

**PRESCOTT CAPITAL NEEDS COMMITTEE
MEETING - PRESCOTT, ARIZONA
MARCH 5, 2008**

A MEETING OF THE PRESCOTT CAPITAL NEEDS COMMITTEE WAS HELD ON WEDNESDAY, MARCH 5, 2008, at the Rowle P. Simmons Community Center, 1280 Rosser, Prescott, Arizona.

COMMITTEE MEMBERS PRESENT: Malcolm Barrett, Jr.; Joseph Baynes; Steven Blair; Paddie Braden; Stephanie Bragg; Frank Cimorelli; John Danforth; Tilden "Skip" Drinkard; Eloise Esser; James Lawrence; Tammy Linn; David Maurer; Milbeth Mauer; Robert Reuillard; Elisabeth Ruffner; Rowle Simmons; Roger Swenson; Robert Weiss; Ronald Younger.

COMMITTEE MEMBERS ABSENT: Ken Lain and John Stevens.

1. Call to Order.

Chairman Linn called the meeting to order at 4:04 p.m.

2. Review by Chairman Tammy Linn of Committee Ground Rules.

Discussion was held on ground rules to be followed by Committee members. The following rules were discussed and agreed to:

- ◆ Be cordial and respectful
- ◆ Start on time
- ◆ Robert's Rules
- ◆ Turn off cell phones
- ◆ Treat departments fairly – provide adequate time for each
- ◆ Be prepared; do homework

Chairman Linn said that it was her understanding that the Committee was there to evaluate whether they will go forward with questions at the General Election, and they need to keep focused on what is best for the community, not personally.

Chairman Linn said that today's meeting will be a little different; because of the varying backgrounds they would have a brief presentation regarding the Open Meeting Law so that everyone understands what they can and cannot do. Also, she said that they all need to have a foundation of terminology and after Mr. Woodfill's presentation they will have a better understanding.

Chairman Linn said that the General Plan of the City has been developed and the Committee members need to understand that things have been set as a priority in the past. She said that members do not have to read the entire document, but she believed staff would be willing to provide a copy to anyone interested in reading it.

3. Approval of minutes of the February 20, 2008 Committee meeting.

DANFORTH MOVED TO APPROVE THE MINUTES OF THE FEBRUARY 20, 2008 COMMITTEE MEETING; SECONDED BY BARRETT; PASSED UNANIMOUSLY.

4. Overview of Open Meeting Law by Elizabeth Burke, City Clerk.

Burke gave a brief review of the Open Meeting Law, a copy of which is attached hereto as Exhibit A.

5. Presentation by Mark Woodfill, Finance Director, on Finance 101.

Woodfill reviewed some of the various approaches used by the City in the past for financing improvements. He said that they have done some joint projects, such as with Yavapai County, the School District, as well as private/public partnerships, such as with the YMCA and Adult Center. He said that they need to understand that once the capital is spent, then they have operating costs to consider.

Woodfill then reviewed a handout that outlined the various debt options, attached hereto as Exhibit B.

General Obligation Bonds – Woodfill said that these require voter approval and have limits established—either 6% or 20% of secondary assessed valuation. He said that currently the City has \$101 million of bonds under the 20% limit, and \$32,420 under the 6% limit.

Woodfill said that there are currently 13 ballot issues (at the State level) being brought forward that could change these restrictions, although he is not sure that they will all make it to the ballot.

Woodfill said that repayment for this debt is through secondary property tax, which is a direct impact on citizens.

City Revenue Bonds – Woodfill said that City Revenue Bonds are done through the Municipal Property Corporation (MPC), through a citizens' board, and they do not require voter approval. The City has used these bonds for operations that have a repayment source. He explained that they wouldn't want to take an issue to the voters such as improvements to a wastewater treatment plant because it is something that has to be done, and the voters may say no. He said that is why they do improvements like that through the MPC.

Street and Highway Revenue Bonds - Woodfill said that Highway User Revenue Bonds are issued against the City's share of the gas tax, but this revenue source is constantly under attack by the State Legislature, often to cover increasing

costs of the Department of Public Safety, and the City's share is going down each year.

Improvement Districts – Woodfill said that improvement districts are not too relevant, but they can be used in specific areas of town where the citizens may want an improved level of service.

Lease Purchases – Woodfill said that this type of funding has been used for such things as hangars at the airport, pumps for golf course and golf cart equipment.

Private Activity Bonds – Woodfill said that these are issued through the Industrial Development Authority on behalf of companies that may want to come into the City and there are different revenue sources, such as WIFA (Water Infrastructure Financing Authority).

Norwood noted that sales tax is another funding source, and that has been the main revenue sources with the MPC. Woodfill said that as they move down the list on the handout, the rates go up.

Barrett asked for examples of different projects where the various funding sources have been used in the City. Woodfill said that General Obligation Bonds were used for the lakes purchase in 1998 and the new Police offices in 1989. Leases have been used a lot—such as for golf carts, airport mowers, restaurant equipment, computer systems and commercial hangars. The Municipal Property Corporation is used heavily in the enterprise funds; leases are used for the smaller capital costs, usually \$1 million or less. The MPC has been used for such things as the Big Chino Water Ranch purchase, the Airport Wastewater Treatment Plant, Transfer Station expansion and Central Garage.

Woodfill said that the City currently does not have any revenue bonds other than through the MPC. He said that the City has not used the Private Activity Bonds, but they were used by the Tribe for the Casino.

Barrett asked what the City's current capacity is and how much it has used. Woodfill said that the General Obligation Bonds are at \$101 million under the 20% limit and \$32,420 under the 6% limit. The Revenue Bonds and MPC are covered by the market—as far as what the market is willing to let the City pledge. He said that with the existing excise tax, maybe at \$90 or \$100 million, but they don't have the revenue to pay it back.

Reuillard asked what the range of percentage interest was on the payback. Woodfill said that it depends on the market, term of bond, and whether they are issued through WIFA, because there is a subsidy from EPA on those. Through WIFA, at a 20-year payback, it could be around 3%; General Obligation Bonds for 30 years could be at 4.5% or 5%; General Revenue Bonds are usually between 4% and 5%.

Reuillard asked if it was any less to insure. Woodfill said that there are issues in the bond reinsurance market right now. Generally they are less; however it has gone through the roof. This last year the Council made it a priority to work on their debt rating, from A to AA, and that will help them. With the high insurance rates, they would probably be better without the insurance, although they do an analysis each time to determine the best way to go.

Maurer asked where the two General Obligation projects were in their life cycle. Woodfill replied that the Police building will be done in 2009 and the lakes included two components, the biggest would be in 2013 and the smaller in 2017.

Barrett asked if the City hadn't refinanced the lakes bonds when interest rates decreased. Woodfill said that they look at that constantly; he cannot remember if they included the lakes, but they did refinance the Police bond. He noted that even when they refinance, they do not extend the term.

Chairman Linn asked Woodfill to review the revenue sources and expenditures for the City. Weiss said that along with that, in business life if they don't have it they don't spend it. He said that if they do not have money in their funds, they will be recommending projects that need money borrowed for.

Woodfill said that the City's existing policy, and their preferred means, is to pay as they go, like they did with the parking garage, the adult center, and the library. In the past, sales tax revenues were budgeted at a reasonable tax rate and the actual revenues would come in higher. That surplus would be put into a savings account to accumulate. He said that with the sales tax doing what it is doing, it is slowing down and that fund has no money left in it. There is no perceived influx because of the economy, but in the future, they hope it will go back to that process.

Norwood added that with regard to sales tax, they have 1% for the General Fund, which is \$16 to \$17 million, and an additional 1% for streets and open space, which has been used for such things as Copper Basin and Iron Springs, where the City was able to pay cash for both of those projects. He said that most cities are issuing debt. That 1% is on top of the 6.25% from the state and 1% local, along with a small portion to the County.

Blair said that the Committee is looking at the financing element and in their recommendations to Council he would like to see the possibility of extending the 1% streets and open space tax in perpetuity. Along those lines, he would like to see a list of all city-owned properties that could be used to offset the overall costs, such as Sixth Street, Aubrey and properties in Chino Valley. To be realistic and prudent to the public, they need to look at all of those things.

Norwood said that staff can get the Committee members a list of the properties. He said that the 1% streets and open space expires in 12/2015, and the City Council has talked about extending that, either in perpetuity or for another 20-30

years. He said it would require voter approval to bump it up to pay cash for public safety or an aquatic center, but it wouldn't require bonded indebtedness.

Barrett said that it is hard to consider new revenue sources unless they know what the history has been. He would like to see a breakdown of revenue sources and expenditures by major categories.

Chairman Linn said that her understanding is that they could not bond, or get a loan, for street improvements because they don't have a payment source. Woodfill said that is because the 1% sunsets in 4-5 years, so the bond would have to be that short, and that would probably not be worth doing. If it was another 20 years out, they could bond against it.

Chairman Linn said that her understanding was that the 1% that expires in 2015 could not be used for maintenance of anything. Woodfill said that it probably could cover maintenance for streets, but the open space was restricted for just acquisition. Linn said currently maintenance is funded from the General Fund.

Woodfill noted that the revenue sources are available in the budget book on line, or via disk, but he would send something to the Committee.

Barrett asked who maintained that open space before the City purchased the property; he would like more information regarding that issue.

Chairman Linn noted that there are 1.25 million acres of open space around the City, through the Forest Service. Ruffner said that they need to understand more about open space.

Blair said that the open space 1% ends at 2015; anything past that does not have to include open space, but could possibly include maintenance. He said that the City is liable for lawsuits for not maintaining that property now.

Swenson asked if there was no water or sewer system debt. Woodfill said that it belongs to the water/sewer system, but it was issued through the MPC and those revenues are debt service, calculated into the rates.

Mauer asked what the ratio or breakdown was of the sources that contributed to sales tax. Woodfill said that the City issues reports that show that information, and he can send that information to the Committee as well. He noted that there is some confusion because businesses are in different categories and some may include food sales, such as Fry's. They are listed under food stores, but they do sell a lot of general merchandise as well. He said that he would get that information to the Committee before next week.

Swenson asked how impact fees work into the financial arrangements. Woodfill said that impact fees are charged at the time of building permits to cover the proportionate cost of the new development. They currently charge for water,

sewer, police, fire, library, recreation, parks, and public facilities. Those all go into separate funds and projects identified to increase capacity can tap into those funds, but only for the new impact. Those funds cannot be used to serve existing citizens.

Ruffner noted, as a matter of procedure, that minutes may not always include detailed information so for anyone asking questions, they need to be sure that they are clear on their answers as they may not always be in the minutes. Minutes will focus on general discussions and action taken.

In conclusion, Woodfill said that he would supply to the Committee members a summary schedule of revenues/expenditures, by source and type and a quarterly tax report showing sources of revenue. He said that both the budget and Comprehensive Accounting Financial Report (CAFR) include a lot of good trend information in them and more detailed summary.

Mayor Wilson added that the disk that is available is searchable and includes three years of the budget and CAFR. Woodfill noted that he had a stack of them available at the meeting.

6. Presentation by Craig McConnell, Deputy City Manager, on Capital Needs – Program and Projects.

Mr. McConnell distributed a handout, attached hereto as Exhibit C, and reviewed each part, including the definitions of *Capital Improvements*, *Capital Improvement Program (CIP)* and *Capital Project*. He said that the last page was a sample list of projects for the Water Fund from FY2009 to 2011, page 402 of the budget book. The page before that one in the handout is a list of capital programs; capital projects are put together to comprise capital programs. He added that on the capital programs page is a listing of the various funds—General Fund, HURF, 1% tax, etc.

McConnell said that the second page of the handout is an overview from the budget document that describes how it all fits together, talking about the City's investment in infrastructure, financing of capital expenditures (programs), pay as you go, bonding, borrowing, etc. and how the City puts together lists of programs and extends them out for future years. He said that the Council meets annually in January to set priorities and they set a series of goals and objectives, which is published.

McConnell said that in preparing for the meeting he looked at the minutes from the first meeting, to understand the Committee's charge, which stated that it was to "prioritize City's capital needs and investigate capital funding sources." He said that it is not enough to just prioritize capital needs; they have to also consider the operating impacts for future years. If they buy and/or build it, it then has to be maintained.

McConnell said that the Committee members will be hearing about all of the capital needs and prioritizing the projects from some, but not all of the programs. The capital needs for some programs, specifically enterprise funds (water, wastewater, solid waste, transfer station, etc.) are separately accounted for and they are distinct funds that cannot commingle money from. He said that the capital needs for some of the enterprise funds are already being considered on an ongoing basis by Council through the rate/fee and impact fee study. Next month they will probably see a presentation to the Council for water and wastewater rates. By setting those rates and fees to fund operating and capital expenses for enterprise funds, the Council has already done or is in the process of setting the priorities.

He said that simplifies the scope of what the Committee has to look at; it is not the role of the Committee, nor would they want to, go through each of the 150 long-term projects, but that is not to say that they shouldn't be presented the information. At the end of the projects, the objectives are not only to identify and prioritize the City's capital needs, but determine the entire impact on citizens considering all rate/fees.

McConnell said that if the water/sewer study goes to the Council and they increase rates to fund capital projects, there is a cost associated with that—for example, each water user may see a \$2/mo increase for water and \$2/mo increase for sewer. Then there are non-enterprise funds, such as parks and recreation. They will need to review how financing of those projects will impact the typical resident. The Committee should be interested in the impact of all items and look forward so there are no surprises. He said that the end result will be to determine the impact of all of it, and the Council will make an assessment on whether that is acceptable, and how it relates to the economy.

Simmons said that the Committee wouldn't be directly involved in impact fee increases or lining out projects, as much as they would be informed as to what the Council allocates. They will not be going to the Council and saying what they think impact fees should be. McConnell agreed; they will have parallel, but separate tracks.

McConnell said that the Committee is going through their track; the City has initiated its annual budget process and that is on a separate track, and they also have the water wastewater fee study going, and that is on a separate track. He said that they will all converge at the budget process and the Committee won't be equipped to get into impact fees, but they need to be aware of them.

Norwood said that the Council is ready to hear a presentation on impact fees next month. Water and sewer are safety issues; they don't want to go to the voters and ask to do something and have them say no, but the Committee needs to understand the total framework. They have a wastewater increase that will not be inexpensive.

He said that the Committee will hear and discuss the needs of solid waste, fire stations, a training center, new police administration building. There's nothing to say they have to have five fire stations; it is a matter of service level and that is what the Committee will focus on. He said that they may be looking at various financing options—extending the 1%, looking at a small increase on sales tax to make improvements at the rodeo grounds, etc. He said that those will be more of the issues.

Maurer said that he has seen five-year plans and those would be if revenues stay or grow as they should. He saw their role more as considering what can be done at this point, because of budget limitations. McConnell said that was correct.

Chairman Linn asked that staff make the department heads aware of the fact that the Committee is interested in the totality of all of the projects and their impact on the citizens.

McConnell said that they are going to see forms that either are for one project (fire station) or a utilities capital program, which is a program—not a project. He agrees that there are processes in place by which enterprise funds go forward.

Reuillard asked if this will cover projects that are somewhat funded, by have shortfalls, such as sewer. McConnell replied that the Committee is to look at needs and then work with staff to determine what financing mechanisms might be appropriate, and assess what the impact might be. They will hear about needs for which there is insufficient funding, some which can be solved by financing. With some of the problematic issues, such as the Sewer Fund, they will hear that rates have not been increased since 1991, and that will play out primarily in a different venue, through a rate/fee setting process.

Danforth said that he understands that the County is different, but he has been reading about their actions in looking at borrowing, and how their financing options were partly driven by the Constitutional limits. He asked how the City's home rule will play out in the process. Woodfill said that right now the City is under home rule, which is established each year at the time the budget is adopted. He said that comes forward every four years. If the public turned it down in the future, they would be at different limitations, such as the County. He said that they could still issue debt because that is outside of the limitations, but it is a limit that really helps the investment bankers. Right now he said they don't have that effect. He said that he believed it would be another two years before that was before the voters again.

7. Discussion of possible subcommittee formation.

Chairman Linn said that she had asked staff to provide an organizational chart for Committee members so they might have a clearer understanding of the City structure. It was noted that the chart was outdated and staff said they would have a new one prepared and distributed.

Chairman Linn asked the Committee if they saw a need yet for subcommittees. She said that she had thought it might be good to have a small group of those familiar with finances to work with Woodfill and provide assistance to the other members if there were questions. Simmons said that he is resistant to seeing a lot of subcommittees. He said that he has sat in on a lot of presentations by McConnell and Woodfill and they are easy to follow; he believed they could do it as a whole committee.

8. Adjournment.

Norwood said that they don't know where they will be meeting next week. He did know for sure they could get the old clubhouse at the golf course. He said that they would find something and give members plenty of notice.

Blair asked what they might expect to hear about next week. Norwood said that the next week or two will cover public safety—police and fire. He said that staff will try to get packets out to the members by either Friday afternoon or Monday at the latest.

Chairman Linn said that the agendas are coordinated through City staff; she and Vice Chairman Weiss are working with staff, so if there is something to add, members should get with her or Vice Chairman Weiss.

There being no further business to be discussed, the Prescott Capital Needs Committee meeting of March 5, 2008 adjourned at 5:40 p.m.

TAMMY LINN, Chairman

ELISABETH RUFFNER, Secretary