

PRESCOTT CITY COUNCIL
COUNCIL STUDY SESSION/
SPECIAL MEETING
PRESCOTT, ARIZONA
OCTOBER 2, 2007

A STUDY SESSION/SPECIAL MEETING OF THE PRESCOTT CITY COUNCIL WAS HELD ON TUESDAY, OCTOBER 2, 2007, in the Prescott Municipal Building, 201 S. Cortez Street, Prescott, Arizona.

Mayor Simmons opened the meeting at 3:01 P.M. and led the Pledge of Allegiance.

ROLL CALL:

Present:

Mayor Simmons
Councilman Bell
Councilman Blair
Councilman Lamerson
Councilman Luzius
Councilman Roecker
Councilwoman Suttles

Absent:

None

□ SUMMARY OF CURRENT OR RECENT EVENTS

City Manager Steve Norwood reported that yesterday Mesa Airlines had their kick-off flight at the Airport and with very little marketing their average daily flights have doubled. He said that the Las Vegas route is coming along slowly, but Mesa Airlines will be doing an aggressive marketing campaign in the near future.

I. PRESENTATION

A. Presentation by Malcolm Barrett, Jr. re the Upcoming Air Show.

Malcolm Barrett, Jr. gave a presentation to the City Council and public on the upcoming Air Show scheduled for Saturday, October 6, and presented gift bags to the Council and staff.

II. PROCLAMATION

A. October 2007 – *Community Planning Month*

Mayor Simmons read a proclamation proclaiming October 2007 as Community Planning Month, and presented it to Kathy Dudek who accepted it on behalf of the City's Planning and Zoning Commission.

III. DISCUSSION ITEMS

- A. Approval of Authorization for Services No. 2 to the General Engineering Services contract with Z & H Engineering in the amount not to exceed \$71,589.00 for design of the relocation of Clubhouse Drive.

Airport Manager Ben Vardiman said that this item was a request to authorize Z&H Engineering to design the relocation of Clubhouse Drive adjacent to the Airport and the old golf course clubhouse in an amount not to exceed \$71,589.00. The design will provide for better access and improvements to the property and along the edge of the road by providing a new two lane road, adjacent sidewalk, street lighting, and a new parking lot with landscaping adjacent to the old golf course clubhouse. In addition, he said, a legal description of the new parking lot and building at the old clubhouse will be performed in order to release it from the Airport property inventory, becoming City of Prescott property, and will allow the airport to offer approximately six more acres of aeronautical land available to lease.

Councilman Lamerson asked if he had any projected lease rate for the leased property. Mr. Vardiman said that the current rate is around \$.35/sf, so they'd be looking at around \$90,000 a year. Councilman Lamerson said that sounds like a good investment.

Councilman Luzius said that in looking at the drawing, the new road appears very close to the old clubhouse, and asked what impact there would be. Mr. Vardiman said that this proposal will enhance the parking capabilities for the old clubhouse. He said that currently there is a gravel parking area; this design will incorporate a paved parking lot, providing for parking of 100-130 vehicles.

Councilman Luzius said that the people on Clubhouse have been complaining about the condition of their road; he asked if anything would be done there. Mr. Nietupski said that it is not part of the scope of this project, but they will look at the project and come back with information on that area.

Mayor Simmons said that he had been requested to move up Item I after Item E, and would be doing so. Councilwoman Suttles said that she had been asked if this item (I) was on the agenda and she was not aware that it had been added.

- B. Award of bid for the Sundog Wastewater Treatment Plant Secondary Digester Rehabilitation Project to Fann Environmental, LLC in the amount of \$402,724.00.

Public Works Director Craig McConnell said that this item is to approve a contract for rehabilitation of the secondary digester at the Sundog Wastewater Treatment Plant to include interior cleaning and coating, removal and reinstallation of mixing pumps and shafts for inspection and repairs, and exterior wall and roof repairs and recoating. He said that the primary and secondary digesters were constructed in 1990; the primary digester was emptied in 2002, cleaned and interior metal structures sandblasted and recoated. The secondary digester is now 17 years old and in need of similar rehabilitation.

Mr. McConnell said that during final scoping of the project to prepare for bidding, accelerated deterioration of the outside of the digester warranted expanding the extent of work to add exterior repair and recoating previously planned for next fiscal year to the interior rehabilitation budgeted this year. Funding is available in the Sewer Fund to augment the \$250,000 budgeted in the current fiscal year and accomplish complete interior and exterior rehabilitation via the contract recommended with Fann Environment.

Mr. McConnell said that they received one bid from Fann Environmental, and they confirmed in writing and staff is recommending award for the contract. Councilwoman Suttles asked for clarification on the splitting of the project. She said that she would like to see who did the work in 2002.

Councilman Blair asked what project would not get done this year because of the need to rearrange funds to complete both the interior and exterior. Mr. McConnell said that he had asked the same question of his staff. They believe that they will have funds left on the centrifuge project because the estimate has been updated and the final costs are expected to be quite a bit lower, so they should not have to defer any other projects.

- C. Approval of an agreement with APS Energy Services Company, Inc., in the amount of \$90,000.00 for performance of a technical energy audit.

Mr. McConnell said that this is a proposed agreement with APS Energy Services, an affiliate of APS, but a separate corporate entity. He said that in May they completed a preliminary audit at no cost to the City, which identified potential energy savings for various facilities. The report estimated that the City could save almost \$230,000 in utility and operating costs in the first year.

He said that the next step is performance of a detailed technical energy audit of all City-owned facilities and systems, involving inspections, collection of data, interviews, determination of base year energy consumption, formulation of a proposed package of project, costs/benefit analyses for each project and a financing plan. He said that they have talked to APS Energy Services about the fact that this was not budgeted, and they have agreed to not charge until next fiscal year.

Mayor Simmons said that he had no problem with it.

Howard Mechanic said that he appreciated the City looking into how they can save energy and water. He asked if the ownership of the corporation was the same as APS. Mr. McConnell said that it has been incorporated separately. Mr. Mechanic said that it is probably owned by the same holding company. He said that it is like having a company do a study and then hiring them to complete the study. He said that the structured recommendations should be in a form where they will have some competitive bid process; sometimes bids are set up for one bid. Mayor Simmons said that there are not a lot of people competing with electricity. Mr. Mechanic replied that there are for how to be more energy efficient.

Mr. McConnell said that the way the agreement is structured, the City is not obligated to contract with APSES; it will be completely up to the City.

Councilman Luzius said that in his own home he replaced the air conditioning and in the first two months he realized a 75% savings from the electric bill and obviously this will save the City some money.

- D. Approval of an agreement with Economists.com for Analysis and Development of Water and Wastewater Rates and Impact Fees in an amount not to exceed \$137,100.00.

Mr. McConnell said that this item is to approve an agreement with Economists.com for professional services to update rates and impact fees for the City's potable water enterprise, and develop new rates and fees for wastewater operations including recharge and sale of treated effluent. Information from the Sewer Model will be used in the analysis. It has identified extensive wastewater system rehabilitation, capacity, and facilities capital improvement needs which must be addressed in the rate and fee setting process to generate funding adequate to keep the Sewer Fund on a stable financial footing.

Councilman Blair asked when they expect the study to be done and what the actual rate is going to be. Mr. McConnell said that the rates and impact fees are separate. When they talked about rates it is to talk about their operational fees. On the impact fee side, there is a very specific

study required to determine what impact fees could be, although the City can adopt fees lower than those; they cannot be higher.

Councilman Blair said that if he remembered correctly, they started charging impact fees in 1994. Mr. Woodfill said that was correct; prior to that they collected connection fees. Councilman Blair said that he thinks they need to make sure that the people they hire understand some of the antiquated systems the City has.

Councilman Blair said that he never paid impact fees based on building a house three times bigger. He built a new house that is bigger than his other house and he is trying to find some equity in that. Mr. Woodfill said that he believed that Councilman Blair would have paid an impact fee based on fixture units. Councilman Blair said that \$63 per fixture does not cover replacement of a line or infrastructure. Mr. Woodfill said that it would not; it is for the new facilities needed to service that additional load on the system. Councilman Blair said that he thinks it is wrong to charge so much to people coming to the area.

Mr. McConnell said that on the water side, this project does include an update of the water rates and impact fees. The City added so many projects to its capital projects two years ago that they would not expect impact fees to go up much more, if at all. It is the Council's prerogative to set the capital program which drives those impact fees.

Mr. McConnell said that this is a major effort on the wastewater side because the City has not been funding its wastewater capacity and rehabilitation in recent years. Councilwoman Suttles asked if that meant they will see their sewer fees go up. Mr. McConnell said that they will be presenting to the Council a capital program and operational costs which identify four various scenarios of what the rates would have to be. Beyond that, it is the Council's decision on which alternative(s) to select.

- E. Approval of contract with Sanborn in the amount of \$90,000.00 for photogrammetric services.

Mr. Woodfill said that this item is the acquisition of aerial imaging, contouring and a terrain model for the City of Prescott. In the past they have done this every two years starting in 1998; however, the last time they did it was in 2004. They are using the state contract with Sanborn and it is within budget. He said that it will provide a 6" resolution, different than the 18" they've done in the past, because of technology and the partnership with Prescott Valley to share in some of the up front expenses.

Councilwoman Suttles asked if this was the first time they've been able to partner with anyone on this. Mr. Woodfill said that they have tried to

partner, when possible, in the past and sometimes it works and sometimes it doesn't. Councilwoman Suttles said she was glad they were able to partner this time and save over \$6,000.

***I. Discussion of Boys and Girls Club locating at the Old Adult Center.**

Brad Fain, President of the Boys and Girls Club of Central Arizona, said it was a pleasure to be before the Council to explain their intent and desire to occupy the old Adult Center. They then showed a short video about the Boys and Girls Club.

Mr. Fain said that about six years ago a group of citizens got together and reopened the facility in Prescott Valley and since then it has expanded throughout the County. He said that two years ago a task group was put together to look into finding a location where they could open a facility in Prescott. Once they heard about the old Adult Center facility being available, they began working with the City's various departments re permits, and met with the Acker Board and the Board felt this was a good use of the facility.

Casey Knight, Executive Director of Boys and Girls Club, gave some information on their other facilities, stating that they ask for a \$25 donation from the parents for a school year, while it costs the Club \$400 to \$500 to child.

Councilwoman Suttles asked if it would be a lease of the building from the City. Mr. Norwood said that the City owns the building, but not the land. Staff went through the procedures required for leasing property which he would have Mr. Fenech go through. Councilwoman Suttles said that she thinks it is a good project and good for the kids.

Councilman Luzius said that he is the Council liaison with the Acker Board and was at the meeting when they approved this use of the facility. He thinks it is a good use, but he had some concerns with how the process was handled and he would like some clarification with regard to that. He said that he knows of a few different groups that were interested in the facility but were misled on whether it was available.

Councilman Blair asked what the City's liability would be with regard to use of the facility. He said that he would commit to providing new window coverings to the facility, regardless of what went in there.

Mr. Musgrove said that they have a group of volunteers ready to come in and do what repairs are needed to get the building ready. They have contractors, materials, landscapers, etc. who are ready. He said that the City Attorney has a proposed lease that he drafted and sent over last

week, based on the same format used for lease of the Adult Center. He added that staff at the City, in every division involved, has been very helpful. He then asked Councilman Luzius to clarify what had been misrepresented.

Councilman Luzius said that it was not on the part of the Boys and Girls Club, but rather there was some question on the process and some of the groups felt that it was prearranged. Mr. Musgrove said that there has been no favor given to their group. They have gone through every step required of them, from permitting to meeting with the Acker Board, and holding neighborhood meetings. They are set for a hearing before the Board of Adjustment on October 18. They have spent close to \$1,000 just in fees.

Mr. Norwood said that he will have Mic Fenech review the process followed. There were a few groups that showed some interest and staff made it very clear to them that there were no City funds budgeted to repair the facility.

Councilman Lamerson said that it wasn't too long ago that they heard that the building was not safe, so he is glad to hear that Mr. Musgrove is involved. He added that there is more to public health and safety than just police and fire; they have long needed a place for the kids.

Mr. Fenech explained that from the moment the facility became available, staff had received calls from groups interested in using it. They let them know a few things right up front—the use would have to be approved by the Acker Trust Board and the City would have to post a Notice of Intent to Lease. They were also told that the neighbors would have to be involved in the process. He said that staff met several times with the Boys and Girls Club, and that group took it to the next level of getting details of the building and going before the Acker Board. Because of their interest and time constraints staff published the Notice of Intent to Lease on September 16 and 23 as required. Two proposals were received. Sue Marsh called him and had questions about the process, and he explained them to her.

Sue Marsh of 4CCDD said that they were the other agency to submit a proposal. She said that for the past 18 months they have been putting together a nonprofit board so they could put something together. Several months ago they contacted the City and were told that the building would not be rented. She said that they made their proposal, but nowhere in the advertisement does it say that they have to bring the building up to Code. She said that she has no problem with the Boys and Girls Club, but the City puts a log of money into their parks and recreation facilities that are not being used.

Councilman Roecker asked Mr. Lloyd if the notice needed to say that. Mr. Lloyd said that he had not had an opportunity to review the Notice. Mr. Norwood said that it had been worked through Mr. Kidd.

Councilman Blair said that there does need to be a process in place and it needs to be worked out before it gets before the Council. Mr. Fenech said that the Notice of Intent to Lease did mention the Acker Board, but they left the notice quite general to solicit as many to come forward; it was not meant to mislead.

Mayor Simmons said that the Boys and Girls Club is able to bring the building up to Code. He asked if the other organization was equally prepared to bring it up to Code. Ms. Marsh said that no one told them it was required.

Councilman Roecker asked Ms. Marsh if they knew they had to contact the Acker Board. Ms. Marsh said that no one told them that. He asked her if they have looked for other facilities. Ms. Marsh said that they have looked at many.

Mr. Fain said that he is not a native of Prescott, but their family has been in the area a long time. He said that this is an important project; they are not treated any differently than anyone else. They have a task force in place and they saw a building. They are an active 501c3 today and there is no ramp up for them. They felt it was important to start with the Acker Trust Board. He thanked the Council for their time and encouraged their support.

Councilman Luzius said that no one accused them of getting any favorable treatment; his concern was with the process. Their proposal seems to be a great fit for that property and it has disturbed him that it has sat empty. It is not clear what the process is and the system stinks.

Mr. Fain said that they followed the process like anyone else, and kept asking questions.

Councilman Roecker said that he didn't think the system stinks. Everything has been happened in the public. Meetings with the neighbors were held, notice was given. He asked if they would still be able to get their grant if this is not voted on until October 23. Casey Knight said that it will put a lot of pressure on them, but they will get through it.

Councilman Blair asked if the Acker Board would be able to meet and consider the other proposal. He said that legally they have advertised as required; they should let the Acker Board look at this.

Councilman Lamerson said that he appreciated the comments of the Council and appreciated Mr. Musgrove's dilemma. He said that they are elected to do what they think is the right thing. They have needed a Boys and Girls Club for a long time.

Discussion was held and the Council agreed that the Acker Board would call a special meeting to consider whether both of these proposals met the requirements. Mr. Norwood said that he would have the final decision posted on next week's agenda.

F. Granite Dells Estates I & II

1. Consideration of Development Agreement with Granite Dells.
2. Review of Cost-Benefit Analysis.
3. Public Hearing on proposed annexation.

Mr. Guice said that this is an annexation request involving 1140 acres in the Granite Dells area. There are three parts to this item—the Cost Benefit Analysis, the Development Agreement and the public hearing on the proposed annexation. This is the first annexation request to be reviewed in relation to the Proposition 400 and the City's Resolution No. 3735 which prescribed the policy for large-area annexations.

The process began in June with a presentation to the City Council by Jason Gisi, who is the agent for the property owner, Mike Fann. Since that presentation in June, the developer held a community meeting and then the Planning and Zoning meeting of June 28 had a presentation and discussion. The developer held a second community meeting on July 6. The project was introduced to the Open Space Committee on July 10. The Planning Commission did a site visit on July 11 and at their meeting of July 12 they did a unanimous recommendation to the Council of the Master Plan, which begins the public portion of the public review of Prop 400. The Open Space Committee did a site visit on July 25; the City Council did a site visit on August 14. Staff initiated the annexation process per Arizona Revised Statutes on September 10, which began the 30-day waiting period, and during that period a public hearing is to be held, and the public hearing is scheduled for today.

Mr. Guice said that the Planning Commission reviewed the Master Plan at their September 27 meeting and they reaffirmed their original recommendation, 4-0 to recommend approval of the Master Plan. Staff held a public meeting in the Library on September 20 with a consultant of ESI to review the assumptions and preliminary findings of the draft Cost-Benefit Analysis. Per the Arizona Revised Statutes, the earliest the

Council could consider adopting an ordinance annexing the subject property would be at the October 23 meeting.

Mr. Gisi said that they are now on the fifth generation of the site plan, which was on the overhead. It started with a Master Plan that was more of a bubble plan in nature; today it shows the progress made. The lotting regime that is beginning to take place is consistent with the Master Plan that has gone through Planning and Zoning twice, unanimous both times. The Development Agreement is close to being complete. They are still working to tie up a couple of loose ends and the annexation request will hopefully move on at the end of the meeting today to get the petitions out for signature as they continue to refine the development agreement, with the rezoning to take place in concert with the plan before the Council, probably in the first quarter of 2008.

Judy Scalese, with ESI Corporation, said that the company was founded 16 years ago in Phoenix with a focus on predevelopment planning work. What is presented today is the analysis looking at the third generation of the conceptual plan. As they start refining the land uses and as the market changes, they can expect that it will evolve over time.

Ms. Scalese said that they take the land uses being proposed and the associated square feet of dwelling units and look at what the fiscal impacts would be to the City, what the construction sales tax generated would be, occupancy tax associated with the development once it is absorbed, what the property taxes generated are, etc. They looked at this over a 15 year time horizon, which met with the time frame of the development agreement and encompassed the construction and absorption schedule of the project.

She said that on the cost side they looked at what the costs would be for the City to actually deliver the services, and also looked at the cost for the City to be required to put in the water and sewer infrastructure. Those dollar amounts were provided by the staff which were generated by two consulting firms—transportation – Lima & Associates; water/sewer – Carollo Engineers. They also looked at the potential costs if the City were to bond for its portion of the infrastructure improvements.

Councilwoman Suttles said that the Parks and Recreation Master Plan was just completed and she asked if any of that information was part of this. Ms. Scalese said that their information deals with new parks and facilities within the community. This development would be homeowner association driven, so while there is an opportunity for the developer to donate some park acreage for the local residents that are there, no doubt it would be maintained by the local homeowners association.

Ms. Scalese said that they made their presentation on the 20th and walked through the model and some of the key assumptions that went into the model, then received feedback from the audience. One of the comments received was that the inflator rate used (2%) would probably not accurately reflect the real rate of inflation so they modified that to a 2.9% inflation rate. She said that they were also asked to include other costs associated with City services, instead of just police service. They worked with City staff and got that information based on the City's 2008 operating budget. The cost of the per capita basis and cost per square foot basis was included in the model, as well as what the debt service would be on a 20-year bond at 5.5%.

She said that over the 15 year time horizon the Granite Dell Estates is estimated to generate about \$65 million in tax and fee revenue to the City, including construction sales tax, building permit fees, development impact fees, property taxes, TCP tax, retail sales, etc. About 38% of that would be recurring in nature.

Councilman Luzius said that the list today, page 4, in comparing with the one submitted at the public meeting has a discrepancy. Today she said that the total revenue is \$65,188,305 and on the draft proposal it was \$73,737,071. He asked why there was a difference. Ms. Scalese said that there was a change in the land plan provided to them. The amount of square footage of space was initially 3.2 million; it has been reduced to 2.7 million.

Looking at the cost of service, over the 15 year time horizon came to about \$13.7 million. She said that adding the infrastructure costs of water and sewer along with road maintenance required they are at \$43.3 million, with a net difference of \$21 million, so the costs would not exceed the total revenues generated. If they start to look at the bond debt service for that regional infrastructure, she had it below the line because not all of it is for this development, it is regional.

Councilman Luzius asked if "regional" infrastructure included regional transportation. He said that on the paper submitted a few weeks ago it show \$29,408,000 and today there is nothing. Ms. Scalese said that the regional transportation infrastructure initially was included for the total cost that the City would be responsible. It became apparent that the developer is responsible for about \$4.6 million that is necessary to service this project and the balance would be for regional infrastructure that all citizens of the community would use, as well as any new development built into that area in the future, so it made sense to not include the total burden of that regional infrastructure on this development, because it would be shared with others down the road.

Councilman Luzius asked what that included. Ms. Scalese said that she believed that was the Dells Ranch Road interchange and Granite Dells Parkway. Mr. Nietupski said that the regional transportation that is considered in this scenario is Dells Ranch Road, which is equivalent to the Side Road Connector, Granite Dells Parkway, which is an extension of Dells Ranch Road up to the traffic interchange at SR89A. He said he would go into more detail later in the meeting.

Ms. Scalese said that by 2011 there is a positive cash flow to the City in terms of revenue over costs and the City's costs are about one-half the revenues generated. As they move into the development and construction stops, and they start just generating sales tax and property tax revenues, the cost of services is roughly 50% of what the revenues are generated at that time.

Councilwoman Suttles said that these numbers are based on total build out in 15 years. She asked if they had total build out of other subdivisions, such as Prescott Lakes and Yavapai Hills.

Jack Wilson, in referring to Page 4, Summary of Financial Impacts, there is a footnote (1). He believes that the footnote is inappropriate because the City infrastructure is required by July 2009 so the costs should be shown in 2008 and 2009. Costs do not change; they change where they are at.

Mayor Simmons said that his understanding was that the infrastructure was to start by July 2009. Mr. Wilson said that unless he is misreading the development agreement, the water has to be to the property by July 2009.

Mr. McConnell said, with regard to water and sewer infrastructure, and he believes is also the case with transportation infrastructure, some infrastructure would be required by June 2009, but not all of the infrastructure which would be required for build out of the entire development. The response will depend upon the timing of the development plan.

Mr. Wilson said that they have a whole set of very specific requirements in the development agreement, talking about 2,000 gpm of fire flow and they can't pull a partial sewer line to the property line, or a partial water line, so he contends that even though the numbers don't change the picture in terms of money the City is up fronting on this would change and therefore it would be more realistic to show it properly.

Mayor Simmons noted that this is a work in progress. There is still a lot going on concerning the development agreement, and he would ask that everyone keep that in mind.

Mr. McConnell then provided a summary of the project and the development agreement, which relates to the project, specific in the areas of water allocation and provision of utilities (City water and sewer).

He said that the first aspect is water resource—the water that the City would furnish to this development through build-out. The plan provides for 550 units of market residential housing, distinct from workforce housing. Total water demand is 192.5 acre feet total, 40 ac. ft. of that would be allocated in the current calendar year (2007) with the balance of 152.5 reserved and incrementally allocated over the four successive years at 40 ac. ft. a year.

He said that the development agreement provides that the water allocated and reserved would be available for 15 years following approval of the preliminary plat and water service agreement. Any unused water would revert to the City after those 15 years.

With regard to commercial and industrial subdivisions, the City uses an allocation of .35 ac. ft. per residential unit, which includes a component for the demand which commercial and industrial, which usually accompany residential.

The second topic is water infrastructure. Carollo Engineers identified water infrastructure which would be required to serve this property through build-out. That work, which includes cost estimates and allocation of how much would be the responsibility of the City and the property owner, those are all summarized and provided in the packet. He then reviewed the table. At build-out, it adds up to about \$24 million. Not all of that infrastructure would be required on day one. On the other hand, the provision of that infrastructure and its financing would depend upon how it actually builds out and is phased, and that requires annual dialogue between the developer and the City to ensure that the infrastructure is there to support the development agreement.

Mr. McConnell said that sewer infrastructure is a little different. Carollo Engineers analyzed that as well, and he reviewed that corresponding table, with \$3.5 million for each party. Because of capacity limitations, any major new developing is going to require capital improvements for sewer. As discussed earlier in the meeting, these sewer projects would be put in the capital program.

He said that an important aspect of the development is not only how much it is going to cost, but how it is going to be paid for. As they go forward that will require more work. Specifically, inputs into that water/sewer financing plan include the phasing development and timeframes.

With regard to the cost-benefit analysis, water and sewer are separately accounted, so while the overall cost-benefit may be positive, the financing plan will need to look at each of those enterprise funds and determine what the effect will be on each. Then there will be questions on whether the projections are accurate with changes in the market.

With respect to the development agreement, they have had a number of discussions with the property owner and their legal counsel. There are some current concerns at the present time and hopefully they can be resolved. One primary concern has to do with the requirement in the present draft that the City have infrastructure available on June 1, 2009, and that if the Council entered into the DA this month in October, but the annexation was not complete, the City would be placed in the position of having committed to infrastructure without the property even being annexed into the City.

From the utility standpoint, the second major concern has to do with some terminology in the agreement of "adequate" and "sufficient." While that may seem innocuous, the City Attorney also has some comments on the Development Agreement which pertain to potential damages that the City would be obligated to pay in certain events, and to the extent that there are different interpretations of "adequate" and "sufficient" it makes it difficult that the City enter into such an agreement.

With respect to the staff view of this project, there are only a few issues which remain in terms of the Development Agreement. There are certainly questions and a lot more dialogue which could be brought to bear on financial analysis, but they believe it is a good project and in terms of utilities, it makes sense because it is in the Airport area, it is adjacent to and would enable extension of City utilities. There are a lot of pluses which favor the project. On the other hand, they are not quite there.

Councilman Blair said that he supports this annexation 100% for many reasons, but the most important reason is they have an ability to be a part of what is going to happen on the property and how it unfolds. He asked what the liabilities are to the City and if they are equal to that of the developer. He asked what would happen if the City reserves the water for that development and then Mr. Fann decides to sell it, if they are obligated to that water. He said that he would like to see that anchored down. And, at that point in time, if it were to happen he asked if that would require a new Master Plan.

Mr. McConnell said that the short answer is that it is all about risk. If the agreement is approved there would be a substantial quantity of water tied up for 15 years. Secondly, the City would embark upon making capital investments. Those are City risks. The City Attorney has pointed out, with respect to performance, that the City has performance requirements and virtually no performance requirements for a phase, or some number of dwelling units, etc. on the property owner side. The project is of mutual benefit, the question is risk and performance.

Councilman Lamerson asked at what level in the conversation they address performance and risk to more than just the City. He views this as a partnership; they can't have it just one way. He asked where it is written that the citizens are protected. Mr. McConnell said that every project is different. Using the example of Storm Ranch, when the Council saw that project and allocated water it was at the time of preliminary plat, so they had the assurance that it was the plat and there was water with it. That was distinct from what they have before them today, which is a mix, where they have a very general master plan, a request for allocation of water, a proposal that there be an annexation. In the simplest terms the Council could decide they're interested in the annexation, and in order to make that happen they'll provide the water, but they don't want to make specific performance requirements until there is a corresponding list of performance requirements on the part of the property owner/developer. There are different ways to go about this. They don't have detail on phases and time, but they do have considerable detail about the performance requirements of the City when the property isn't even annexed and there are no plats or anything to look at. That is the concern at the present time.

Councilman Lamerson said that he doesn't personally deal with numbers of this size. He appreciates the private property owner looking at Prescott, and he thinks it is in the City's best interest to work and develop something that is good for everyone. His opinion is that it is in the developer's best interest to be in the City of Prescott. Prescott has something to offer that Prescott Valley doesn't have, or Yavapai County, one of which is assured water. One of the things he would hate to do is obligate the City's water without an obligation of development. He asked if they have an opportunity to confront the developer and ask what they can do to get through it. He's committed to get the property into the City. He's also committed to working with the developer so they're not taking advantage of him, but he doesn't want him taking advantage of the City. He wants it to be equitable.

Mr. Nietupski then reviewed the transportation infrastructure based on the development agreement. Councilman Blair asked if they have addressed

the utilities based on the infrastructure coming in. Mr. Nietupski said that he is addressing the transportation, but he believes that the utilities will be delivered to the northwest corner of the site.

Mr. Nietupski said that the work that Lima & Associates did defined proportionate shares of responsibility for the regional transportation system (Dells Ranch Road-2 mile section east to west and Granite Dells Parkway-from Dells Ranch Road up to SR89 and then the traffic interchange at 89A). The results found that 22% of this project would impact the development, leaving 78% proportionate for the region, City and others to defray those costs. As the Development Agreement is proposed at this time, the roadways within the property would be fully developed to four and six lane major arterial roadways with medians, curb and gutter and sidewalks, all done by the property owner at his cost. By constructing those to the full cross-section he would be contributing to the cost of oversizing the regional facilities which will provide benefit to others.

He said that in the cost-benefit analysis there is a breakdown of credits for roadway and oversizing and right of way associated with Dells Ranch Road and Granite Dells Parkway. As contemplated, the credit for oversizing of those roads would offset the responsibility of the developer to contribute to the Side Road interchange. The estimated cost of Dells Ranch Road is \$14.1 million. If they give credit for oversizing of the right of way and construction of the extra lanes, the credit would be \$4.3 million. Likewise, for a three-quarter mile section of Granite Dells Parkway, seven lanes, all of the associated costs would be \$6.43 million. For oversizing that, it is about \$2.6 million in credit, so the total conceived for credits in oversizing these regional roads is around \$6.96 million. Looking at the ultimate build-out cost of \$21 million, 22% of that (impact of the development) would be \$4.62 million. By the property owner constructing the oversize and dedicating the right of way, it is exceeding his proportionate share for the Side Road Interchange.

Mr. Nietupski said that the Development Agreement also provides for the private streets within the project to be constructed as rural roads with a 28 foot pavement, with four and eight foot graded shoulders, but they will have no curb, gutter and sidewalk. They would be private streets within the development, maintained by the HOA. There would not be a City responsibility for maintenance of those streets. The one thing about the Development Agreement is it does not conclusively designate the responsibility for construction of the segments that link the project to SR89A to the north or to the east in the vicinity of Great Western Interchange. They believe that those two components should be dealt with in the Development Agreement so there is no ambiguity about whose responsibility it is.

He said that the DA does provide for the commencement of construction for the Side Road traffic interchange on June 2009, consistent with another agreement that the City has entered into with Yavapai County. That is not something new, but it is a performance provision of the DA.

Councilman Luzius asked if they have picked a location yet for the Side Road Interchange. Mr. Nietupski said that the consultant is still working on that. The draft traffic report was presented last week. They will be proceeding with the analysis that was just recently authorized for alternative sites proposed by the other landowner in the area and once finished, they'll bring those back to the Council, probably by January 2008.

Councilman Lamerson said that since no one knows what it is going to cost yet, it seems that to try and assign responsibility would be difficult. He asked if there is any commitment from anyone else that should be involved. Mr. Nietupski said that as far as the Side Road Interchange is concerned, there is an agreement in place that commits the County up to \$1.5 million. There is also a side agreement with the Country Dells property owners which commits them to \$480,000.

Councilwoman Suttles said that going through the Development Agreement there is a school site, police and fire, with a sale offer to the School District of only one year. She asked if that is acceptable for something like this.

Mr. Gisi said that they have to have a sunset on that at some point. There is also a potential opportunity that is education based, that would also be in that sector of the development in the future, if it was to come to fruition. To put in a provision of the DA is problematic, especially when they get into the actual development of the property and they're talking with users that are ready to move forward to purchase land and develop land into the future (2009/2010).

Councilwoman Suttles said that they are offering to the City two acre parcels for police and fire, with a commitment needed with 60 days following annexation. Mr. Gisi said that if the City says they need more time on that, they would be happy to discuss that further.

Councilwoman Suttles said that she has talked with Mr. Kidd a number of times about the DA and he's not real happy with it. Mr. Gisi said that those discussions are ongoing. The heart of the matter is performance, as pointed out. They are at the high stakes table; there are tens of millions of dollar in play on the public side and on the private side. To date, 18 months after purchase he would guess that Mr. Fann's expense is probably \$2 million to make this happen.

He said that as they move forward, the monies that will be spent will grow exponentially, not only on the planning side, the cost to carry the land, and then the cost to build the improvements required in the DA. They have not yet landed on a resolution. They have been meeting on the issue almost daily, and it is evolving as they speak. It is a very difficult equation to solve because he wants a "kick out" provision. In the event that the City cannot perform on its obligations, Mr. Fann cannot say he wants to be deannexed.

Councilwoman Suttles said that they are at the end of this, and this needs to be addressed because with the number of objections brought up, she finds it hard to approve it. It bothers her that they are at this late in time arguing over verbiage and terms.

Mr. Gisi said that at the present time, it is scheduled to be voted on at the October 23 Council meeting. Councilwoman Suttles said that she hopes that the developer and his attorney and the City's attorney can get agreement on this.

Councilman Blair said that in reading the DA, he would ask that all of the subjective terms be gone and it become black and white because those can be litigated all day long.

Councilman Roecker suggested that they take citizen comments, take those into consideration and ask the attorneys to get together and work this out and come back in a few weeks with a new agreement that makes more sense, that is balanced.

Mayor Simmons said that he doesn't want the picture to be painted that there are a large number of things because he knows that some of the areas of fine tuning have been narrowed down quite a bit. They're down to maybe two or three areas that have to be worked on.

Councilman Luzius said that he is not in agreement with the preannexation development agreement as it is written today. The City's attorney has certain problems and he would be remiss if he approved this neglecting what he wants corrected. They need to get together and have these things out. Mr. Gisi noted that they had requested that the DA be included in the packet so that the dialogue could get started.

Mayor Simmons opened it up for public hearing at this time.

Roger Nelson said that he is opposed to the annexation. If this is not annexed, he asked if the City would still spend \$40 million on roads, and if they are going to annex it, he asked why the costs of the roads aren't included in the proposal. He said that they are putting taxpayer money to

work to enhance the profitability of the contractor. He said that there is no profit on the project. The money put into the project is going to be gone. The developer should pay for all of it. He pointed out that in the paperwork he has studied, the developer offers the two acre site for the police and fire department at \$572 and \$720, about \$260,000 an acre. For the 1112 acres, that amounts to \$289 million. Taking the 30% open land, it is reduced to \$200 million. He would think that if they went with this proposal to a banker, a banker would be happy to lend him the money for all of the infrastructure and he would still have a good profit. This doesn't include any of the money he is going to make on the homes he is going to build. Also, he hears the rumblings about the Verde River and the Federal government is involved, along with the State. The water they have down in Chino Valley that they're going to tap into is not a sure thing. His lawyer is protecting him, but if the City can't get that water, they have to find it elsewhere. He does not think the Council is serving the citizens of Prescott.

Thomas Slaback said that he has attended a majority of the meetings on this annexation, including the one on September 20, and he had a question that he's brought up at every meeting, but has never received an answer to, with regard to the cost-benefit ratio. It appears that all of the emphasis is going onto the cost of Side Road. They had some "new math" today show that it is not costing the taxpayers anything for that interchange, but nowhere have they discussed the interchange that will have to be built on Hwy. 89. Without this development there would be no need for that interchange. He understands it will probably be a giant roundabout, and they should be looking at the cost of that as well.

Councilman Roecker asked Mr. Slaback if he was in favor or opposed to the annexation. Mr. Slaback said that he thinks they would have more control over the property if it is annexed; however, with the group he represents, until they reach safe yield their position is that they should not do any more annexation because every annexation means they need more water.

John Danforth read a statement, attached hereto as Exhibit A. Councilman Roecker said that based on his comments, he asked Mr. Danforth if he was in favor or opposed to the annexation. Mr. Danforth said that he doesn't have enough information. He is inclined to be in favor but there are a lot of unsettled questions and the way the development agreement is written, he is concerned with the issues raised previously.

Howard Mechanic said that he would like to see the annexation; they don't have a deal yet and for him to make an opinion on a deal that is in flux is asking him to make an opinion on something that is so nebulous, but he would like to see it. He would like to see an annexation that benefits the

City and benefits Mr. Fann. He appreciates the length of the process that has gone on up to this point. Mr. Gisi has been available. This has continued to change. Regarding the process, in credit Prop 400, the City has done more on this annexation than previous ones. This fiscal study included a meeting a few weeks ago, with several good suggestions made, and the consultant went back and made some positive changes.

He said that the idea behind Prop 400 is to have enough time to not rush things through. He doesn't want to see this rushed through in the last week. The DA is not formalized. He doesn't want to see it come in within a week before a vote, and that's the end of it. They need at least two or three weeks to deal with the final product. Once it is presented to the public, give the public and themselves a few weeks to deal with any other issues before they vote.

Mr. Mechanic said that he expected the study to show a fiscal benefit to the City. Anytime they have an annexation around the country, studies have shown that residential properties absorb more costs than they return. Commercial and industrial produces more revenue for the city. So, if they have a product with a good portion of commercial they'll come out ahead. The major issue in considering the financing is the regional infrastructure and the developer will be charged about 22%. He asked who was going to pay the other 78%. It isn't presented, but the 78% is \$54 million. If Cavan gets lost somewhere he asked who would pay for it. That is the Council's hard decision.

He said that the definition of workforce housing needs to be clarified. Some time ago he was told that would be clarified, but it has not been to date. Next, the connection on the east/west road when it goes out of the property, it connects to 89 near the Phippin Museum. They are talking about a roundabout, and that is clearly regional infrastructure. The developer should not be responsible for that, but they should be responsible for some of it. He talked with Mr. Nietupski earlier in the day and was told that it was remote to the property. In looking at the map, that property is closer to 89 than it is to the Side Road intersection.

Mr. Mechanic said that the paper said that there would be additional time for comments next week, and he asked if that was correct. Mayor Simmons asked Mr. Guice if they were set up for more comment next week. Mr. Guice said that it is the Council's discretion to keep it open until next week or to close it today. Historically, whether or not there is a public hearing scheduled, the Council has usually allowed for public comment.

Mr. Guice noted that on the City's website they have both the cost-benefit analysis and the development agreement. As well, they left the link for Prop 400 comments open.

Mr. Mechanic asked Mr. Guice to clarify the green strip on the right side of the map. He was told this morning that they pulled that open space strip, adjacent to the Peavine Trail. Mr. Guice said that his understanding is that they are now looking at Version No. 5 which does not show a green strip.

Mr. Gisi said that Mr. Mechanic is correct. The earlier version showed a very large buffer to the Peavine Trail. At the Open Space Committee they asked what the most important piece of ground was, and the answer was the buffering of the Peavine Trail. The reason that they came up with the fifth generation plan is they are still playing with the lotting regime. Those questions will be definitively answered in the zoning case, assuming they get there with the preliminary plat. He did not want to make a representation that there is going to be a giant buffer on Peavine in the location of the most prime, or most valuable lots of the 1142 acres. By the same token, they had the two maps at that meeting that showed the worst-case scenario and best-case scenario and he didn't want to be hung or pinned to a version that he represented in a public forum. That issue is in flux. They are very aware that it is sacred ground, but it is very, very valuable. There is resolution there and there is common ground to be found, and it will boil down to both parties working together.

Mr. Mechanic said that he believes that this is an issue to have settled before annexation is complete because they are in a situation where the City can negotiate with the developer on an equal footing. Later on, after the annexation is approved, they will be "requesting" not "negotiating." Staff has not gone to them and said they need the buffer. He said that he is not ruling out that the City should offer some compensation for that property. Mr. Gisi said that their intent is to comply with the requirement of 25% open space at a minimum. Their opinion is that it would be defined in the planning process.

Leslie Hoy asked Councilman Roecker if he was in favor of the annexation. Councilman Roecker said that he is in favor, but he thinks that the DA needs some work.

Ms. Hoy said that she attended the meeting on September 20 about the cost-benefit analysis and received a new draft and compared them. She does not understand why the \$21 million for regional transportation costs were removed from the cost side. On Page 10 there is a footnote that says that the developer is responsible for 22% of the costs, but she asked if the developer can build just 22% of the interchange and later someone builds the rest. Mayor Simmons said that they will have responses to everything next week.

Ms. Hoy asked how bonding this infrastructure would impact the City's ability to bond for the pipeline. Mayor Simmons said that will be addressed next week as well. He said that there are a lot of complicated issues, so they will be taking all of the questions, and responding to them all next week.

She said that she was involved on the steering committee for Prop 400, and when she goes places people give her input. For most citizens, the numbers being talked about are not really important. Their main concern is how it will impact their quality of life, including: traffic, crime, air quality, water supply, open space, rising costs for City services, and this new annexation could be considered sprawl because it is out beyond other contiguous residential area. In the City's consideration, she hopes they will consider these issues.

Dave Maurer, CEO of the Prescott Chamber of Commerce, said that he agrees with many of Mr. Mechanic's comments. The Chamber has been on record of supporting this annexation and he doesn't think there has been anything to dissuade them from changing their position at this point. Their overriding concern is that by bringing this into the City, having control over the infrastructure and growth, it is a much better opportunity than having it developed in the County or another municipality.

He said that in any growth state such as Arizona, there are going to be more and more of these opportunities. This one includes a local developer that has the best interests, he believes, of the community. It is down to the finest of details that get beyond the groups such as the Chamber or citizens.

Yvonne Dorman first thanked Mayor Simmons for listening to her all of the years, and she wished him well. She said that she has a problem with the economics. She was told several weeks ago by a realtor that there are approximately 5,000 empty homes in the area that have not been sold. She said she was just corrected and told there are only 3,200. Those homes represent 1120 ac. ft. of water that is not being used. She asked if those homes are included in monthly numbers. She said that in addition to that, they are talking about adding another 550 homes, and the amount of water is adding up.

Ms. Dorman said that the Associated Press published an article with information from the National Association of Realtors stating that sales for existing homes dropped 21.5% from a year ago. It specifically said that the hardest homes to buy are those in the northeast and the west, especially those over \$400,000. She didn't know what the price values will be on these proposed homes. It looks like, "if we build it they will come." There are 92 homes just in her area that have not sold; 10 within

two blocks that have not sold. Many of these homes are covered with weeds. If people buy these homes and don't live in them, she asked who would be taking care of them.

Mr. Gisi said that this is a democratic process in work; it takes a lot of stamina. This process has been good overall. The reason he signed up was the challenge—it is a unique piece of Prescott and it deserves to be master planned. The annexation, in order to keep it on track based on the time constraints on the private side, he requests that the public hearing be closed on the annexation, not the other issues, but that would allow the staff to release the petitions to the neighborhood so they can place their vote and keep this on track, assuming that the development agreement is resolved in a successful manner.

He said that going back to Ms. Hoy's comments regarding 22% of the traffic interchange, he believes at 89 and 89A there was a contract let for around \$6 million. Assuming that there is \$2 million worth of dirt work on that traffic interchange that services two state highways, they come to a total of \$8 million. They are estimating that the traffic interchange at Side Road is \$20 to \$22 million into the future. Those assumptions are made based on the assumptions in the general plan. In the general plan, the 1142 acres could have 1,900 residential units on it; there are 550 market residential plus 160 workforce housing units. He questions whether they are really dealing with a \$20 to \$22 million traffic interchange. He asked if the traffic interchange could be phased; is it going to be phased.

Discussion was held on closing the public hearing. Mr. Guice reviewed the annexation process. Ms. Hoy cautioned the Council on the appearance of closing the public hearing.

Mayor Simmons closed the public hearing.

- G. Approval of the Minutes of the Joint Special Meeting/Regular Study Session of the Prescott City Council held on September 18, 2007, Minutes of the Special Meeting of the Prescott City Council held on September 25, 2007, and Minutes of the Regular Voting Meeting of September 25, 2007.
- H. Selection of items to be placed on the Consent Agenda for the Regular Voting Meeting of October 9, 2007.

Councilman Lamerson read the Consent Agenda items as follows: A, B, C, E and G.

IV. ADJOURNMENT

The Study Session of the Prescott City Council held on October 2, 2007, adjourned at 6:20 p.m.

SPECIAL MEETING

I. Call to Order.

Mayor Simmons called the Special Meeting to order at 6:30 p.m.

**COUNCILMAN BELL MOVED TO RECESS INTO EXECUTIVE SESSION;
SECONDED BY COUNCILMAN ROECKER; PASSED UNANIMOUSLY.**

The Prescott City Council recessed into Executive Session at 6:30 p.m.

II. EXECUTIVE SESSION:

A. Discussions or consultations with designated representatives of the public body in order to consider its position and instruct its representatives regarding negotiations for the purchase, sale or lease of real property, pursuant to ARS 38-431.03.(A)(7)

1. Properties located in the vicinity of Granite Dells.

III. Adjournment.

The Prescott City Council reconvened into Open Session at 6:45 p.m. at which time the Special Meeting adjourned.

ROWLE P. SIMMONS, Mayor

ATTEST:

ELIZABETH A. BURKE, City Clerk