

PRESCOTT CITY COUNCIL  
WORKSHOP  
TUESDAY, JANUARY 17, 2012  
PRESCOTT, ARIZONA

MINUTES OF THE PRESCOTT CITY COUNCIL WORKSHOP held on January 17, 2012, in the CITY HALL COUNCIL CHAMBERS located at 201 SOUTH CORTEZ STREET, Prescott, Arizona.

◆ **CALL TO ORDER**

Mayor Kuykendall called the meeting to order at 3:00 p.m.

He then read a statement regarding the invocations, noting that the City was to invite all interested parties, from all denominations to present the invocation.

◆ **INVOCATION**

Reverend Julia McKenna-Johnson gave the invocation.

◆ **PLEDGE OF ALLEGIANCE**

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

◆ **ROLL CALL**

Present:

Absent:

Mayor Kuykendall  
Councilman Arnold  
Councilman Blair  
Councilman Carlow  
Councilman Hanna  
Councilman Kuknyo  
Councilman Lamerson

None

**I. BUDGET PRESENTATIONS**

A. Presentation of FY2012 Mid-Year Budget Review.

Mr. Woodfill showed a PowerPoint presentation of the Mid-Year budget that covered:

- YEAR TO DATE EXPENDITURES

He noted that they had used 46.7 percent of the budget at 50 percent of the year. He said capital projects were always lagging due to delays in reporting. He noted that in governmental accounting a budget was a legal level. He said they could not enter into a project without the project being budgeted.

- TOTAL CITY BUDGET

He said the budget was 49 percent enterprise and 51 percent governmental.

Councilman Blair asked if different capital budget items were in the presentation associated with the \$86,000. Mr. Woodfill said he would show it by fund and total but he did not break it down into hundreds of projects. Mr. Blair asked if they would get to the remainder of the projects.

Councilman Lamerson said that because they planned on spending the money did not mean that they had to spend the money. Mr. Woodfill said that the projects were approved by Council as they came in for bid.

Councilman Lamerson asked if a new Council was bound by the intent of a past Council. Mr. Kidd said they were not, with the exception of preexisting contractual obligations.

- GENERAL FUND OPERATING BUDGET

Mr. Woodfill noted that 68 percent of the General Fund was public safety.

- GENERAL FUND YTD EXPENDITURES FY12

- GENERAL FUND CAPITAL RESERVE

Councilman Hanna asked who contributed to regional communications. Mr. Woodfill said that it was the Prescott Police and Fire Departments, Prescott Valley and Central Yavapai Police and Fire Departments as well as others that Prescott provided dispatch for. He noted that about 48 percent came from outside agencies.

He noted that grant matches were usually done at the end of the year. He said there was a restriction on \$3.5 million due to internal loans that were being held by the General Funds. He said the primary loan was

to the golf course and a minor loan to the airport. He said there would be \$523,000 available for the following year.

- GENERAL FUND REVENUES

Mr. Woodfill said they kept a close eye on the revenues, because that was how they determined their appropriations. He said they were coming in about 5 percent higher than projected. He noted that the State shared tax was at 49.7 percent, which was good.

He noted that 53 single family permits were pulled the first half of the year and 63 single family permits were pulled for all of last year.

Overall, the revenues were just over 50 percent.

- 1PERCENT STREETS & OPEN SPACE FUND

Mr. Woodfill noted that the revenue was coming in at 52 percent. He said that highway user revenue was very challenged but where they expected it to be.

- TRANSIENT OCCUPANCY TAX FUND

He said this tax was above projections at 56.3 percent. He noted that Council approved a \$30,000 contribution to tournaments in Parks and Recreation. He said they put all the entry fees in as revenue and put the whole budget in this area so it was easier to manage.

Councilman Blair asked where they would see the revenue generated by the kiosks. Mr. Woodfill said the parking kiosks were in the General Fund under the charges for services. He said they were at about \$58,000 to date.

- IMPACT FEES FUND

He noted that these were governmental impact fees, not from water and wastewater. He said there was an impact fee study that would come back again that year with Senate Bill 1525 which required the City to do the study.

- GOVERNMENTAL IMPACT FEE (Continued)

He said they recently discontinued the Recreation Fee and the Public Buildings Fee.

Councilman Arnold asked about the interest that the funds received. Mr. Woodfill said they went back into the accounts. He said the rent they got from the fire station went into the fire impact fee fund since the expansion to the fire department was built with impact fees.

- OTHER FUNDS
- WATER FUND
- WASTEWATER FUND
- SOLID WASTE/TRANSFER STATION FUND
- AIRPORT FUND
- GOLF COURSE FUND
- GOLF COURSE – Manzanita Grille
- GOLF COURSE COMPARISON

Councilman Lamerson asked if there was a mechanism in place for the profit made at the Centennial Center to pay back debt incurred to remodel the center. Mr. Woodfill said they could do that if it was the desire of Council.

Councilman Arnold said that with the extra attention that was being paid to the golf course, he thought it would be valuable to see a quarterly update. Mr. Woodfill said that would be possible and that they did monthly updates to manage the course.

- PARKING GARAGE

He said they were looking at having a loss by the end of the year of almost \$56,000. He said they had negative cash of \$53,000 half way through the year. Councilman Arnold asked why expenditures were at 63%.

Mr. Fenech said they spent between \$12,000 - \$14,000 rehabilitating the west and northeast stairwells.

Mr. Woodfill said that the fleet facility had trouble covering debt service with their operating costs.

Councilman Lamerson said they had not got a grip on how to measure the cost benefit analysis and they only saw the cost. He wondered if the community would be better off with or without the garage and the golf course. He noted that those two items needed to be looked at differently, other than just on paper.

- INTERNAL SERVICES FUND

Mr. Woodfill noted that he had a listing of the steps of the 2013 budget process. He said the Mr. McConnell would go over the action plan.

Councilman Carlow noted that they would not be getting some of the grants that they had budgeted for and asked if it would hurt the City and if there was alternate funding. Mr. Woodfill said that the grant projects were not critical.

Councilman Arnold asked if the presentation would be available on the City's website. Mr. Woodfill said yes.

B. City services and enterprises in Fiscal Year 2013; drafting an action plan.

Mr. McConnell said that the presentation would be a review of fundamentals, information on services and costs, review revenue and funding tools and then they would talk about drafting an action plan. He noted that the presentation would be posted on the City website. He then showed a PowerPoint that explained the following:

1. REVIEW OF FUNDAMENTALS

- A SYSTEMATIC APPROACH
- SCHEDULE
- STRUCTURE OF CITY FUNDS AND BUDGET
- REALITIES OF THE REVENUE STRUCTURE IN PRESCOTT
- FUNDAMENTALS TO CONSIDER
- ACTIONS WHICH WERE REQUIRED TO BALANCE CURRENT BUDGET
- FUNDS WITH CRITICAL CHALLENGES

- GENERAL FUND REVENUES
- GENERAL FUND OPERATING EXPENDITURES
- PUBLIC EMPLOYEE PENSION COSTS CONTINUE TO RISE

Councilman Hanna asked if the rise in their contribution to employees was mandated by the state. Mr. McConnell said that was correct. He noted that there were 125 public safety employees. He said the taxpayers would contribute \$22,688 in the next fiscal year on average for each of the employees. He said it would roll up to \$2.8 million of City contribution for those 125 employees. He said it was a real issue at the legislative level.

He said the consequence was that the City had to come up with \$400,000 for the next fiscal year.

## 2. SERVICES AND COSTS

- POLICE DEPARTMENT

Councilman Arnold asked what the Community Restitution Program did that they wanted to delete.

Mr. McConnell said the City Magistrate sentenced offenders to community service work programs. He said it was administered by the Police Department and cost about \$136,000 annually. He said the Council may want to look at the program, as it began years ago with a different focus. He said the focus was that the City of Prescott should be a partner in rehabilitating the offenders, to provide counseling, assistance with life skills and creating a family budget. He noted that it had all gone away. He asked if the City of Prescott was in the business of providing rehabilitation to offenders and he asked if it was cost effective.

Councilman Blair asked if they could track the cost benefit of the graffiti removal and the variety of jobs they were doing. Mr. McConnell said they could have that discussion at another time.

- FIRE DEPARTMENT

- PARKS & RECREATION

He noted that they were proposing to expand their sports calendar for 2012 to generate additional revenue.

He said that Parks and Recreation ran out of money to water some of the public areas last spring. He said the price of water and effluent was going up. The reality was that they were down to the bare bones. He said the community needed to make the decision of whether Parks and Recreation survived, through the elected officials. He noted that they would not be able to be cut any further.

- LIBRARY DEPARTMENT

Mr. McConnell said that department would not operate like it did without the significant help of volunteers.

- AIRPORT

He noted that they were an Enterprise Fund and was heavily grant dependent. He said there were some possibilities for some revenue enhancements.

- GOLF COURSE

He noted that the midyear numbers were not good. He said that if they managed to break even at the end of the year, it would take \$185,000 for ten years to pay back their loan. He said they needed to look at the golf course as an enhancement to tourism.

He asked if the golf course was different from Pioneer Park. He asked if an operating subsidy would be appropriate at the golf course like the softball fields were getting to keep the fields up. He said they had to market the golf course more as a tourism destination.

Councilman Kuknyo said that the golf course was a single stream of entertainment. He said that Parks and Recreation had baseball and trails and they could not put the golf course in with that department. Mr. McConnell said that he was not suggesting that the funds be comingled, but that his point was well taken.

- BUDGET SUMMARY FLEET

He said they were not funding ongoing vehicle replacement.

- FACILITIES

He said they would need to identify, through an asset management system, what the real needs were to maintain the facilities.

Councilman Hanna asked what outside billing was. Mr. Woodfill said that it was the contract they had with Groom Creek and others where the City was repairing their fire apparatus. He said that it did not include Wildland.

Mr. McConnell said that they talked about the opportunity to generate additional revenue from outside customers and some had been contacted. He said if they had outside customers there needed be a net increase and not just a break even.

Councilman Hanna asked if they could do that and still maintain their internal fleet properly. Mr. McConnell said they would need additional mechanics and unless they were marking that up, there would be no reason to do it.

Councilman Arnold asked if they would be competing with the private sector for some of that work. Mr. McConnell said the focus would be on public agencies.

- SELF INSURANCE SUMMARY

3. REVENUE AND FUNDING

- REVENUE TOOLS

- BREAKDOWN OF SALES TAX

He noted that in the 9.35 percent, which was paid for in the retail portions of the City, 1 percent went to the General Fund, 1 percent went to Streets and Open Space which was restricted revenue which could only be used for those areas, .75 percent went to Yavapai County Regional Road Tax, 5.6

percent went to the permanent State Tax and the temporary levy which the voters approved was 1.00 percent.

Councilman Lamerson said that it was important to point out that 2 percent would go away in 2015, and it would go down to 1.75. He said that it was pointed out by the Streets Department that they could not take care of the streets if they were fully funded with the 2 percent tax.

Mr. McConnell said that the 1 percent current Streets and Open Space levy would decrease to .75 percent, streets only, on January 1, 2016. He noted that would be about \$12 million.

- CITY OF PRESCOTT LOCAL SALES TAX

Councilman Lamerson said that reduction would hamstring the community with regards to bonding for future road projects because they could not assure the payback of loans. Mr. McConnell said that when the reconstruction projects were complete, there would be no money left for capital projects.

Mayor Kuykendall noted that inclusive in the 2 percent tax was all of the Fire Department Costs and that Prescott Valley and Chino Valley had a higher tax rate had an additional charge for the Central Yavapai Fire District (CYFD). He said that on a \$200,000 home that CYFD levy was close to \$500 on residential. He said the levy for commercial buildings went up proportionately.

Councilman Blair said that the 2 percent also paid for sanitation noting that Chino Valley and Prescott Valley did not have the same cost. Mayor Kuykendall said that Prescott charged a fee for solid waste.

Mr. McConnell said there were needs for fire and paramedic services in the community. He said their focus should extend beyond money and departments and end up with the citizens. He said the message was that the citizens of Prescott were getting a pretty good deal, but the City was getting squeezed in the General Fund and it was not sustainable. He said they were funding their Fire Department out of the 1 percent sales tax.

He noted that if someone had a commercial property in the City of Prescott and not creating revenue, they were not paying for fire protection.

Councilman Hanna said that if they could put ½ percent on taxes on January 2015 to use for public safety only, they would have over \$6 million. He said he would like to look at that to offset some of the costs.

Mr. McConnell said that it was about levels of service. He said that any increase in the sales tax would have to go to the voters and there needed to be a compelling reason for it. He said the need went beyond public safety; it was to have a vibrant community.

Councilman Hanna said that if the voters wanted to maintain the quality of life they had, they needed to make that decision. Councilman Blair said that with a sales tax increase, it was not just the citizens of Prescott that paid that increase; it would be everyone who visited.

Mr. McConnell said that most people would rather see an increment of sales tax than a \$500 property tax item on their bill.

- NEW LEVY OF TRANSACITON PRIVILEGE TAX ON RESTAURANTS/BARS
- SECONDARY PROPERTY TAX

He noted that Senate Bill 1226 was a temporary tool that Prescott could use to levy a secondary property tax for not less than two or more than seven years without the general obligation debt use restriction. He said that it would sunset, would provide bridge funding and would have to be approved by the voters. He said that if it were approved tomorrow, of that \$1.4 million that would be generated, \$400,000.00 would already be gone. That would be the increased amount of public safety retirement system contribution at the City which was mandated for the next fiscal year.

Councilman Carlow asked if they would have to propose exactly how long the increase would last within the range of two to seven years. Mr. McConnell said they would have to take specific action to place on the ballot a secondary

property tax levy at a specific rate for a period to be specified.

Councilman Blair asked if they had specified adding a business license that took in lawyers, doctors and accountants with an annual fee. He asked if they knew how much revenue that would bring in to offset the public safety costs. Mr. McConnell said that they would have to get that estimate to them at the next workshop.

- LIBRARY DISTRICT

Mr. McConnell said it would require discussion with the County Library District.

Councilman Arnold said that it was in the eye of the beholder of what services were important within the City. He said they had to put their faith in the voters. He said he was concerned with the emphasis on tax increases and continuations. He said it was important to understand the difference. They had a long way to go to convince the voters that they had done all they could to make the City lean and mean.

He said that his perceptions prior to where he sat and before he sat there were significantly different. He said that he applauded the staff for the work they did.

Mr. McConnell said that he would not agree more. He said there was only one tool on the revenue side that did not have to go to the voters which was user fees. He noted that experience proved time and again that the need had to be understood and justified. He said they had to take appropriate steps to build a community consensus. He noted that the City could not advocate for a tax increase.

Councilman Lamerson asked what user fees could be charged for. Mr. McConnell said that additional fees were listed at the bottom of the slide and that existing fees were greens and cart fees, ramada rentals and trailhead kiosks. He noted that there were some policy questions regarding false alarms, which were styled to be revenue neutral.

Councilman Lamerson said that calling the fire department to take a cat out of a tree cost the community money and the

City needed to be in a position to recoup some of those costs.

He noted that they used the money that was only drawing \$27,000 in interest to leverage the property for Trader Joe's.

Councilman Kuknyo said that before they talked about raising taxes, they needed to make sure that they were running as efficiently as possible. He said his view was a lot different than after meeting with the department heads. He said he wanted to encourage them to improve their process and talk to their employees about how to run things better.

Councilman Blair asked how realistic it was to have the fire department bill a person who caused an accident. Mr. Woodfill said they could not bill for emergency response. Councilman Blair said that it took him back to business licenses.

Mr. McConnell said that Arizona was sales tax funded and primary property tax was not paying its fair share. Councilman Blair asked what percent of property tax went to public safety. Mr. Woodfill said that it would cover 4.8 percent of public safety.

#### 4. DRAFTING AN ACTION PLAN

Mr. McConnell showed a roll up slide of all the presentations to date. He noted that if the needs of all departments would be fully funded and if they would create and maintain the capital reserve, which was rapidly dwindling to nothing, the annual cost would be about \$6 million. He said that would not include an additional amount for facilitates.

He said the second table showed where they might get the \$6 million dollars. He said that if a .5 percent local sales tax were levied, that would generate the money.

He noted that they wanted to get Tourism out of the General Fund. He said there was \$300,000 coming out of the General Fund for Tourism. He said there was a Bed Tax which had two allowable purposes; tourism development and recreational facilities development.

He noted another tool was a secondary property tax levy followed by a transaction privilege tax on restaurants and bars.

He noted that the decision to use any of the tools would have to go to the voters.

**II. ADJOURNMENT**

There being no further business to be discussed, the Prescott City Council Workshop of January 17, 2012, adjourned at 4:50 p.m.

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MARLIN D. KUYKENDALL, Mayor

ATTEST:

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ELIZABETH A. BURKE, City Clerk