

PRESCOTT CITY COUNCIL
WORKSHOP
TUESDAY, JANUARY 18, 2011
PRESCOTT, ARIZONA

MINUTES OF THE PRESCOTT CITY COUNCIL WORKSHOP OF THE PRESCOTT CITY COUNCIL held on January 18, 2011 in the COUNCIL CHAMBERS located at CITY HALL, 201 SOUTH CORTEZ STREET, Prescott, Arizona.

◆ **CALL TO ORDER**

Mayor Kuykendall called the Workshop to order at 3:02 p.m.

◆ **PLEDGE OF ALLEGIANCE**

Councilman Hanna led the Council and audience in the Pledge of Allegiance.

◆ **ROLL CALL:**

Present:

Mayor Kuykendall
Councilman Hanna
Councilman Lamerson
Councilwoman Linn
Councilwoman Lopas
Councilwoman Suttles

Absent:

Councilman Blair*

*Councilman Blair was connected telephonically

WORKSHOP

1. Discussion of FY2010-2011 and FY2011-2012 Budgets.

Mr. Woodfill began his PowerPoint presentation which covered goals and challenges for the budget process. He said that he separated the Operating and Capital Budgets because they had different purposes and a different flow cycle.

▶ YEAR TO DATE EXPENDITURES THROUGH DECEMBER 31, 2010

He said that with 50% of the year gone, 46% of the budget had been spent.

▶ TOTAL CITY

▶ ENTERPRISE FUNDS OPERATING BUDGET

He also said that 39% of the fund was in the Water Fund.

Councilwoman Linn asked him to explain why they could not comingle funds.

Mr. Woodfill said that an Enterprise Fund was used to account for an operation that the Council had determined would be better reported on a for-profit type of basis, more like a business. Generally they were related to user fees. Fees charged for services provided. When he set it up, he did not transfer things across them. There had to be a reason. There were also legal reasons for other funds, other than enterprise funds. Water and wastewater were the two primary funds discussed in the Arizona Statute that required studies for setting the rates. The expenses that could be offset against those rates were very specific. There were more legal restrictions.

Councilwoman Linn asked if the fund could be co-mingled. Mr. Woodfill said that it was not a good idea. He noted that Water and Wastewater were in one fund at one time. The Council could decide to put them together but they would have to keep the line items separate; there was no benefit.

Councilwoman Linn asked about comingling Enterprise and General Funds.

Mr. Woodfill said that there may be some funds that the Council may consider moving into the General Fund i.e. parking garage or golf course. Councilman Lamerson said that the revenues generated within the Enterprise Fund were normally expended within the Enterprise Fund. Mr. Woodfill said that he was correct and that Enterprise Funds were used to account for that revenue stream.

Councilman Lamerson said that there seemed to be some confusion among the citizens that the City could take money from the Enterprise Fund and use it elsewhere within the City. He said that, by policy, they chose to use the Enterprise money within the Enterprise Fund so that it was self sustaining.

▶ WATER FUND

He said the revenues were ahead of projections for the year. The Impact Fees were below what was projected because building had been slow. Bonds proceeds had been partially issued. They had been funded through WIFA which became an obligation to the City when they were drawn down.

He said that they were on track for expenditures at 50% with operations.

▶ WASTEWATER FUND

Mr. Woodfill noted that the revenues were slightly below projection which had more to do with timing. A rate increase was put into effect the first half of year which was more significant in the Wastewater Fund than the Water Fund. That would go into effect February 1.

The City had entered into two WIFA agreements for debt issue, but had not started to draw them down. The big one would be the Airport Wastewater Treatment Plant Expansion

He said the expenditures for operations were at 45%, below 50%, but corresponded nicely to the revenues coming in.

▶ 1% STREET & OPEN SPACE FUND

Sales taxes were coming in right where they had hoped.

He said that partnering had to do with the Flood Control District. The Highway User Revenue was the City's share of the gas tax and vehicle license tax was one of the areas of concern. The state was projecting a 5% reduction and there were always threats to divert some of that money to the state use of that money, which was Department of Public Safety.

He said the operating expenses were at 40%. The costs from the snow removal had not hit, since the storm was the end of December.

Councilwoman Suttles said that they were told that the snow removal was over \$100,000 and probably still climbing. Acting City Manager Hadley said she thought the number was high. She thought the number came from Mr. McDowell's estimate if they were to use different materials.

Councilwoman Suttles asked if there was a ball park of what the storm cost the City. Acting City Manager Hadley said that the latest estimate was around \$50,000 for all departments. Councilwoman Suttles noted that it was a storm that they had not planned on. Mr. Woodfill said that they do plan on snow removal which was part of the Operating Budget. He did not think that one storm would mess up the budget; it would depend on the season.

Mayor Kuykendall asked about the "transfers in" in the Sanitation Department. Mr. Woodfill said that it was 5% of the sanitation fee that the City charged itself; the same as they did with outside haulers.

Mayor Kuykendall asked if any of it was credited to outside haulers. Mr. Woodfill said no.

▶ CAPITAL IMPROVEMENT FUND

Mr. Woodfill said that the fund was established by Council in the 1980's to take care of capital improvements as well as Economic Development opportunities. The revenue in the fund came from sales of unneeded City properties and surpluses in sales tax collections. It was a pool of money that had no continuous revenue flow. It was used to buy one-time expenditures like an improvement to a capital building or an incentive to bring jobs or sales tax dollars to the City. With the new accounting rules, it was folded into the General Fund now. That did not remove the restrictions on those monies. The only revenue that it had was interest earnings on the cash that it held. They did transfers into the fund for some of the incentive agreements.

Councilman Lamerson asked him to comment on the available fund balance and what it was used for. Mr. Woodfill said that, by Council policy, the fund could be used for capital improvements to City facilities and economic incentives. Councilman Lamerson noted that the fund had \$2.3 million which was available for the Council's discretion. It did not mean that it had to be spent, but it was available to be spent. He asked if they used the restricted fund balance for things they were obligated for.

Mr. Woodfill said that the restricted fund balance was used for internal loans to the golf course. Those monies were not available since the golf course had been running in a deficit. Councilman Lamerson asked if the money would be paid back with appropriate interest. Mr. Woodfill said yes, per Council policy.

Mayor Kuykendall asked, if the money was paid back with appropriate interest, the capital would remain fixed and the interest became interest income. Mr. Woodfill said yes, it would be interest income in that fund, which was the only revenue that fund had. Mayor Kuykendall asked if the fund balance would remain the same. Mr. Woodfill said that it would go up as interest came in.

▶ GENERAL FUND OPERATING BUDGET

He continued by saying that 64% of the fund was spent on public safety; police, fire and public dispatch. In addition, Parks and Recreation and the Library were another big expense.

▶ GENERAL FUND YTD EXPENDITURES – FY11

All operating budgets were around 50%. Administrative Services, which included the Elks, was higher than that. It was a small budget and a lot of the costs were associated with the reopening and the gala. They would be tracking it closely.

Councilman Hanna asked if they received funds from Prescott Valley for Regional Communications. Mr. Woodfill said yes. Councilman Hanna asked if

that amount was shown on the slide. Mr. Woodfill said that it was the total cost and there was revenue that they would talk about on the next slide that helped offset those expenses.

Councilman Hanna asked how that amount was determined. Mr. Woodfill said that it was determined based on the budget projections and call volume received the previous year, and a factor related to the initial capital investment.

Councilwoman Linn asked what “transfers to other funds” was and where he anticipated that going. Mr. Woodfill said that it had to do with old capital improvement funds.

▶ GENERAL FUND REVENUES

Mr. Woodfill noted that the General Fund was not an Enterprise Fund. There was no direct charge for the service provided for 99% of what they did. 52% of revenues came from taxes; sales, franchise and property tax. 40% of the funding came from intergovernmental revenues. Most of that was from the City’s share of state sales tax, income tax, and vehicle license tax. The state legislature may sweep the vehicle license tax. He noted that Ms. Kaus put in for some additional funds she thought she might be able to get, but he did not think that it would happen this year.

Councilwoman Suttles said she wanted to jump back to the primary property tax. She asked if it was a small amount that the City collected. Mr. Woodfill said that it was 4.6% of the General Fund. Councilwoman Suttles asked if it had always been at that level. Mr. Woodfill said that they increased it based on new value; new construction and new annexed areas. It went up very gradually. If they wanted to increase it for a percentage of overall, they would have to go through truth in taxation hearings, which were very thorough. It would not gain the City much more; they would only be able to get another \$60,000 or less.

▶ CHANGE IN TAXABLE SALES FROM 2007

Mr. Woodfill said that was the highest that the sales had ever come in, which he used as a reference point. The sales were leveling off and he was optimistic that they would continue to achieve their budget projections for the year.

Councilwoman Linn clarified that only 4.6% of the budget came from property taxes. Mr. Woodfill said the majority of what the property owners were paying in taxes went to the schools, county and hospital.

Councilman Lamerson said that he liked that he projected 0% in sales.

▶ GENERAL FUND REVENUES

Mr. Woodfill noted that the two year delays for income tax would be causing a problem that year.

Mayor Kuykendall noted that Mr. Woodfill created a breakdown of property taxes for the three communities. Referring to the Prescott portion, he said that Mr. Woodfill used an assessed valuation of \$200,000. The average total property tax for a Prescott home was about \$1100. The City portion of the property tax was only \$28. Property tax was not even a minor source of the City's revenue. They had to depend on sales tax and other things. The public perception was that the City received all of the property tax and he said that it was important to get the correct information out to the public.

Mr. Woodfill noted that the property taxes were significantly higher outside of the City due to Fire Department services.

Mayor Kuykendall said that within the City limits, the fire protection was part of the overall costs. Mr. Woodfill said that it was subsidized with the sales tax. Mayor Kuykendall said that depending on which fire district; those would average somewhere over \$400/year on the property tax bill for a person outside the City. It was significant. It was also important to realize it was a significant savings in the City of Prescott's Funds.

▶ SOLID WASTE/TRANSFER STATION FUND

Mr. Woodfill said that the funds were combined about a year ago. The revenues were at 51%. When the budget was brought forward, the loss from the commercial haulers was figured into the revenue numbers. He was hoping that the loss would not be as large as anticipated. Operations were at 43%, which he said should help.

Councilwoman Suttles asked how long the private hauler had been in action in collecting. Mr. Woodfill said that he thought it was since July 1, 2010. The Tipping Fees at the Transfer Station were at 49%

Councilman Hanna asked if the landfill closure surcharge would ever go away. Mr. Woodfill said that the Environmental Protection Agency had the closure and post closure care requirements and they also required that the City had the liability to cover those into the future. The City was no where near the estimates for the 30 year liability. He did not see it going away any time soon.

Councilman Hanna asked where the money went. Mr. Woodfill said that it went into a reserve into the Transfer Station Fund to maintain the top cover of the landfill to keep it from polluting any ground water or surface water and it could only be used for that.

▶ AIRPORT FUND

Mr. Woodfill said that the revenue streams were covering the operating costs, which was the best they could hope for.

Councilman Hanna asked how they were in competition with the other airports as far as fuel costs. Mr. Vardamin said that in regards to fuel price, they were a little higher within the 60 mile area. He noted that nationwide fuel sales had declined 60%.

Councilman Hanna asked if they had any control over what was charged for fuel. Mr. Vardamin said no. The City collected a flowage fee but the provider set the price based on their operations.

Mr. Woodfill noted that there was always a delay in receiving grants but they would be accrued at the end of the year.

▶ GOLF COURSE FUND

The revenues were at 49% for the year. He noted a loss of \$25,000 for the first six months.

Mayor Kuykendall asked if the debt service was the number that they had looked at in interdepartmental loans. Mr. Woodfill said that it was other loans; golf carts and their equipment out there. There was a small amount for interest on internal loans.

Councilwoman Suttles asked where the GolfLink expense was. Mr. McCarley said that it was a trade out with EZLinks. They provided the service, answering, call service, hardware, software, and reported to them. In exchange, they got two tee times a day to sell.

▶ GARAGE FUND

Mr. Woodfill noted that the City charged fees on the weekends and had leases. Some leases were canceled and the revenues were not what they needed to be at, which was 35%.

He said they budgeted for the fund to be at a loss this year. He believed it would be higher than budgeted. It was set up as an Enterprise Fund. He suggested that maybe it was more of a General Fund account, to keep the downtown alive.

Councilman Blair asked if they had discussed going out for a Request for Proposal (RFP) for a private contractor to run it.

Acting City Manager Hadley noted that they had attempted to do parking analyses and worked with the downtown businesses. Everyone got frustrated and gave up. They could look at an outside vendor, but there would be no free parking. That came to a Council policy decision on how they wanted to treat the downtown and the parking.

Councilman Blair said that they should have that come back to Council, if it was going to lose money every year. The taxpayers paid for the facility, but there needed to be a user's fee in place. They needed to start looking at that.

Councilwoman Linn noted that when the parking lot was built, there was a relationship with the county that the jurors would be using it. She thought that perhaps it was not being done and they should have a conversation with the county.

Councilman Blair said that he would like to have it addressed in the future.

- ▶ INTERNAL SERVICES FUND OPERATING BUDGET
- ▶ TRANSIENT OCCUPANCY TAX (BED TAX)

Mr. Woodfill said that the revenues were well above their projections.

Councilman Lamerson noted that the ballot language was very specific with regards to the promotion of tourism and development of Parks and Recreation. It was up to the Council to determine what promotion of tourism was; whether it was advertising or having a clean and appealing City. He said that the dollars that were available were at the discretion of the Council.

Mr. Woodfill said that the split of money between tourism promotion and parks and recreation development was determined by the Council.

- ▶ IMPACT FEES FUND

Mr. Woodfill noted that they were not coming in where projected. They projected higher than they needed to. The projects that were budgeted were coming from the reserves, not from the current year.

- ▶ OTHER FUNDS

He would bring a reappropriation back to the Council due to the large amount of money received for Parks and Recreation and for the library. The money was received to be used for a specific purpose.

Councilwoman Linn asked if they had a percent charged for administrative fees. Mr. Woodfill said no because it was a small item.

Acting City Manager Hadley thanked Mr. Woodfill and the department heads for keeping the budgets where they needed to be. She also thanked Mr. Norwood for keeping the budget in line.

She noted that the Council wanted to maintain basic services with all funds.

Councilman Blair asked how they could continue to keep providing the level of service that the community deserved if the state and public safety retirement fund kept going up every year with a 3:1 match.

Acting City Manager Hadley said that they had no control over it. The employee portion was capped. They had asked their senators and representatives to look at that.

Councilman Blair asked if they had a choice to have Council get a public safety portion of the budget separated so they would be taxed differently than the General Fund. He mentioned having a public safety taxing framework where people would pay for their services so that the City could afford police cars.

Mr. Woodfill said that they could set up a separate taxing district like Central Yavapai, which would require a vote in the geographic boundaries of the district. The other option would be to do another vote; whether it would be another ½ cent sales tax to fund public safety or property tax.

Councilman Blair said that he did not think the Council needed to put their heads in the sand and get caught with something that was coming at them full steam ahead. They knew it was a problem. He said that it had to be corrected. There needed to be a conversation between the council and the state representatives to make sure that they were doing the right thing for the citizens.

Councilwoman Suttles noted that it could not be just the City of Prescott that was affected by this. She asked if the legislators should be involved. Acting City Manager Hadley said that she thought that they should look at other options. They had to start at the legislative level. The citizens would pay one way or another. She noted that the Public Safety Retirement Board was working with the legislature to lift the cap. She then talked about the following topics:

▶ IMPACTS ON FY12 BUDGET

She said that the rise in health insurance was not due to the plan the City had but the health care bill mandates.

Councilwoman Linn thought that it was important for the public to know that the City could not go out and do a Request for Proposal (RFP) for the cheapest health care.

Mr. Woodfill said that the City of Prescott was in the Yavapai Combined Trust, which was a group of local governments; the City, county, Yavapai College, and Chino Valley. It was a self insurance type trust. It had kept the costs down and they were lower than the national average. Another problem was the remoteness of Prescott because there were not a lot of low cost insurance options for large employee groups. That affected other options that were available. He said they were looking at other options to make sure they were still getting a good deal for the City and citizens.

Councilwoman Linn said that it was her understanding that if they were going to go with another company; they would have to go to a vote. Mr. Woodfill said that the City was part of a trust pool and there were ways to get out of it if the City thought it was in the best interest of the citizens and the City. It would be a multi-year process if that was the direction the council wanted to go. They could not make that change every year.

▶ FY12 BUDGET APPROACH

Acting City Manager Hadley said that the City would tie all of the City projects to the council goal of maintaining the basic service levels. The departments looked at reducing their operating costs in proportion to the revenue reductions that they will see in terms of state shared revenue and increased costs for insurance and retirement. The Staff would suggest no new positions. She mentioned that Council had the authority to change that. It would be the third year that there would be no merit raises or step increases. She did not anticipate any layoffs.

▶ MAJOR CONCERNS FROM COUNCILMEMBERS

Acting City Manager Hadley mentioned again that she did not anticipate any reduction in staffing. She said that the Council mentioned that they wanted a continued increase in the Economic Development and Tourism Departments.

Mr. Woodfill had assured her that the new water rates would take care of the funding for the wastewater project. He said that he had been working with Water Infrastructure and Finance Authority (WIFA) the past couple of months and they were going to the Board on February 16, 2011 to present the Airport Wastewater Treatment Plan Expansion to the board to receive the funding to build that project. He would report back after that meeting.

Councilman Blair asked if they could have further discussion on impact fees with Parks and Recreation and how they were used. He would like to talk about the lakes and trails and how they had impacted the community. He wanted to talk about the lack of restrooms and a capital expenditure for facilities at the lakes. Acting City Manager Hadley said that she would add it to the list as they started the budgeting process.

Councilman Lamerson said that he appreciated brevity to this year's approach to the budgeting process. He liked the way he heard her acknowledge that the City did not have the money that they had in the past. He applauded Mr. Blair with his comments and said that it would be a case of priorities in using the monies they had and where they would use them. He said that they may need to spend their bed tax dollars differently than they had before. He appreciated working as a team.

▶ DEPARTMENT PROJECTS AND PLANS

Acting City Manager Hadley said that they were going to do a lot of work around the airport. They would create a new business district zone at the airport.

She noted that Mr. Guice told her that the Land Development Code (LDC) amendments relating to medical marijuana would be taken care of in Fiscal Year 2011. The transitional housing and homeless population would be looked at in conjunction with Joe Brehm's project.

The General Plan had to be approved by the voters every ten years, which they were getting close to. They would need to look at starting the update to that plan, which was done in house. It would involve a lot of staff time.

She said that Mr. McConnell would continue to work with Central Yavapai Municipal Planning Organization (CYMPO), commenting that growth had slowed down and that plan would be updated as well.

▶ PROJECTS AND PLANS

Acting City Manager Hadley said the City would continue to work on a long term Water Management Plan. She also said that Mr. McConnell would also work on a Land Management and Conservation Plan for the Big Chino Ranch.

The City would continue working on the agreement with Salt River Project. They would continue to work on the water quality and recreation aspects of Watson and Willow Lakes.

She noted that there were three different groups of people who had interest in the Rodeo Grounds; the City, Prescott Frontier Days and the county. They would start working on the Master Plan for the rodeo grounds sooner than later.

▶ BUDGET PROCESS

Councilman Blair lost connection at 4:25 P.M.

Mr. Woodfill noted that the process would be the same as in previous years, although abbreviated because they were not looking at new personnel requests. He noted that it would take several months to bring back a balanced budget to the council. The presentation would be in May followed by public hearings and the adoption of the budget in June. The tax levy would follow two weeks after the adoption.

Councilwoman Linn thanked Acting City Manager Hadley and Mr. Woodfill for the update.

Major Kuykendall said that Ms. Hadley was now the Acting City Manager. He said that the entire Council was looking forward to working with her. He said that the change of command was a good thing for the City because it allowed them to take a look at things from another direction. Acting City Manager Hadley said that she was happy they kept her around and thanked them.

She also noted that the other two things that the Council wanted to take a look at were an RFP for outside management firms for the parking garage and impact fees regarding lakes and trails.

Daniel Mattson said that he heard Councilman Blair talk about no free parking in town. He thought that parking meters would not be a great idea, but they should get some money for the parking garage.

2. Adjournment

The Prescott City Council recessed into a Special Meeting at 4:28 p.m.

SPECIAL MEETING

I. Call to Order

Mayor Kuykendall called the Prescott City Council Special Meeting to order at 4:28 p.m.

II. Recess into Executive Session

**COUNCILMAN HANNA MOVED TO RECESS INTO EXECUTIVE SESSION;
SECONDED BY COUNCILWOMAN LINN; PASSED UNANIMOUSLY.**

III. EXECUTIVE SESSION

A. Discussion or consultation for legal advice with the attorney or attorneys of the public body, and discussion or consultation with the attorneys of the public body in order to consider its position and instruct its attorneys

regarding the public body's position regarding contracts that are the subject of negotiations, in pending or contemplated litigation or in settlement discussions conducted in order to avoid or resolve litigation, pursuant to ARS 38-431.03(A)(3) and (4).

i. Big Chino Water Ranch project.

B. Discussion or consultation for legal advice with the attorney or attorneys of the public body, discussion or consultation with the attorneys of the public body in order to consider its position and instruct its attorneys regarding the public body's position regarding contracts that are the subject of negotiations, in pending or contemplated litigation or in settlement discussions conducted in order to avoid or resolve litigation, and 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)(3), (4) and (7).

i. Property located in east Prescott, south of the Sundog Extension Corridor.

IV. Adjournment.

The Prescott City Council reconvened into Open Session at 5:45 p.m., at which time the Special Meeting of January 18, 2011 was adjourned.

MARLIN D. KUYKENDALL, Mayor

ATTEST:

ELIZABETH A. BURKE, City Clerk