

**PRESCOTT CAPITAL NEEDS COMMITTEE
MEETING - PRESCOTT, ARIZONA
MAY 14, 2008**

A MEETING OF THE PRESCOTT CAPITAL NEEDS COMMITTEE WAS HELD ON WEDNESDAY, MAY 14, 2008, in the Arizona Room of the Hassayampa Inn, 122 East Gurley Street, Prescott, Arizona.

COMMITTEE MEMBERS PRESENT: Chairman Tammy Linn; Malcolm Barrett, Jr. (arrived at 4:21 p.m.); John Danforth; Milbeth Mauer; Roger Swenson; Eloise Esser; Tilden Drinkard; David Maurer; Rowle P. Simmons; Stephanie Bragg; Paddie Braden; Jim Lawrence; Elisabeth Ruffner; Steve Blair; John Stevens; Ken Lain; and Joseph Baynes.

COMMITTEE MEMBERS ABSENT: Vice Chairman Robert Weiss; Robert Reuillard; and Ronald Younger.

1. Call to Order.

Chairman Linn called the meeting to order at 4:00 p.m.

2. Approval of minutes of the May 7, 2008 meeting.

Correction was made to Page 2, third paragraph, changing "though" to "thought." Younger asked that clarification be made to the end of the second paragraph on Page 3, to read "*Barrett suggested that it would be easier to just show all the individual numbers for each item.*"

Minutes were approved as amended.

3. Results of the Following:

Chairman Linn said that today they will be reviewing the ratings and potential funding sources; next week they will develop the agenda based on today's discussions. She said that the ultimate meeting will be a Workshop with the City Council on June 10, 2008 at 1:30 p.m.

Blair recommended that the funding sources as well as projects be provided to the Council. Chairman Linn replied that would be the case, unless they ultimately determined that now was not the time to move forward.

Chairman Linn said that what is recommended to the Council will be by majority rule; not consensus, and not everyone will be happy. She would like to see some options given to the Council.

Stevens asked if it would be a simple majority vote. Chairman Linn replied that it would—51%. Ruffner stated that it would be 50% plus 1. Stevens suggested that

the entire group vote on the process. Bragg noted that they never voted if it would be by consensus or majority. Stevens said that a simple majority is workable. Lain said that he is comfortable with 11. Danforth said that by doing it by simple majority, it will be clear; they don't have authority to do anything—they are making recommendations to the Council.

Mauer asked if they will be considering more than one option for financing. Chairman Linn said that there has been some communication with her that if the issue does go to bond, there is concern with how it goes on the ballot.

Stevens asked that the minutes reflect the vote. Simmons added that it is important for the Council to know what the actual vote is. Lawrence said it is wise to put this off. If it comes out as a bond, and is being presented to the voters, it would mean more to them to know it was a small majority.

A. Ratings of Projects – Cost Neutral

Chairman Linn reviewed the initial survey, noting that the downtown fire station, airport terminal and park upgrades were all above 4.0 average.

B. Ratings of Projects – Cost and Operations Sensitive

Chairman Linn then reviewed the ratings of the cost and operations sensitive projects, noting that the downtown fire station was still on top. She then reviewed each of the projects.

4. Capital Projects Funding Options

Woodfill noted that the funding options on the first page of the handout are not in rating order; they are according to the order they were presented. He then reviewed Page 1 of the handout.

Chairman Linn asked if they have been pursuing the FAA (Federal Aviation Administration) grants; Woodfill replied that they have.

Lain asked if what was presented did not include any potential partnerships. Woodfill replied that was correct.

Woodfill then reviewed Page 2 of the handout, noting that Prescott Valley and Chino Valley don't have a property tax; however, they do have a secondary tax for the fire district since they don't provide their own fire service. He said that he has added those figures to make it more comparable.

Lain noted that Prescott is grossly under the other communities/entities on property tax. Woodfill said what causes this discrepancy is Prescott's past councils have always taken a conservative approach to property tax; they don't try to increase it. He said that they had a little over \$1 million in capacity annually

they could increase, but they have chosen not to. During the last election, there was an initiative that reset the limits, and looking at cities like Phoenix, Oro Valley or Flagstaff who have been increasing their property tax rates didn't lose any; unfortunately Prescott. by not increasing its tax rate until it was needed, lost its capacity. He said that it penalized those cities that are conservative.

Lain asked if they couldn't raise the property tax, and he noted that the state is proposing to raise their sales tax by one percent. Mayor Wilson said that there is an initiative on the ballot to raise the state sales tax by one cent to fund statewide roads for 30 years, in the amount of \$43 billion.

Barrett said, to clarify, that even though Prescott Valley and Chino Valley don't have primary or secondary property tax, the combined property tax rate and the fire district rate brings their rates up. Woodfill said that was correct.

Swenson asked if the 2% in Prescott included the 1% roads. Woodfill replied that it did. Swenson asked if any other cities had dedicated funds. Woodfill replied that Prescott Valley has added one. The charters of Prescott Valley and Chino Valley don't require a vote of the people.

Danforth added that it is virtually certain that the County is going to be requesting ¼ cent increase for jail services.

Barrett asked, of the current secondary tax of .2375, how much and when it would be retired. Woodfill said that .1923 was for lakes, and would be retiring gradually up until 2017; the other .045 is related to the police department station which will retire in 2009. Lain asked how money .045 was in dollars. Woodfill referred him to page three, stating that it depends on the term, interest rate, etc.

Lain asked what type of increase they would be looking at to fund all of the projects. Woodfill said too much. At this time, Chairman Linn asked for thoughts from the members.

Maurer noted that the outdoor only aquatic center falls below the line on both surveys, and suggested that they just leave in the indoor aquatic center for discussion.

Blair said that the bigger concern is which projects they eliminate. In reality, he asked if they have a five-year, ten-year plan. He asked how quickly they would complete the list. He said that he is not agreeing that they should bond. He agrees with Maurer that they would have a primary list and a secondary list.

Blair said that they need to go back to the public and ask that they extend the one cent in perpetuity, with clarification on open space, and then add a ¼ cent for other infrastructure.

Lain said that this process bothers him a bit. The Elks Opera House showed up way low on the list, but once it is done, it will pay for itself, and the same with the aquatic center--once it is on line, it could generate enough funding for maintenance and operation. He said that all of the expensive things are at the top, and then they cost the general fund to operate and maintain.

Blair said that people living here that have moved here asking what the property tax is. He said that the sales tax is generated by many different people; it comes out of everyone's pocket. He said that to him it would be more palatable to extend the 1% and add ¼ cent.

Maurer said that he is biased; they have known that one of the options is to say this is not the time, but based on the presentations, there are some real needs that aren't going to go away. There will always be some competing ballot issue. They need to recommend something. Part of him says they go for the needs, and throw in a few wants, and let the public decide.

Ruffner said that when they make their decisions, they have to go back and consider the stats given to them by both fire and police about service to the public. She believes that is why those needs were the highest because they wish to see service maintained tomorrow.

Swenson said that he disagreed with Blair; at least if it is a property tax they can deduct it off their State and Federal taxes, and even vacant property owners would be paying something. He said that sales tax has been for operations. A dedicated sales tax for roads and open space ties future councils.

Blair said that people that own commercial property tax would really see a jump. He does not want to see the property tax increased to where it is the highest in the area.

Swenson said that he is not fond of dedicated revenue sources unless it is a rate structure issue; it is not a best practice approach. Blair said that if they raise a ¼%, then they are generating \$20 million, and out of that they could say a percentage is saved for infrastructure.

Lain said that he agrees that the sales tax needs to be in perpetuity, but they need to be looking at all forms of funding.

Discussion then turned to impact fees. Swenson said that if they don't have a fair, reasonable impact fee, that cost falls on the current resident. Danforth said that he feared that some people don't understand impact fees, and their limitations. Woodfill noted that there are a lot of limitations. They have to have an infrastructure improvement plan that shows how much is for new growth. They cannot charge people coming in to provide for existing people. Blair said that his point is he wonders why they are asking the new people to pay impact fees when those that have been here awhile did not have to pay them.

Woodfill said that if someone moves here now, they pay a park impact fee. Blair said that he has been here for a long time and uses the parks, and they were not built with impact fees. Danforth said that they were paid by operating taxes. Lawrence said that in 1995 in order to reduce the property tax, they were going to put in place a properly-calculated impact fee. Blair said that does not get them to where they need to go.

After further discussion regarding impact fees, it was agreed that they would put to bed that conversation. Lawrence said that they were missing a little bit of the point. They would not be recommending an increase to them; they have to look at each of the projects and determine what portion could be covered by impact fees.

Woodfill said that the impact fees were adjusted 18 months ago, based on a study that was 1 ½ years old; it is time to do another study and the new law is much more restrictive and precise.

Simmons asked how much debt \$5 million would service. Woodfill said that it would depend on the term and interest, but with a 30 year term it would be about \$62 million.

Mauer said that she objects to an across-the-board sales tax increase. She wants the voters to have a choice on each of the individual projects. She said that a lot of the voters have a great deal of anger about their slush funds being given away for things they don't consider needs. It is a philosophical attitude and the economy.

Bragg asked how quickly the projects could get started if they were approved. Woodfill said that if they were approved at the November ballot, they could issue the debt pretty quickly. They could issue the debt quicker than they could get the plans developed. The financing side would not be holding the project back.

Woodfill noted that a pay-as-you-go concept with a sales tax increase would be different than issuing debt based on the increased revenue.

Bragg asked if they would be able to stagger implementation of various bonds for different projects. Woodfill said that his prior comments were based on one project; if they take five projects to the voters, it will take time to get them all going.

Barrett said that he agreed with Mauer, from political reality. He said that he believes that any sales tax increase is DOA (dead on arrival). Looking at the history of successful bond issues, when they were grouped they failed, but when they came back as separate projects, they passed. The more complicated they make it, the less chance it has of passing. People need to understand what it is and what it is going to cost them.

Barrett said that they should give them a laundry list of the top two or three. They need to propose extending the sales tax because that is where their streets maintenance comes from, and it allows them to bond.

Barrett said that he would not support adding the ¼% additional sales tax. Additionally, he said that they need to let open space stand on its own.

Ruffner said, with regard to a previous comment regarding “slush funds”, that her impression is that the \$5 million for the conference center, and others, have gone to improve the infrastructure and in turn helps to generate more revenue. It is an economic incentive. Woodfill said that is per Council policy; they are not slush funds. Mauer said that the voters don’t see it that way.

Maurer said that he would second what Barrett said, but he (Barrett) was saying to propose the top two or three projects; he would recommend they add a few more.

Mauer said that with regard to increasing the sales tax or extending it, they should consider throwing them a bone, and suggested that they not charge sales tax on food in Prescott. Ruffner said that she agreed 100%.

Danforth said that he appreciated Woodfill identifying the theory of the economic incentives, but he looked at the analysis of the most recent one, and there is no way he is convinced that there is an analytical basis. He said that he agreed with Mauer; there is a strong view in the community that they have a questionable basis for the economic incentive payment. He is not going to be out in front saying that their payments have been a good thing.

Danforth said that he is concerned with a sales tax increase. He said that they are getting a host of new retail facilities on the fringe of Prescott. He would rather have Prescott be a bargain relative to Prescott Valley for Chino Valley for shopping. They are not a bargain, and now they are looking at increases, with 1% for state and ¼ for the county, they will be close to 10%. He said that he is concerned with the amount of purchasing taking place on the internet, and how it zaps retail sales in the community. He said that local and national competitiveness leads him to believe they should be reluctant to increase sales taxes.

Younger said that California has increased a tax on things and not gained the revenues, because people shop less and buy less. He agreed; they may not raise the money they think they will raise.

Chairman Linn said that next week they will have a presentation by Steve Norwood regarding sales taxes, but asked Woodfill to review them. Woodfill said that sales tax revenues for the last quarter have not been great. He added that he understands the argument for food tax, but the problem is that Prescott is a grocery center for the Yavapai area and of all the tax collected, food sales is a

big percentage of it. If they do away with that tax, they would need to tax something else or reduce service levels. He said that the only stability in sales tax has been for utilities and food.

Lain said that, as a retailer, there are no such things as bargain sales taxes. As long as they are even with the surrounding taxes, he doesn't think that makes a difference. And, with regard to internet shopping, shipping costs are going up, so he doesn't believe that creates a problem.

Chairman Linn summarized that they have talked enough about impact fees; they are feasible for a small amount of some of the priorities. Further discussion was held on sales tax and whether they should propose extension of the 1% in perpetuity to the Council, and whether it should be earmarked for specific projects.

Maurer said that the current tax does not expire until 2015, and knowing they are most likely going to be facing a 1% sales tax statewide and a potential County jail tax, he thinks it would be a responsible recommendation to not put this on this year's ballot. It was noted that an extension is needed for bonding capacity. Mauer said that the word "perpetuity" would kill it; she suggested that it be extended enough to permit bonding. Lawrence said that they need a real discussion on perpetuity.

Lain asked for thoughts on a property tax increase. Barrett said that he was suggesting the 1% for streets and maintenance for always; that is his priority. He was not suggesting a percentage here and percentage there.

Ruffner asked Barrett if he was suggesting that the 1% question be on the November ballot. Barrett said that they should do it as soon as they determine they want to bond.

Swenson said that he would recommend that they not recommend the Downtown Fire Station because they won't be able to staff it. He said that looking at the second survey, where the statistical data becomes useful is looking at the Willow/Watson Lake Fire Station and the Indoor/Outdoor Aquatic Center. He said that even though the Indoor/Outdoor Aquatic Center didn't score well, there is a constituency that thinks it is a good deal; he doesn't think they want to drop it off the list.

Woodfill said that earlier they were talking about the general obligation bonds having to be voted on in November, but there is no such restriction on sales tax, so if they think it is better to wait and see what happens in November, they could do the sales tax in March of next year.

Danforth said that he didn't want to lose sight of the point Barrett made, of breaking up the list into specific types. He suggested they have a public safety package, which would cost an additional \$88 per \$300,000 valued home.

A lengthy discussion was held on how to approach the items, whether to address them individually, or cluster them by like types. **LAIN MOVED TO CLUSTER PROJECTS INTO LIKE GROUPS (PUBLIC SAFETY, CULTURE, PARKS AND RECREATION); SECONDED BY BRAGG.**

Stevens asked if they wanted to drop any. Lain said that he was the youngest guy on the committee and he has a family. The reason he moved back to Prescott was not because they could shave response time on fire calls. They want it to be safe, but the quality of life issues are the reason the city exists and he would not want to drop any of the items, such as the aquatic center.

Further discussion was held on separate or clustering, and whether to eliminate any of the projects. Bragg suggested that they cluster the projects and next week they may decide to get rid of some.

Hadley noted that they are already clustered in the way they were presented on the survey forms.

BRAGGS MOVED TO AMEND THE MOTION TO CLUSTER LIKE PROJECTS: A-E, F-G, H-N, O-P; RUFFNER SECONDED; MOTION CARRIED.

ORIGINAL MOTION CARRIED.

5. Adjournment.

There being no further business to come before the Committee, the Prescott Capital Needs Committee meeting of May 14, 2008 adjourned at 6:01 p.m.

TAMMY LINN, Chairman

ELISABETH RUFFNER, Secretary