CITY OF PRESCOTT

CITY COUNCIL STUDY SESSION MEETING

STUDY SESSION MINUTES

TUESDAY, OCTOBER 25, 2022, 1:00 PM

201 S. Cortez Street
Prescott, AZ 86303
Council Chambers

Phil Goode, Mayor

Cathey Rusing, Mayor Pro Tem	Connie Cantelme, Councilwoman
Brandon Montoya, Councilman	Steve Sischka, Councilman
Eric Moore, Councilman	Clark Tenney, Councilman

MINUTES OF THE STUDY SESSION OF THE PRESCOTT CITY COUNCIL STUDY SESSION HELD ON OCTOBER 25, 2022, IN THE 201 S. CORTEZ STREET PRESCOTT, AZ 86303 COUNCIL CHAMBERS.

1. CALL TO ORDER

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

2. ROLL CALL

Phil Goode	Mayor
Cathey Rusing	Mayor Pro Tem
Connie Cantelme	Councilwoman
Brandon Montoya	Councilman
Eric Moore	Councilman
Steve Sischka	Councilman
Clark Tenney	Councilman

3. DISCUSSION

A. Presentation and Discussion Regarding Community and City Staff Workforce Housing.

Quality Assurance Manager Chelsea Walton provided a presentation to Council regarding a request to investigate and research affordable workforce housing. Various community stakeholders have been consulted and participated in several meetings and workshops to obtain information and concepts related to this topic. She introduced Yavapai College Economist Ryan Jones.

Mr. Jones addressed Council and stated that he would be sharing demographic and workforce data. He added that some of sources don't use city limits as boundaries, and therefore some figures represent outside zip codes. Additionally, some of the data points are from 2019-2020.

<u>Prescott Statistics:</u>

* Estimated population 46,833 (17.5% growth since 2010)
* Median age is 59.1
* Percent under 18 is 12%
* Percent age 18-64 is 49%

* Percent 65+ is 39%
* 41% of citizens are in workforce

Mayor Goode asked about using census data since some residents are homeowners that live out of city and whether that is factored into these statistics.

Mr. Jones responded that census data is considered, but it is difficult information to obtain.

Race & Ethnicity:
* 86.4% White/Non-Hispanic (down from 88% in 2012)
* 2.55% MR (NH)
* 1% Black or African American (NH)
* 8% Hispanic

Mr. Jones stated that the average household size is increasing and while the reason is unclear, it is speculated that because of increased cost of house families are sharing housing.

Household Age Demographics:
* Under 18-years - has decreased from 18% in 1990 to 12% in 2020
* Over 60-years - has increased from 54% in 2010 to 75% in 2020
* Renter Occupied Housing Share - decreased from 32% in 2010 to 30% in 2020

Yavapai County's inbound movers in 2021 were most commonly from California, Texas, Oregon and Wyoming, whereas outbound moves were to Colorado and Wyoming.

Labor Statistics for All Prescott Zip Codes:
* 66,392 population (2021)
* 28,470 total regional employment
* Average earnings per job - $55,800
* Population Characteristics of Employees - 7,005 millennials (lower than the national average in similar communities), 37,317 retiring soon (making risk high in our area), 9,166 racial diversity
* Population is expected to increase by 4.7% by 2026 which will add 3,103 individuals
* From 2016 to 2021 jobs increased by 9.8% in Prescott zips from 25,918 to 28,470. This outpaced the national growth rate of 1.8% by 8 percentage points

Councilman Tenney commented that based on these statistics it seems there are far more retirees and those about to retire than most cities.

Mr. Jones confirmed.

Commuters and Labor Flow:
* 17,000 individuals come into Prescott for work
* 6,651 work and live in Prescott
* 9,000 leave Prescott for work

Mr. Jones stated that Yavapai County employees earn 27% less than Maricopa County employees. Of those employed in Yavapai County 60% work for small businesses and 40% work for larger businesses.

Councilman Tenney asked for a definition of small versus large business.

Mr. Jones responded that a small business has 500 employees or less.

Labor Challenges:
* Cost of Living - Prescott is the most expensive of the major communities in this area
* Housing stock shortage
* Low wages to median household
* Large number of service and accommodation jobs
* Low number of high wage job opportunities
* Aging population
* Environmental Changes

Councilman Tenney asked what the implications are for healthy sustainable growth in a community skewed so heavily with retirement population and issues related to cost of living.

Mr. Jones responded that it is important to consider these issues when making decisions. Prescott is a desirable place to live which is why housing is so high.

Mayor Goode commented that as Prescott continues to grow as a retirement community, it will have difficulty providing affordable housing. Market response takes time, and that can be painful.

Local Realtor Cody Ann Yarnes provided additional presentation materials to Council regarding the local real estate market. The height of the market began in 2006, with its lowest point in 2011 when people were buying homes they could not afford. Currently, Prescott is experiencing its highest market ever.

Effects of COVID on Local Market:
* Record low of inventory
* Bidding wars drove prices to higher than appraised prices
* Record low interest rates kept higher homes prices more affordable
* Recent rise in interest rates have lowered overall affordability, prices remain high and have yet to fall considerably

As of September 2022, the Prescott median home price is $480,000 (which is higher than the overall US median price of $370,000). The salary needed to afford a median home in Prescott is $138,000.

Councilman Tenney commented that he is astonished that Prescott is less affordable than East coast, yet employees are paid less.

Ms. Yarnes added that another issue is Prescott is functioning as a retiree community so in the future who will teach children and serve.

Salary Statistics:
* US salary needed to purchase a home - $76,000
* US median household income - $67,500
* Yavapai County median household income - $53,329
* Average salaries provided in Prescott
    - $50,209 for K-12 teachers
    - $60,717 for Police
    - $63,540 for Firefighters
    - $81,578 for College professors
    - $83,251 for Nurses

Loan Assumptions (FHA with 3.5% down, 40% debt to income ratio, $250/month for tax & insurance):
* Prescott Police - max buying power is $290,000 (13 homes available in the quad cities)
* Chino Valley Police - max buying power is $215,000 (2 homes available in the quad cities)
* Prescott Firefighter - max buying power is $275,000 (9 homes available in the quad cities)
* Central Arizona Fire & Medical Authority (CAFMA) - max buying power is $255,000 (3 homes available in quad cities)
* VA RN Interim Nurse - max buying power is $285,000 (12 homes available in the quad cities)
* VA RN - max buying power is $315,000 (28 homes available in the quad cities)
* VA Advanced Practice Nurse - max buying power is $475,000 (143 homes available in the quad cities)
* PUSD Teacher - max buying power is $165,000 (0 homes available in the quad cities)
* Prescott College Professor - max buying power is $225,000 (2 homes available in the quad cities)
* ERAU Instructor - max buying power is $265,000 (5 homes available in the quad cities)

Councilman Tenney commented that this PUSD figure is probably from the base salary scale and teachers are paid just over $50,000.

Councilman Montoya asked about rentals and if people priced out of purchasing turn to rentals, making them more difficult to find.

Ms. Yarnes responded that is true to some extent and added that part of the challenge is price per square foot. Does not follow the home purchase price increase.

Councilman Sischka commented that the market has been elastic and at some point, will snap. He added that people have to stop thinking that multi-family rentals will decrease the value of their stick-built home, these are properties we need here.

Ms. Yarnes responded affordability will help stop the elasticity of the market, but if people continue to tout Prescott as a destination retirement community affordability will be difficult to attain. She discussed the new apartments on Iron Springs which is having difficulty renting because they are asking too much for rent. It is important to remember that multi-family is not necessarily lower quality homes than single-family.

Councilwoman Cantelme commented that the market has diminished due to the interest rate, if market continues people will not be able to afford to purchase a home until they're in their 30's.

Ms. Walton continued the discussion regarding City of Prescott organization specific data and statistics.

September 2022 Employee Survey on Affordable Housing:
* 235 responses out of 500 total city employees
* Average cost for housing is $1,535/month
* On average 53% of the employee's income goes toward rent or mortgage costs
* 43% of city employees live in Prescott and 57% live in another quad city area city or town

Current HR Struggles:
* Recruitment due to the cost of housing - 18% of offers were rejected or declined from 2020-2021 specifically due to relocation costs (1 out of 6 offers)
* Have averaged 42 unfilled vacant positions in 2022
* Current turnover is 16%

The Ripple Effect:
* Minimal first responder staffing
* Limited ER staffing
* Entry level or lower quality hires
* Increased employee turnover
* Impacts many other positions who make below critical workforce salaries

Desired Outcomes:
* Prescott becomes highly sought after for job opportunities
* Adequate staffing
* Attract quality employees
* Increased levels of service
* Reduced turn over
* Reduce employee burn out
* Improved quality of life for residents

Research and Comparable Ideas:
* Acquire and designate land for workforce housing
* Zoning flexibility and permit fee exemption
* Use money from CDBG, USDA, Affordable Housing Fee Program
* Incentivize developers to include affordable homes in projects
* Require developments/annexes to include certain percentage of affordable homes
* Create a taskforce or commission to look into solutions
* Community collaboration
* Hire affordable housing coordinator and housing director positions
* Incentivize accessory dwelling units

An Immediate Response:
* A partnership with Prescott Unified School District (PUSD) - there is land owned by both agencies that, through an IGA, could be used for affordable housing with PUSD managing the property
* Private sector involvement and financing

Councilman Tenney commented that we have a need in our community for this, there is a grant at the state level for teacher housing which could potentially be placed on Taylor Hicks property. This would make space for six homes, one for a police officer, one for a firefighter and four for teachers.

Mayor Goode asked Councilman Tenney if PUSD has any other property for a second phase of this type of project.

Councilman Tenney responded there isn't much. Potentially a small tract behind Granite Mountain Middle School but PUSD has been discussing partnering with the city on this.

Councilman Montoya stated this is an important issue and it is not going anywhere. He would be interested in investigating further.

Mayor Goode concurred. Incremental steps can be taken, but there is a way forward. This problem won't go away quickly, and it is important to balance providing attractiveness for the community and still providing affordable housing.

Member of the Public Howard Mechanic addressed the Council regarding the need to get past the discussion phase. This is a complicated issue and a Commission to focus on it and come up with suggestions for Council would be beneficial. There is a lack of workforce housing and city employees, and he sees a major problem for the city. He added that he has contacted the City Manager inquiring if the city would be interested in workforce housing for their employees using Social Justice Charity Funds, which would allocate 55 units.

Consensus to move forward with forming a taskforce or commission to look into this matter further.

This item was for discussion only, no formal action was taken.

B. Presentation and Discussion Regarding Employee Recruitment, Retention and Compensation.

Human Resources Director Branden Nunez provided a presentation to the Council regarding employee recruitment, retention, and compensation.

Increased Recruitment:
* Increased Vacancies - city has sixteen open positions and twenty-two closed positions that are actively being recruited for, whereas in 2017 the city averaged six open and six closed positions
* Vacancy report shows an average of forty-two unfilled positions since April 2022
* The city currently has forty-seven vacancies which are unfulfilled full-time positions

Rejected Offers:
* 18% of job offers have been rejected since 2020 due to housing costs
* Operations are struggling to secure top candidates
* Private companies are offering more money for skilled labor positions

Increased Turnover:
* In 2021 workforce turnover was 15.4%
* 2020 thus far workforce turnover is 16%
* 10-year average turnover is 9.7%

Turnover "Hot Spots":
* Solid Waste
* Utilities
* Police
* Dispatch
* Administrative positions city-wide

Why Are Employees Leaving:
* Pay – top factor for leaving per exit interviews (42%)
* Other Career Opportunities – second factor for leaving, better financial opportunities elsewhere (38%)

Employee Financial Concerns:
* 6 Month Stay Interviews - sent to all new hires, top reason they state they would leave is pay (64%)
* Exit Interviews - pay is the number one reason for leaving (42%); the employment market is competitive, and wages are skyrocketing so both public and private employers are poaching city staff
* Housing Survey - 235 employees participated and stated 53% of their income is spent on housing, with 43% of employees living within city limits
* Childcare Survey - 138 employees participated, 29% currently pay for childcare at an average cost of $642/month

Councilman Sischka asked staff to address what they would see as the "proper pay".

Mr. Nunez responded that staff believes Council needs to consider a CPI adjustment and increase to make sure employee pay is moving with that.

Current Pay Plan:
* Total classification and compensation study completed in 2020-2021 and implemented on July 1, 2021
* Goals - ensure employees out of competitive market pay were brought to competitive market pay, reduce number of paygrades (went from 45 to 22), widen paygrade ranges so employees have more latitude and higher maximum salaries, reduce the demand for reclassifications, create a stable pay plan

Pay Plan Design:
* CPI plus pay for performance (P4P) system - recommended up to 4% each year plus CPI
* Pay ranges adjusted each budget year
* CPI and P4P adjustment reviewed annually and approved by Council

Finance Director Mark Woodfill addressed the topic of CPI which is the Consumer Price Index. This is a measure of the average change over time in the prices paid by consumers for a market basket of consumer goods and services and classifies all expenditures. For budgetary purposes the city uses the change in the Phoenix-Mesa-Scottsdale CPI calendar annual index.

Councilman Tenney asked what percentage of city budget goes to personnel expenses.

Mr. Woodfill responded that it depends on the fund, but as a whole 60% of the operating budget and 75-80% of general fund.

Mayor Pro Tem Rusing commented that Council does not receive a CPI.

Mr. Woodfill responded that Council salary is established via the City Charter and therefore any increases would have to be approved by the public.

Councilwoman Cantelme asked if staff has an idea of how much the general fund has grown. And if any proposed rate increase would leave a negative balance.

Mr. Woodfill stated that he can speak to the last two months during which there has been a reduction in taxable sales activity, but it is still a positive for the first two months of this fiscal year (2.3% increase). However, up against the CPI, is an overall negative. There are a lot of complicating factors regarding the general fund, a big portion of the revenue comes from the state like income taxes and other taxes. There has been a big uptick for 2023, but almost guarantee will come down next year. Sales tax has always been strong in Prescott except for 2009 to 2011 and 2020.

Solution:
* Start phasing FY24 pay plan on November 13
* Due to skyrocketing CPI, employee pay not consistent with rising costs of goods and services
* Close the CPI gap for retention – all employees receive a 5% increase effective November 13
* Move all pay grades/ranges up 5% now for recruitment
* July 1, 2023, fill the CPI Gap with the remaining CPI adjustment (3-5%)
* Maintain the integrity of the P4P pay plan model – CPI plus P4P (2%) on evaluation date

Estimated Budget Impact:
* $766,000 General Fund
* $967,000 Other Funds
* $1,533,000 Total

Mr. Woodfill added that these figures are estimates. Will have to wait to see the amount of state shared revenues and next 8-10 months of sales tax numbers. The issue is raises are continual earnings, but Council has made a commitment and it has been one or two of strategic goals each year to keep this compensation plan in place, including the market flexibility.

Mayor Goode asked staff to clarify that they are proposing to accelerate the CPI adjustment, and if this would be offset by the number of vacant positions.

Mr. Nunez confirmed. The salary for the forty-two vacant positions is $2 million, so in theory the city would have a salary savings but most of these departments are working overtime, so it is not a direct savings.

Mayor Goode stated that he has seen this in other municipalities. They are trying to hold down growth of staff that pay so much in over time that they end up paying more than if the positions were filled.

Councilman Montoya commented that it seems like this is a reasonable and necessary step to take. Accelerating this makes it so the city takes the CPI adjustment in small bites. Council has to ask themselves if they want lower turnover and higher morale, this will also help with recruitment.

Councilman Sischka stated he is happy that Proposition 443 passed or there would not the flexibility to be asking this today.

Mayor Pro Tem Rusing asked whether staff views this situation a crisis.

Mr. Nunez responded that they do. In Solid Waste staff is on the precipice of having to alter pick up times, and the Police Department is down ten staff members. Services are being impacted.

Mayor Pro Tem Rusing said it is important to incentivize employees, particularly when the city is up against other municipalities that offer sign on bonuses of $7,000-$8,000.

Mr. Nunez added that staff has explored incentives like that as well as other options, but if the city waits until July 2023 service levels will continue to be reduced.

Mayor Pro Tem Rusing stated it is the duty of elected officials to help and look for other ways to save money.

Councilman Tenney commented that the cost of losing someone is high, this plan will cost a lot of money up front but will increase moral and retention.

Mayor Goode concurred and added that Council must ensure services are provided to the community at the level they expect. The city must compensate and keep our employees whole and improve overall staffing.

Councilwoman Cantelme stated that the Police Department has lost twenty-two officers this year and more are retiring. She believes we are in crisis and asked where this 5 % would take the city in comparison other municipalities. She also asked about lateral pay so that the city doesn't end up with a young police force.

Mr. Nunez responded that if the city does the 5% a Police Department recruit would be leader of the region within two cents, utility workers would be at five cents above private employers. He added that lateral incentives at officer level are currently offered.

City Manager Michael Lamar thanked Council for taking this issue seriously.

Mayor Goode commented that the country has not been in this type of inflationary environment for many decades, easy to get into but will take a lot of pain to get out of, he wants to make sure staff is not suffering.

Council consensus to provide the 5% CPI adjustment to all employees effective November 13.

This item was for discussion only, no formal action was taken.

4. **ADJOURNMENT**
   There being no further business to discuss, Mayor Goode adjourned the meeting at 2:51 p.m.

PHILIP R. GOODE, Mayor

ATTEST:

SARAH M. SIEP, City Clerk

CERTIFICATION

I hereby certify that the foregoing minutes are a true and correct copy of the minutes of the Study Session of the City Council Study Session of the City of Prescott, Arizona held on October 25, 2022. I further certify the meeting was duly called and held and that a quorum was present.

Dated this 9 day of November, 2022.

AFFIX
CITY
SEAL

Sarah M. Siep, City Clerk