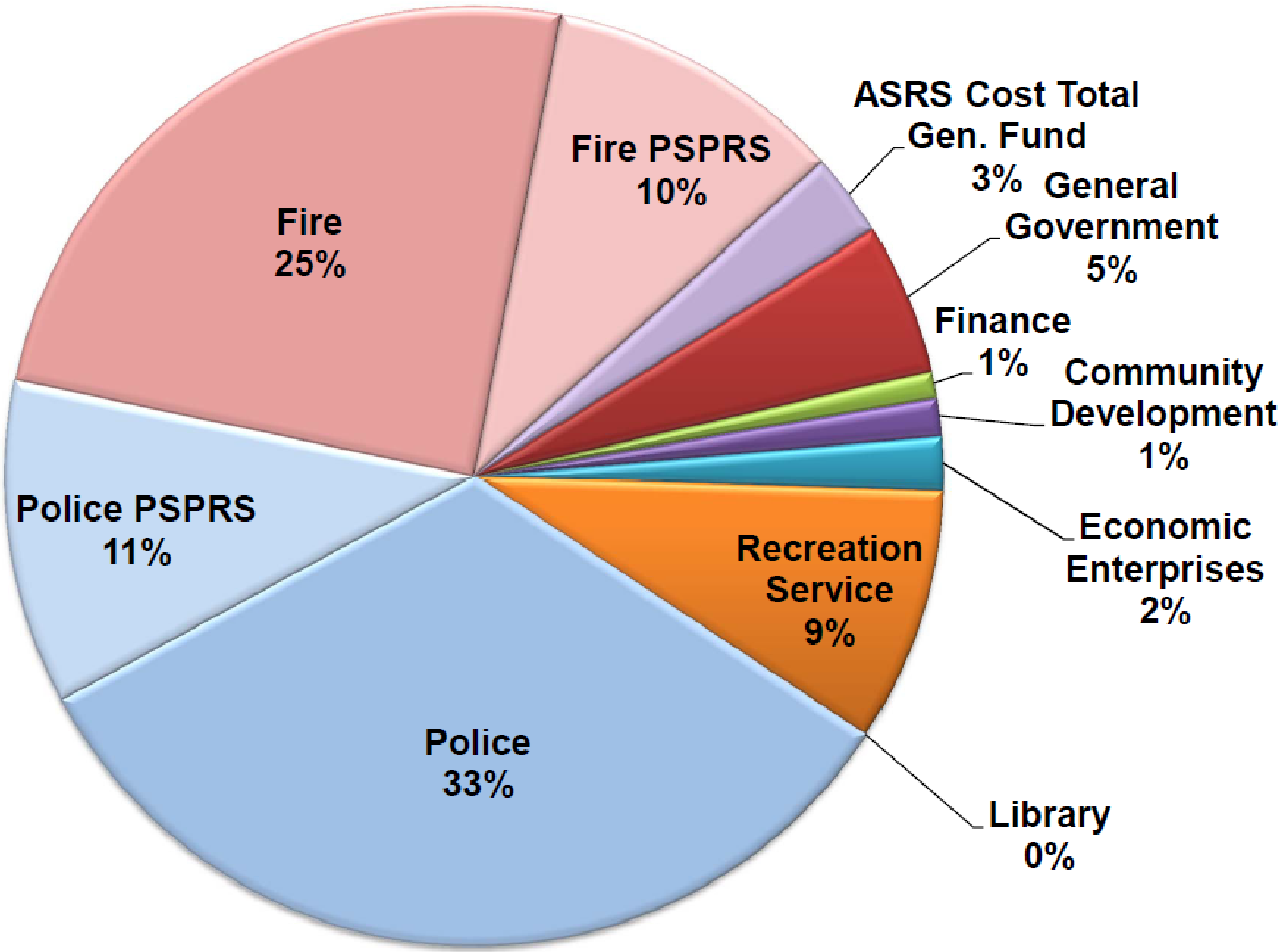
FY15 General Fund Operating Budget

Net of Program Revenues and Cost Recoveries



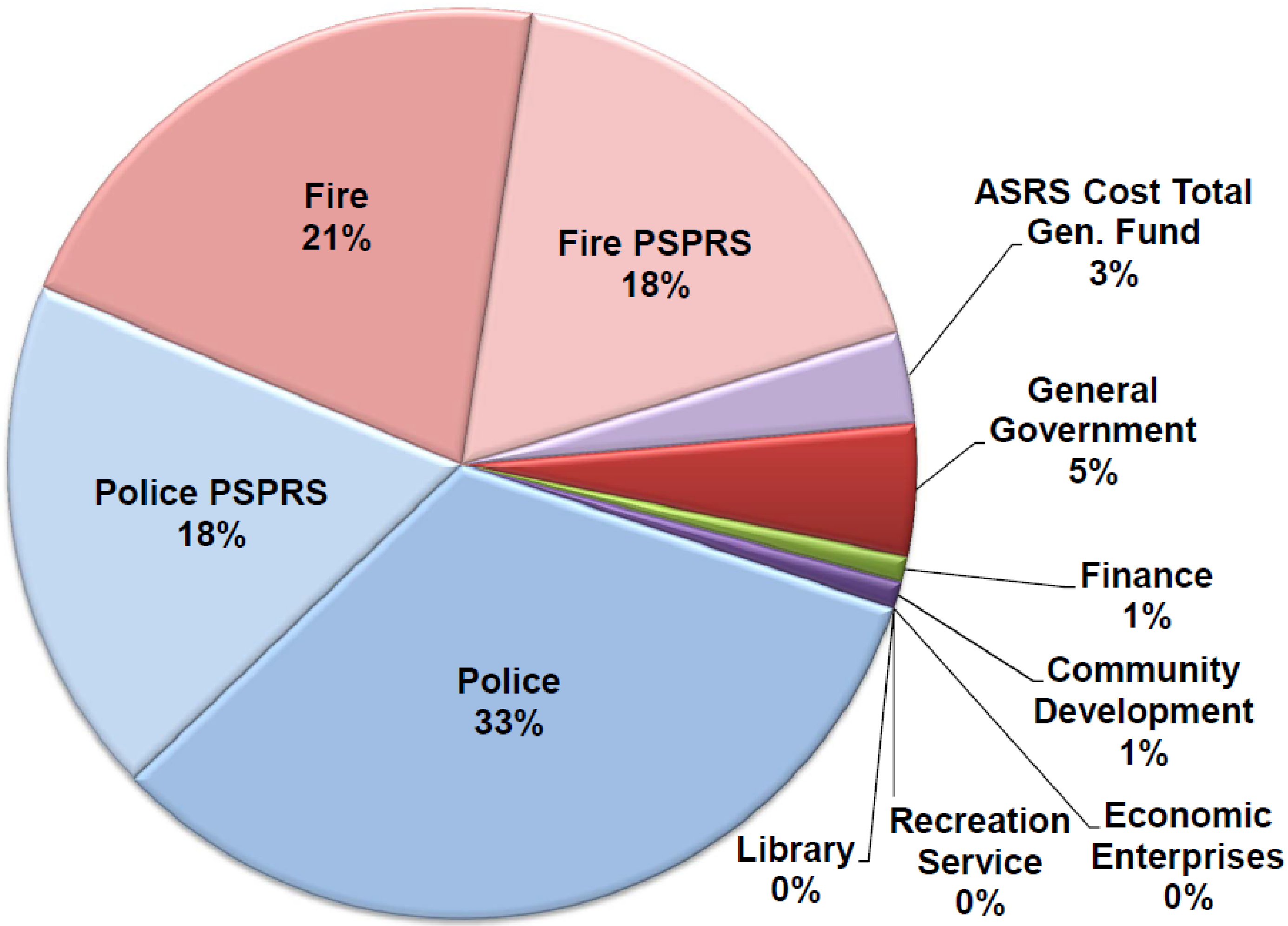
FY18 Projected General Fund Operating Budget

Net of Program Revenues and Cost Recoveries

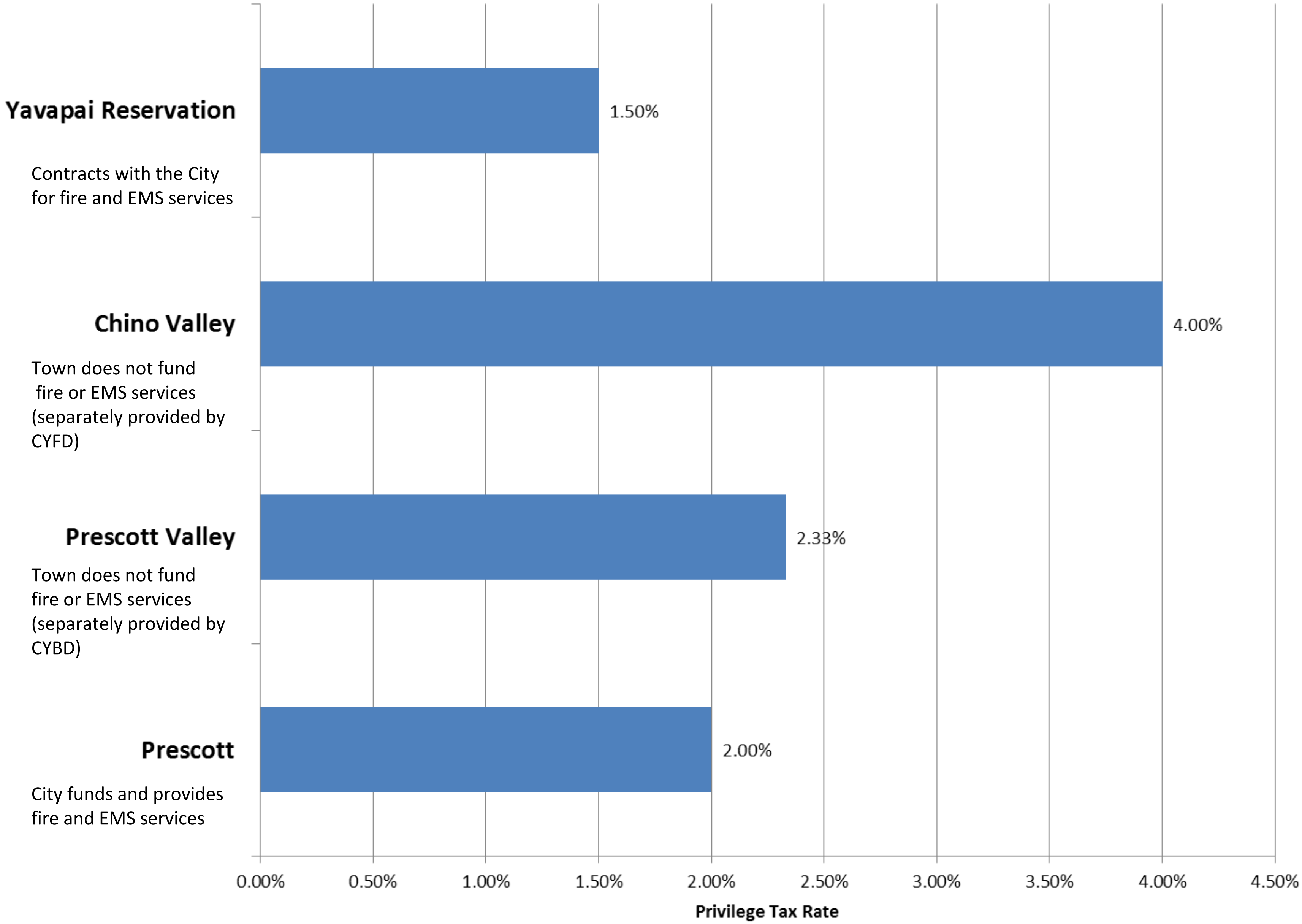


FY33 Projected General Fund Operating Budget

Net of Program Revenues and Cost Recoveries



Current Local Sales Tax Rates



Breakdown of Total Transaction Privilege Tax (Sales Tax) Currently Levied in the Prescott Area

City ("Local")	General Fund	1.00%
	Streets & Open Space (until 1/1/16)	1.00%
Yavapai County	Excise Tax	0.50%
	Jail Tax	0.25%
State of Arizona		5.60%
	Total in Prescott	8.35%
	Total in Prescott Valley	8.68%
	Total in Chino Valley	10.35%
	Total on Yavapai Reservation	7.85%

Notes: This is the maximum transaction privilege tax levied on sales within the City (excluding the Transient Occupancy Tax of 3%). The rates on specific items may vary by taxable category.

Sales Tax Options to Support FY 16 and Longer-Term City Finances

The following options are examples of separate and combined ballot measures which might be considered to address public safety retirement system liabilities, streets, and open space

Separate Sales Tax Increments

Option S-I

Enact a 0.65% Sales Tax to Erase PSPRS Unfunded Liabilities

- General Election ballot – November 3, 2015
- Effective January 1, 2016, for 12 years (through 2027)
- Use of revenue ($8.5 million/yr) restricted to this sole purpose
- Savings from early reduction of PSPRS unfunded liabilities $53 million
- Prevents the downward spiral of service cuts, deterioration of the community, falling tourism, lack of economic development, flight of residents and businesses
- Enables continuation of services and amenities supported by the General Fund (Police, Fire, Library, Recreation Services); Prescott's quality of life is sustained
- Enables timely replacement of public safety vehicles and equipment
- Enables maintenance management of public buildings and facilities
- Enables some funding for development of Airport public facilities
- Prescott continues to grow reasonably and responsibly; property values are preserved

Separate Sales Tax Increments

Option S-II

Enact a 1.00% Sales Tax for Streets

- Primary Election ballot on August 25, 2015, <u>or</u> General Election ballot on November 3, 2015
- Effective January 1, 2016, for 20 years (through 2035)
- Use of revenue ($13 million/yr) restricted to streets
- The 1.00% would replace reduction of the Sales Tax for Streets to 0.75% ($9.75 million) that will otherwise take effect January 1, 2016, for a period of 20 years
- At 1.00% the rapid growth being experienced in the backlog of unfunded pavement maintenance and rehabilitation needs would be moderated (in the initial ten years, a modest increase in the backlog from $72 million to $79 million is projected with the 1.00% in place)

Separate Sales Tax Increments

Option S-III

Enact a 0.08% Sales Tax for Open Space and Watershed Management

- General Election ballot on November 3, 2015
- Effective January 1, 2016, for 20 years (through 2035)
- Use of revenue ($1.04 million/yr) restricted to open space maintenance and acquisition, including trails and related public amenities; and watershed management (water quality and environment), in coordination with the Water Fund (Watson and Willow Lake reservoirs) and Aquifer Protection Fee
- The $1 million/yr is a realistic funding level relative to open space maintenance needs and watershed management (considering the other funding sources above)

Combined Sales Tax Increments

Option C-1 *(City Sales Tax would total 2.25% for 20 years)*

Enact a Combination 1.00% Streets and 0.25% Open Space Sales Tax

- Primary Election ballot on August 25, 2015, <u>or</u> General Election ballot on November 3, 2015
- Effective January 1, 2016, for 20 years (through 2035)
- Uses of revenue restricted by purposes ($13 million/yr for streets and $3.25 million for open space to be separately budgeted and accounted) as described by Options S-II and S-III
- 0.25% for open space is arguably overfunding of the maintenance and acquisition program; an 0.08% increment may be more reasonable
- Would not address PSPRS unfunded liabilities, hence, no relief for General Fund, requiring major, continuing service and amenity cuts leading to deterioration in quality of life

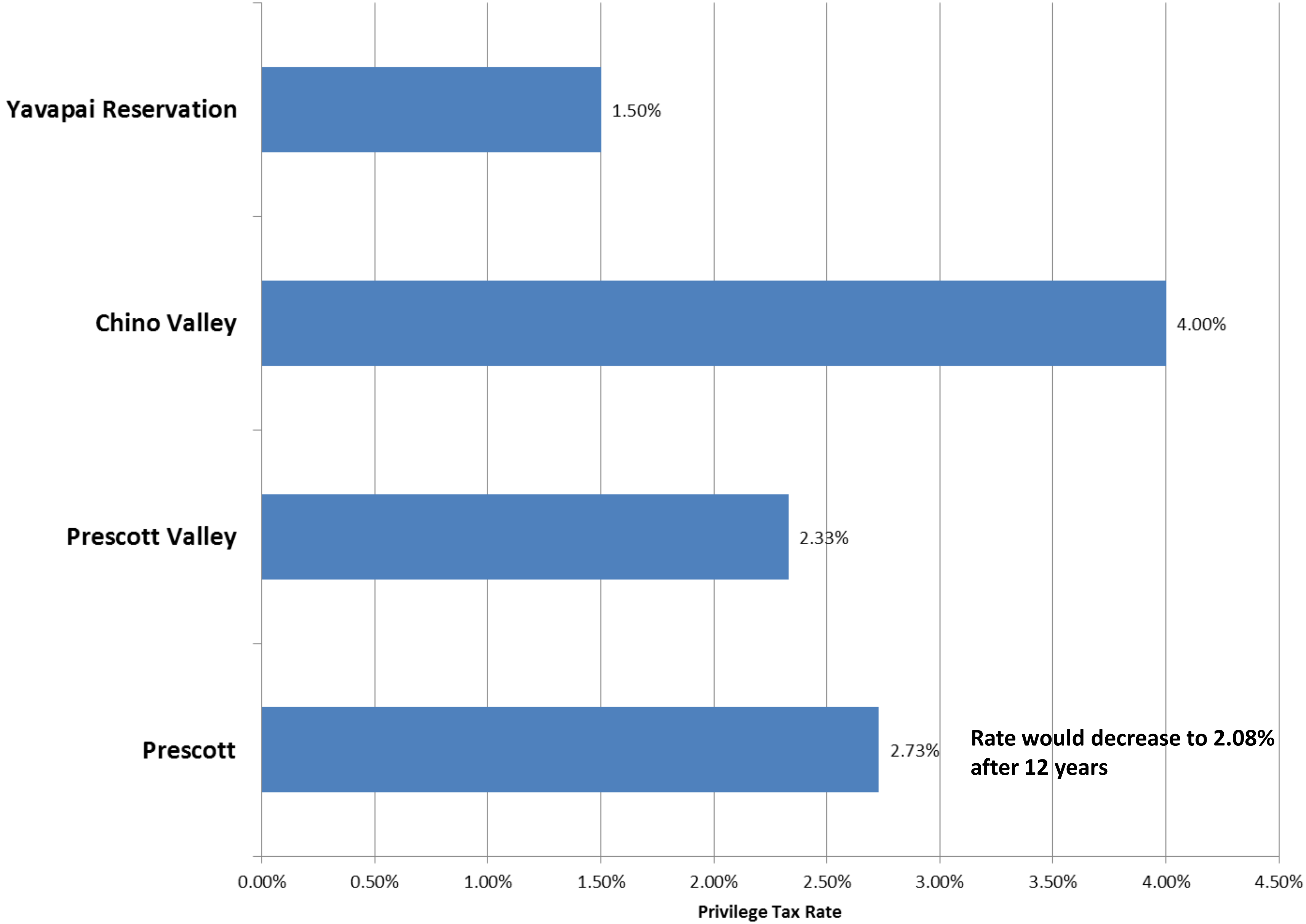
Combined Sales Tax Increments

Option C-II *(City Sales Tax would total 2.73% for 12 years, then 2.08% for 8 years)*

Enact a Combination Sales Tax of 0.65% to Erase PSPRS Unfunded Liabilities, 1.00% for Streets, and 0.08% for Open Space

- General Election ballot on November 3, 2015
- Streets and open space increments effective January 1, 2016, for 20 years (2035); PSPRS unfunded liabilities increment effective January 1, 2016, for 12 years (2027)
- Uses of revenue restricted by purposes ($8.5 million/yr for PSPRS unfunded liabilities as described by Option S-I; $13 million/yr for streets as described by Option S-II; $1.04 million/yr for open space and watershed management as described by Option S-III)
- Savings from early reduction of PSPRS unfunded liabilities $53 million
- Prevents the downward spiral of service cuts, deterioration of the community, falling tourism, lack of economic development, flight of residents and businesses
- Enables continuation of services and amenities supported by the General Fund (Police, Fire, Library, Recreation Services); Prescott's quality of life is sustained
- Prescott continues to grow reasonably and responsibly; property values are preserved

Local Sales Tax Rates if Option C-II Passes



Ballot Question Milestones

<u>August 25, 2015, Primary Election</u>

April 14, 2015	Call for Election (for General Plan ratification)
Prior to May 27	For Sales Tax Measures
May 27	Ballot Language Due to County Elections
August 25	Election

<u>November 3, 2015, General Election</u>

June 23, 2015	Call for Election
August 5	Ballot Language Due
November 3	Election

Council Discussion/Direction

CITY OF PRESCOTT
ARIZONA