

PRESCOTT CITY COUNCIL
SPECIAL STUDY SESSION MEETING
TUESDAY, JULY 5, 2016
PRESCOTT, ARIZONA

MINUTES OF THE SPECIAL STUDY SESSION MEETING OF THE PRESCOTT CITY COUNCIL HELD ON JULY 5, 2016, in the COUNCIL CHAMBERS located at CITY HALL, 201 SOUTH CORTEZ STREET, Prescott, Arizona.

◆ **CALL TO ORDER**

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

◆ **ROLL CALL:**

Present:

Absent:

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

I. DISCUSSION ITEMS

A. Presentation and discussion of public safety sales tax ballot measure

Mayor Oberg said the study sessions are primarily to inform the Council and give the Council an opportunity to discuss in open session the issues that are facing the City. He said he did not allow public comment at study sessions because study sessions are for the benefit of the Council. He would not be asking for any public comments today on any of the three subjects.

Mayor Oberg said it was important to realize the "Yes for Prescott" .6 sales tax initiative failed in the first screening. The first screening was performed by the City Clerk's Department to determine if the signatures were collected according to Arizona law, and the number of signatures gathered was short by eight signatures. He said some people had asked why not just forward the initiative to the ballot. He said as part of the initiative process after the City's screening the initiative would have been forwarded to the County who would have taken a five percent random sample of the signatures to determine how many signatures were registered voters for the City of Prescott. He wanted to make it clear that during the second review many other signatures probably would have been disqualified and the initiative would have failed.

Mayor Oberg said that since the initiative failed three Councilmembers had asked to discuss placing the Public Safety Sales Tax Ballot Measure on a ballot. He said if the initiative had passed the Council would still have had to discuss when to place it on a ballot. He said the deadline to place a measure on the November 2016 ballot was next Tuesday, July 12, 2016.

Mayor Oberg said that a Public Safety Sales Tax Ballot Measure was placed on the ballot in August 2015, and was defeated by a sizable margin. He said last year the legislation had not come up with any solutions. He said the taxpayers want legislation to come up with solutions and look at all options before placing another sales tax initiative on the ballot. He said there were a lot more questions that needed to be answered.

1. Would the initiative tie the hands of the Council to make appropriate decisions in the future as new situations develop? He said the wording of the initiative needed to be carefully thought out and the public needs to be educated.
2. The date to place the initiative on the ballot needed to be considered carefully. He said he had talked to people that stated they did not understand what the initiative was trying to do. He said he had talked to Councilmembers that had a concern with the way the initiative was written.
3. What should be the intent of the initiative; debt, operations, or both. Should the entire funding be used to pay down the debt as quickly as possible to reduce interest payments from the general fund. He said the total amount that would be paid over 20 years would be \$168,000,000 of the \$72,000,000 owed. He said paying off the debt sooner made sense.
4. Should the City hire Police and Firemen or wait until a new system was in place after July 2017. The new system created a different retirement system for public safety employees starting on or after July 1, 2017.
5. Should the departments be evaluated to determine the level of adequate service for the community?
6. Could a volunteer program be implemented or expanded to reduce future public safety costs. He said many fire departments were going to partial/full-time volunteer staffing.
7. The City should explore and use Safer Grant (Fire) and COP (Police) grant funding to bring on more public safety employees. How would the grant money be used if the initiative was successful and there was a surplus of money?
8. Would the initiative be effective given the uncertainties of pending lawsuits? He said if the Parker and Hall cases go against the taxpayer, the debt would increase significantly.
9. Increasing debt due to public safety employees selecting the drop program. The drop program was expensive and caused additional debt in the system.
10. How would the potential portfolio losses affect the debt? If the City's investments lose, how would the City pay off the debt?
11. There would be future actuarial calculations that would affect the payoff.

12. He said the rate of return on the PSPRS funded investment had been going down.
13. He said if local action was taken now to approve the initiative would the City be preempting any relief the City could obtain from the Governor/legislation to help pay down the debt.
14. He questioned whether this was the City's debt. He said the State hired the PSPRS Board, oversaw the PSPRS system, determined the benefit program, and overall define the system. He said when there were issues and liabilities the State put the burden on the cities and towns.
15. He said pooling would benefit everyone, but the suggestion of pooling had to go before the legislation. He said the initiative may squash any further action by the State.
16. He said placing the initiative on the November 2016 ballot with a number of other controversial ballot measures would be problematic and result in a defeat.
17. He said if a second initiative failed what would be the next course of action. He said the initiative had to be crafted right and have the support of the public.

Alison Zelms, Deputy City Manager presented. She said the presentation and discussion was in regards to a possible ballot measure to augment funding for the City's public safety departments, Police and Fire, and associated Public Safety Personnel Retirement System (PSPRS) obligations.

- Funding Factors Bearing on Public Safety and the City's Quality of Life
- General Fund Revenues

Mayor Oberg said Ms. Zelms was covering a considerable amount of information and to ask questions at anytime.

Ms. Zelms continued with the presentation.

- FY 17 General Fund Operating Expenditures (Public Safety = 76.4%)
- City Funds – Purposes and Restrictions (some funds are restricted)
- Employer Contribution Rates for Prescott Prescribed by State of Arizona Pension Systems
- The Public Safety Personnel Retirement System and Paying the Bills
 - Has paid every PSPRS bill in full
 - Has never had any control over the defined benefits paid per state law
 - Controls only one major General Fund revenue source to deal with the PSPRS cost – sales tax (requiring voter approval)
- PSPRS Degrading Solvency
- PSPRS Actual Investment Returns, 1993-2015 (actuarially valued returns have been consistently below the expected rate of return since 2002)
- Uncertainties that would impact Financial Projections

Councilwoman Wilcox asked if staff knew the impact on Prescott if the outcome of the Hall/Parker legal case ruled in favor of the plaintiff. Ms. Zelms responded she did not know.

Ms. Zelms continued with the presentation.

- Dealing with the PSPRS Funding Problem Plans and Progress
 - Tier III effective for new hires on/after July 1, 2017
 - Employers and employees would equally contribute to the pension plan
 - Pensionable salary was capped at \$110,000 annually

Councilwoman Wilcox asked what pensionable salary was.

Ms. Zelms said it was the salary that was used to calculate pension costs for example, if someone's salary was \$200,000, only \$110,000 would be used to calculate towards pension benefits.

Ms. Zelms continued with the presentation.

- The situation was unchanged from 2015.
- The PSPRS Problem needed to be resolved or the quality of life would suffer
- \$1.8 million in operating expenses would need to be cut

Councilwoman Orr said she had heard a dollar amount of \$50 million if the Hall/Parker cases were successful. Mark Woodfill, Finance Director, responded that it was hard to determine the dollar amount. Councilwoman Orr thought knowing the number would help in the decision making. She said the City knew about the \$70 million. Mr. Woodfill said the numbers are constantly changing based on numerous factors.

Ms. Zelms continued with the presentation.

- 2016 Citizens Public Safety Funding Initiative (PSPRS Unfunded Liabilities) & (Operations)
- Citizens Initiative 2016-I001 (Did not meet legal requirements for sufficiency)
 - "The Initiative was a dedicated transaction privilege tax (Sales Tax) in the amount of six tenths of one percent (6/10) for the City of Prescott Police Department and Fire Department. To fund services, operations, personnel, programs and reduce Public Safety Pensions obligations owed by the City of Prescott for a period of ten (10) years. To request that the City Council call for a special election on the next available election date of November 8, 2016"
 - The initiative would have increased the privilege tax rate by 0.60% for ten years, generating an estimated \$8,580,000 in the first year (depending upon effective date) to be used for public safety funding

- The sales tax would have been used for supplement operations and reducing the City's PSPRS unfunded obligations.
- Citizens Initiative 2016-I001 – Financial Benefits
- Questions re Citizens Initiative 2016-I001
 - Would the average voter have been able to understand
 - Was the initiative formulated based on unknowns
 - Was the ten-year term sufficient
 - Effect on public safety operations and other departments
- Alternatives to Enhance Public Safety Funding (PSPRS unfunded liabilities) + (Operations)
- Placing a Public Safety Sales Tax Measure on the Ballot – Alternatives
 - Alternative 1 – place a “cleaned up” version of the Citizens Initiative on the ballot
 - Alternative 2 – Design a “right-sized” public safety ballot measure
- PSPRS Unfunded Liability (UL) using maximum amount of initiative (70%) payoff
- Sensitivity Analysis – Reduction of the Presently Unfunded Liabilities if the 2% annual revenue growth assumption was Flat (0%) or Negative (-2%)
- Explanation of Financial Schedule
- Privilege (Sales) Tax Rates by Community

Councilwoman Wilcox said it was important to remember that an initiative petition was not a vote of the people. The petition simply asked the people if they wanted the question to be placed on a ballot. She said the petition was short signatures, but there were a lot of signatures which said to her there was a significant amount of people interested in funding public safety to a degree that made them feel safe in the community. She said right now the City was at a safety level that was dangerous. She understood the Police and Fire Department were doing the best they could. She said there had been rolling brown outs, which she did not like. She said there had been delayed responses because firefighters and EMS personnel had to travel farther to the accident site. She said there has been delayed police response to situations. She talked about complaints received because of lack of police presence on residential streets addressing speeders. She said the City needed more officers on the streets, needed more funding, and needed an assured source of funding. She talked about her concern with using volunteer services.

Councilwoman Wilcox said the question before the Council was the amount the sales tax should be and how long it should be collected. She said there was sufficient interest in supporting a sales tax for public safety and the Council should consider placing the question on the ballot. She talked about the length of collection time. She wanted to see the debt paid off sooner, but it was what the voters would support. She would support Alternative No. 1. She said previously there had been three sales tax questions on the ballot at the same time and a lot of publicity from the anti-tax group. She said there needed to be extensive public education. Councilwoman Wilcox said the State Legislature gave the City prospective reform, she did not believe the legislature was going to offer a bail-out. She said the City had to take care of itself.

Councilwoman Wilcox asked if the ISO, company that rates insurance, had been asked how much the delay would affect homeowners and commercial property insurance rates if the City moved towards an auxiliary/volunteer emergency response. Ms. Zelms said the City did not have any firm figures at this point.

Dennis Light, Fire Chief, addressed the Council. He said ISO did not arbitrarily perform a rating scale. He did not recommend having ISO perform a rate scale at this time. He said the City was due for a rating scale review within two years. Chief Light said insurance premiums could go up as much as 25 – 30%.

Councilman Sischka said his issue was timing, but not in the way it was referred to in the presentation by Ms. Zelms. He understood the possibility of competing tax initiatives. He said if the City waits for the State to do something, competing tax initiatives on the ballot was his fear and would people say no to everything. He preferred not having competing tax initiatives on the same ballot. He said he was looking at placing the initiative on the ballot in March 2017. He said this needed to be done right and the tax needed to pay for PSPRS.

Councilman Lazzell agreed with Councilwoman Wilcox. He wanted to bring this forward for the Council to consider placing the question on a ballot. He wanted to hear a yes or no vote from the Council on July 12, 2016.

Councilman Blair said he wanted to hear from the Council, yes or no. He said this was about a system that was wrong from the start. He asked if there was merit in appealing the decision of the Judge that made the ruling.

Jon Paladini, City Attorney, said the City of Prescott was not part of the lawsuit. He believed the lawsuit went straight to the Supreme Court. He said the decisions made by the Supreme Court are non-appealable.

Councilman Blair had an issue with not being part of the lawsuit. He knew the debt needed to be paid. He wondered if the State had fixed the problem with PSPRS. He asked how cities and towns could be assured the issue would not arise again. He said the City had cut back. He said next year the Council would be making more cuts during the budget cycle, and at what time did the Council say enough. He said there needed to be funding revenue that started addressing some of the issues.

Councilwoman Orr thanked the “Yes for Prescott” group. She said whenever the initiative was placed on a ballot, there needed to be a win. She talked about her concerns with the “Yes for Prescott” initiative. She wanted to pay off the debt as soon as possible. She wanted the funding to go towards paying off the debt, not support services or operations. She said her other issue was timing. She believed that automatically 25% of the voters vote no on an increase in taxes. She thought placing the initiative on the March 2017 ballot would allow time to educate the voters and

answer questions. She did not think the City should wait on the State. She supported pooling efforts with other cities and towns.

Mayor Pro Tem Lamerson said the City needed a dedicated revenue source to pay for police and fire services. He believed this was premature, and there were many unanswered questions. He believed the initiative should be a single ballot issue, how to support fire and police services for the City of Prescott. He said the right question needed to be formulated. He appreciated "Yes for Prescott" efforts. He wanted to take the time to formulate the right question and educate the public.

Councilman Blair understood the 1% sales tax for roads was earmarked restrictive funds to be used for roads. He felt if the question asking for public safety funds was written and asked correctly the people would support the tax.

Councilman Sischka asked if there was anything in the law that stated public safety could be funded by any other means other than the general fund. Mr. Paladini said public safety, by definition, was funded by the general fund.

Councilman Sischka asked if the funds to support public safety could come from another source than the general fund. Mr. Paladini said the City could adopt a public safety dedicated tax that would be restricted to funding public safety.

Councilman Sischka asked if public safety could be funded by any other means than a sales tax. Mr. Paladini said yes, by property tax. He said fees for services are difficult to adopt legally and enforce.

Councilman Sischka said he had a problem with a sales tax supporting public safety because of the ups and downs. Mr. Paladini said the two local revenues are sales tax and property tax. Sales tax includes use tax and excise tax. The Council could adopt an excise tax to add to sewer and water use, but the amount would not be significant.

Councilman Sischka asked if public safety could be funded by any other method. Mr. Paladini said there would still needed to be a revenue source. The suggested 1% tax would be a restricted fund to only be used towards public safety as stated in the ballot language. He said city fees are charged but are not generally used to fund public safety.

Councilman Sischka talked about the neighboring city that had a .05% tax to support police services, but did not fund fire services. He said Prescott needed to find a legal remedy to fund public safety services.

Mr. Paladini said Prescott Fire Department was not a separate fire district and could not have its own funding source. He said the only way to fund public safety was a sales tax.

Mayor Oberg understood 76% of the General Fund went towards public safety. Mr. Woodfill said, yes. Mayor Oberg said if the City was not liable for the PSPRS debt, the amount would be 12 to 13%. Mr. Woodfill said the City would be paying about 12 to 13% towards the normal pension costs. Mr. Woodfill said if the debt was paid off, there would be \$5.2 million less expenses from the general fund. Mr. Woodfill said that money could be used towards public safety. Mayor Oberg said if the City did not have the debt the City would be able to meet the financial obligations. Mr. Woodfill said, yes.

Mayor Oberg did not think they should undermine the idea that the Governor or the State would do something. He said the State was doing something. He said what legislation had accomplished was significant. He said there would be new leadership at the State level after the November Election. The City should wait and see what happened after November. He felt the State should consider a 1% sales tax State-wide to fund PSPRS debt.

Councilwoman Wilcox asked how soon the sales tax would go into effect if the voters approved the tax in March 2017 election. Mr. Woodfill said two months. Councilwoman Wilcox asked if there was a minimum amount of time the tax would go into effect. Mr. Paladini said there was not a set rule. He said once the results became official the tax could take effect immediately. He said practically it would be the amount of time needed for implementation.

Councilwoman Wilcox asked when staff might know the decision on the Hall/Parker cases. Mr. Paladini said it was dependant on the Supreme Court and the legal process.

Mayor Pro Tem Lamerson said the sales tax could go up and down, but there still was a dedicated revenue source for the street fund. He said there needed to be a dedicated revenue source for public safety. He said other revenue sources were water rates, sewer rates, and solid waste rates. He said there were no dedicated funds for public safety. He felt the question needed to go to the voters. He said the voters needed to be educated but the question needed to be asked.

Councilwoman Orr thought one of the questions on the survey from "Yes for Prescott" could have been reworded to say pay the debt off in six years or ten years. She believed the people being asked to sign the petition would support six years. She supported paying off the debt sooner than later.

Mayor Pro Tem Lamerson said \$5.2 million was appropriated from the General Fund towards paying off the debt. He said the amount listed in the budget was \$18-20 million. He said what about the difference of \$13 million. He said the voters have the right to tell the Council what they want. He said if the right question was asked the voters would let the Council know what they want.

Councilwoman Orr said last year the citizens of Prescott paid \$60.00 per \$200,000/house for fire protection and in the County for a \$200,000/house were paying

approximately \$500. Mr. Woodfill said fire services in the County were provided by Fire Districts. Fire Districts usually have higher taxes assessed.

Councilman Blair said nothing had changed over the past 16 years. He did agree the City should wait to hear from the State, but also move forward with a 1% tax for operating and maintenance costs and/or pay down the debt.

Councilman Sischka asked how much .55% would increase taxes. Mr. Woodfill said approximately \$150 per year.

Mayor Oberg said the City has an obligation to protect the public safety retirement system for its employees. He had a constituent suggest .6 tax increase. He said .4 would be used to pay off the debt and .2 would be enough to cover the annual cost of PSPRS plus the new pay system. He said once the debt was paid off the .4 amount would go away, but the .2 would remain as a dedicated source of revenue. He said the Council needed to continue to discuss.

Councilman Lazzell asked if this issue was going to be placed on the July 12, 2016, agenda. Mr. Paladini said an Ordinance would be on the July 12, 2016, agenda for the Council to discuss and vote.

Craig McConnell, City Manager, said at least two Councilmembers have requested the item be placed on the July 12, 2016, agenda.

Councilwoman Wilcox asked if a Councilmember could offer an amended version and motion at the meeting. Mr. Paladini said, yes.

Councilman Blair felt the question needed to be stand alone for the March 2017 election.

Councilwoman Orr said if the question was placed on the March 2017 ballot, the language did not have to be available until November 14, 2016. Mr. Paladini said that was correct.

B. Discussion and direction re Community Outreach Manager position

Craig McConnell, City Manager, presented. He said at the May 2016 Budget Workshops; several Councilmembers voiced an interest in restructuring various departmental responsibilities. At the May 26, 2016, Part 2 Council Budget Workshop, a consensus was reached regarding the benefit of restoring a City communications management position. He said the position had been budgeted. The questions that linger were what department the position would be assigned too and definition of the position.

Councilman Lazzell said the definition of the position ended up totally different then how he perceived. He suggested that filling the position be placed on hold until a new City Manager was in place.

Councilwoman Wilcox agreed with waiting until the new City Manager was hired.

Councilman Blair said when this was first discussed the position was for water, streets, roads, and parks. He supported the position because funding of the position would come from different departments. He agreed the new City Manager should select the person.

Mayor Pro Tem Lamerson said the Council had discussed the issue in context that the position would be funded from water, sewer, streets, and the position would be a community outreach from a public works perspective. He supported waiting until a new City Manager had been hired.

Councilwoman Orr remembered during the discussions the hiring of a communications specialist was supposed to be a way for Public Works to save money. She understood Public Works department spent over \$186,000.00 on public outreach from last year's budget. She agreed with waiting until the new City Manager was on board.

Mayor Oberg said it would take awhile for the new City Manager to get up to speed. He said the City could not afford to have a PR person in every department. He said the City could afford one and that person should be under the City Manager's office. He said there were a lot of things going on and did the Council want to wait four to five months for the new City Manager to get up to speed. He said the position had been approved and budgeted and the recruitment process should move forward.

Councilman Sischka said the City communicates poorly and communication was important. He felt if communication was better the City would get better results. He felt limiting the scope of communication to the public would be remiss. He said he was not sure if the position should be under the City Manager, but he did know the City needed to communicate important things about what was happening in the City. He said finding and educating the right person was important.

Mayor Pro Tem Lamerson said that one role was speaking on behalf of the entire City, and the other role was communicating what was happening in Public Works. He believed the role of the Public Works Director was to communicate.

Councilman Lazzell agreed the City needed to communicate better. He supported placing the position in the budget because he felt it was going to save money for Public Works. He said the City at one time had a communications person but the position was eliminated during budget discussions. He said we needed the position, we needed more police officers, more firemen, and that the City needed a lot. He supported this because it was going to save the City money.

Councilwoman Orr said the City needed to communicate better. She thought if communication was better regarding the .55 increase in tax, the voters might have passed the tax. She was concerned with the timing of filling the position. She thought the reason for the position was to save the City money. She thought perhaps the position was two different functions. She said maybe it needed to be two part time positions; one for Public Works communication, and one for City Council communication. She understood there could not be a PR person in every department.

Mayor Oberg thought the position would save the City money. Mr. Hash responded the City would be saving money by hiring a communications person. Mayor Oberg felt the right person would be able to serve the whole City and Council. He felt the recruitment should move forward.

Councilwoman Orr asked if the Council needed to vote on this tonight or give direction. Mayor Oberg said the City Manager needed direction. Councilwoman Orr asked if there was money budgeted to create two part-time positions. Mr. McConnell said a full-time position had been budgeted. He said the full-time position could become two part-time positions. He said the point had been made that there are two different understandings of the position; one to save money in the Public Works Department, and one to communicate with the public on City happenings.

Councilwoman Orr asked if something could be done sooner rather than later to help Public Works, and thought the idea originated from Public Works. Mr. McConnell said the request originated with Public Works and that request was not approved. The reason the request was not approved was because there was no longer a communications manager position, other departments indicated their need for a communications person. He said he had to look at the needed outcome, tools available, and information being provided. He said that foundation had not been laid. The foundation needed additional work and therefore the request was not approved.

Councilman Sischka felt the Council did not have a good understanding of what the person would be doing. He said the Council expressed the need for shifting to active outreach through partnerships with community groups, homeowners associations, business sectors, city departments, the media and internal customers (Council, City Management, departments). He asked for a better job description to be developed. He thought two half time people would defeat the purpose. He said the person needed to be talented enough to have an overarching ability to communicate. He said limiting the position solely to Public Works was defeating the overall purpose.

Councilman Blair remembered at one time the City had five communication positions. He did not think one person could adequately perform all the responsibilities being asked for in the job description. He felt it needed to be two positions.

Mayor Oberg said the Council was in the position of determining whether the position needed to be under the City Manager, be two positions, or solely limited to Public Works. He said the issue was going to be tabled until the Council had a clearer picture of what it wanted.

C. Discussion of City Manager selection process

Mary Jacobsen, Human Resources Director, presented.

- The position closed on June 27, 2016.
- The City received 58 applications.
- Three Human Resources professionals reviewed all applications and placed in highly qualified, qualified, less qualified.
- 28 applicants met the minimum qualifications and are being moved on to the next step
- Sorted all the applications into highly qualified, qualified and less qualified
- Minimum Qualifications
 - Bachelor's or Masters Degree in Public Administration or related field
 - Ten years progressive municipal government management experience
- Preferred Qualifications
 - Five years experience as a City Manager, Deputy City Manager or equivalent
- Work History Review – longevity, job stability and progression in career
- Community Population and Budget – comparable to City of Prescott or greater
- Answered job question in application – effort, writing skills, content and articulation evaluated
- Social Media Search

Mayor Oberg understood the top 20 applications fell into highly qualified and qualified categories. Ms. Jacobsen said, yes. Mayor Oberg felt the way the Police Chief was selected was successful and wanted to follow the same process for the City Manager position. He suggested creating a group made up of three Councilmembers and three people from the public. He said hopefully the applications could be narrowed to ten for Skype interviews. He said then the committee could select three to be brought in for face-to-face interviews.

Councilman Lazzell supported the idea. He asked about the citizens.

Mayor Oberg suggested a retired City Manager with no relationship with Prescott, a business person who was respected in the community but had not had issues that had come before the Council, and someone in the legal field.

Councilwoman Orr agreed with the recommended process.

Councilwoman Wilcox agreed, and said when Chief Monahan was hired someone visited the community and talked to people about the finalist.

Jon Paladini, City Attorney, said the application list was confidential until a finalist list had been selected for a background review.

Mayor Oberg felt the review of the applications would take some time. Ms. Jacobsen said the process would take about two weeks. She recommended the review process of the applications be completed in one pass over.

Mr. Paladini reminded the Mayor the committee would be a subcommittee of the Council, so was subject to the open meeting law. He said the meetings could be held in executive session. He said if a single Councilmember or less than a quorum wanted to review the applications it could be done, but if there was any discussion the open meeting law must be followed.

Mayor Pro Tem Lamerson commented on the sensitivity and confidentiality of the process.

The Council gave their consensus to move forward with the process as outlined.

II. ADJOURNMENT

There being no further business to be discussed, the Special Study Session Meeting of July 5, 2016, adjourned at 3:13 p.m.

HARRY B. OBERG, Mayor

ATTEST:

DANA R. DeLONG