

PRESCOTT CITY COUNCIL
WORKSHOP
TUESDAY, MAY 21, 2013
PRESCOTT, ARIZONA

MINUTES OF THE WORKSHOP OF THE PRESCOTT CITY COUNCIL HELD ON MAY 21, 2013, in the COUNCIL CHAMBERS located at CITY HALL, 201 SOUTH CORTEZ STREET, Prescott, Arizona.

◆ **CALL TO ORDER**

Mayor Kuykendall called the meeting to order at 9:00 A.M.

◆ **PLEDGE OF ALLEGIANCE** by Mayor Kuykendall

◆ **ROLL CALL**

Present:

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

Absent:

None

I. Discussion/Direction re FY2014 Tentative Budget

City Manager McConnell presented. The presentation will be available for viewing on the City Website at www.prescott-az.gov, this afternoon. He noted that this presentation will provide financial information and identify key budget items, issues and considerations and selected reference materials. It is a document intended to be useful for policy discussion. Written responses will be provided for those questions not answered today.

Mr. McConnell said there are many complexities in our budget for a City our size. He reviewed the FY2014 Organizational Chart and the FY14 key budget issues and considerations:

- Stabilization and growth of the regional, state, and national economies
- Transaction Privilege Tax
- Property Tax
- Employee pay and benefits
- Airport area

- Tourism
- Public Safety response alternatives
- Strengthening relationships with regional partners

Personnel, Pay, and Benefits

Alison Zelms, Deputy City Manager, reviewed retirement costs, overtime, and assignment pay. She pointed out the estimated increase in the FY14 budget will total \$500,000.00 for Arizona State Retirement and Public Safety Retirement. These rates are set by the State of Arizona, not by the City of Prescott. Ms. Zelms recapped information provided at the May 7th workshop.

Councilman Lamerson questioned the \$1 million mandated increase to the General Fund and the lack of an equal revenue increase. He asked how we can continue the level of service when we do not have assurance of the revenue. Ms. Zelms said last year the Council adopted a balanced budget. The mandated increases make it more difficult to make decisions.

Ms. Zelms reported:

- The last year of a City cost of living adjustment was FY 08; merit and step increases were suspended after FY09
- Pay compression is an issue City wide
- Work related training and travel is included in each department budget
- Education assistance for personal development was last funded in FY08
- This draft budget does not include funding for tuition assistance

Councilman Arnold said it makes sense to look at our step system. Now we are locked into 4 percent at each step. He suggests having a smaller percentage and let management determine how many steps a person should get based on job performance.

Ms. Zelms pointed out, as discussed at the May 7th workshop, the ability to fund FY14 pay adjustments will depend upon both the primary property tax levy of the City and whether the Arizona Legislature changes construction sales tax to point of sale and/or makes other major modifications.

Mayor Kuykendall noted the differences between the City of Prescott and the Town of Prescott Valley as relates to public safety retirement and sales tax.

Ms. Zelms explained the position changes in the FY14 budget. If all positions are approved, both new and eliminated, means an additional 1.25 full time employees bringing our total to 508. The total positions in FY 13 are 505 and total positions in FY 09 were 570. Councilman Blair pointed out that some of the new positions are being mandated by the Federal Government.

Councilman Arnold asked if there is a projection for building permits for next year and if we have enough staff for any increases.

General Fund

Mr. McConnell said the funding structure is severely limited by state law. He reviewed key items, issues, and considerations:

- Continued attacks on funding sources and revenue amounts through tax code revisions and changes to state-shared revenue distributions
- 89 percent of the General Fund revenues come from City and State assessed taxes which have no correlation to service demand
- 69 percent of General Fund expenses are for public safety, year after year pressuring other City programs and services directly related to the overall quality of life in our community
- Trauma Intervention Program – increase of \$10,000 to \$23,906 per year
- Regional Economic Development – GPREP request for \$40,000
- New five –year IGA with Yavapai County for Consolidated Court
- Yavapai Humane Society request for (1) sheltering services contract increase from \$59,334 to \$77,700/year; and (2) additional \$15,000 to complete new building
- Financial support required for Airport infrastructure and operations
- Downtown enforcement hardware

Councilman Blair said 70 percent is due to public safety. Maybe we need to consider a one percent sales tax to cover the costs of public safety. Council discussed the federal mandates for personnel and programs.

General Fund Revenues

Mark Woodfill, Finance Director, reviewed General Fund Revenues. We are projecting an increase in sales tax of \$13.5 million based on estimated Local Taxes (sales/use tax, primary property tax, franchise tax); Intergovernmental Revenues (state sales tax, state income tax, state vehicle license tax, joint dispatch, library, other); Licenses and Permits; Service Charges; Fines and Forfeitures; Miscellaneous and Interest; for a total predicted General Fund Revenue of \$31 million in the FY 2014 Budget. Several funds are reduced in FY14: Franchise taxes, Joint Dispatch, Library, Service Charges, Fines and Forfeitures, Interest.

Councilman Blair said we need to have discussions with the County regarding funding for the library. He noted that the formula no longer works. He asked how they can raise the property tax side of the Library District to get some relief for what the City pays.

Mr. McConnell noted that the new Board of Supervisors, with their five members, is very different from what it was. He said a dialogue with the new Board can be initiated in FY 2014.

Mr. Woodfill said the library is projected to have a \$1.7 - \$1.8 million impact on the General Fund. Mr. McConnell said the Library District provided approximately one quarter of the funding for the library.

Property Tax

Mr. Woodfill said there are significant state limitations on the amount of property tax the City is allowed to access.

- The City assesses two types of property tax: Primary and secondary.

Mr. Woodfill reviewed the Primary Property Tax Capacity and Use. The proposed \$422,609 increase in primary property tax is comprised of \$160,022 from a reduction in the FY13 levy and \$262,587 from new construction and the allowed 2% annual growth on the levy which has not been levied by the City. The proposal would yield about \$1.5 million, only 5 percent of the City's \$31.1 million General Fund.

Mr. Woodfill reported sales tax in Prescott Valley is 2.33 percent, Chino Valley is 4.00 percent and City of Prescott is 2.00 percent.

TPT (Sales Tax) Legislation

Mr. Woodfill said the current proposal is effective January 2015 and would not affect FY14 budget. New FY14 expenses requiring recurring funding must be considered from the standpoint that the funding may not be there in FY15.

10:35 A.M. Mayor Kuykendall recessed the meeting for a short break.

10:47 A.M. Mayor Kuykendall reconvened the meeting.

General Fund Expenditures

Mark Woodfill reported that 69 percent of the General Fund is in Public Safety and 76 percent is in personnel costs. He reviewed the operating expenditures by department, including the percentage change. We are looking at expenditures coming in at 5.4 percent over next year.

General Fund FY14 Capital Outlay/Projects:

He noted that \$204,000 is carryover funds from the previous year. About \$687,000 is related to facility improvement and they come from the Capital Facilities Reserve Fund. He said \$167,000 of the projects will come out of current year operating revenue.

Council Questions & Answers:

- Andy Reinhardt, Deputy Police Chief, explained that the alarm system is to update the current system. Officers already have some night vision equipment; this purchase would be for the helmets.
- Mr. Woodfill explained the priority ranking, saying that FY14 is important now and staff needs direction for this budget if the priorities are different than what the City Manager has listed.
- Departments always look for grant opportunities to cover expenses for projects. The items on the list are projects that do not fall into the Grant category and are items the City Manager has listed as necessary.
- The fitness center at the Fire Department should not compete with local businesses. Mr. McConnell said that is not the intent. He pointed out that the exercise equipment came with the building. Chief Fraijo said they like to keep their people as close to their area of work as possible.
- Councilman Blair asked how much we are being demanded by Federal Government to spend, with no money coming in to offset the demand.
- Mr. Baynes said the Watson Lake Park is a part of the Master Plan for the park, with possible funding in 2015. This is for planning purposes.
- Regarding the three proposed fire stations, Mr. Woodfill said these will depend on the outcome of an Impact Fee Study. Don Devendorf, Battalion Chief, said it is based on timing/response time and population moves.

Mr. Woodfill reported the Rodeo Grounds rehabilitation is still listed on the Unfunded Capital.

General Fund Summary

Mr. Woodfill reviewed:

- General Fund Operations
- Operating Income
- Capital Expenditure and Transfers Out
- Transfers Out (Golf Course, Airport Grants Match, Governmental Grants Match)
- Net Change in the Fund Balance
- Fund Balance Beginning and Ending (\$12,522,569)
- Ending Balance – Detail

City Council – Operating Expenditures

Mr. Woodfill reviewed the operating expenditures, resulting in a 2.7 percent increase over FY13. Mayor Kuykendall pointed out that there are guidelines for travel. Council has been paying their own way to attend out of town conferences. Necessary travel in FY14 will have compensation for travel. There will be guidelines to follow. There will be a mechanism put into place to review requests and to determine if it is an appropriate benefit to the City. The Council takes this very seriously.

Councilman Kuknyo said it is important for Council to attend some events, for example, to fight for better roads and to represent the City. He looks forward to working on this. Councilman Arnold said this is important. The Council is taking an active role in drafting this part of the budget and this is a positive change.

Library

Ms. Zelms reported that the Library Advisory Board, appointed by Council, has been looking at budget and fees. The Advisory committee recommends:

- Make meeting rooms available to the public at no charge as a basic service by the Library
- Charge postage recovery fees for interlibrary loans of materials
- Increase the cost of color printing at public access computers from \$0.25 to \$0.50 per page
- Increase the cost of a replacement Library card from \$1.00 to \$2.00
- Implement a \$15 fee for proctoring tests
- Retain current late fees for FY 14; consider increase in FY15

Mayor Kuykendall recessed the meeting at 12:00 P.M.

Mayor Kuykendall reconvened the meeting at 1:00 P.M.

Special Revenue Funds – Specific funds for a specific purpose

Streets and Open Space – The largest fund

- The 1 percent tax will decrease to $\frac{3}{4}$ of 1 percent effective January 1, 2016, and cease to be a funding source for open space acquisition (currently brings in about \$13 million)
- Maintenance and rehabilitation needs
- No funding source exists for new streets
- Funding from HURF has declined during the last six years
- State Highway System is severely underfunded
- The change in the fund balance is about \$6 million

Mr. Woodfill reviewed the projects projected out through 2019.

Impact Fee

- Current law has significantly reduced the amount of funding which can be made available for new capacity
- In communities with aging infrastructure, single rehabilitation projects usually include both “existing deficiency” and “new growth” components
- Funding and financing of capital costs is increasingly difficult

- A new impact fee study is in progress for Police, Fire and Streets, as required by law
- Library and Parks fees will end in 8/1/2014
- Goldwater Lake expansion and Pioneer Park projects are included in Impact Fees Capital Improvement Projects

Councilman Scamardo asked that the City Manager and Tom Guice look at options available for funding. Mr. Woodfill said the state is trying to eliminate all construction taxes.

Bed Tax

Ms. Zelms said it is at 3 percent in the City of Prescott. This tax is restricted to specific activities and has been doing fairly well. The major changes are in marketing and promotion. The balance is built up because funds were not used in the past. Ms. Zelms reviewed Tourism – A Strategic Enhancement.

- Enhancement will enable the City to implement strategic interest of local hospitality industry stakeholders in generating increased leisure and group market sales during target expansion periods, attracting conferences, meetings, scheduled group tours, and independent tour programs.

Councilman Arnold asked about liquor license fees. Mr. McConnell pointed out if we do away with the fee, there will be a hit to the budget of about \$70,000. Council discussed. Councilman Kuknyo asked about a fee for Bed & Breakfasts and spreading out the fee. Mr. McConnell said to him this is about taking tourism to the next level. We need to identify the outcome. The Tourism Advisory Committee has discussed this.

Councilman Arnold said he would like to discuss the fee this year. Ms. Zelms said the fees collected by Liquor License fees are used in the Tourism industry and are in the General Fund.

Councilman Blair asked if we will ever be able to access a fee on rehabilitation houses (Recovery residences). City Attorney Paladini said the first step would be to adopt a plan to have a list of these houses. A portion of the fee charged to residents would be deemed as rental. The lease amount could fall under Transaction Privilege Tax for rentals. Councilman Blair said we should have a way to charge houses that charge a fee. They are making an income. Mr. Woodfill said it is hard to find these homes. Councilman Blair was glad there is an ongoing effort. Mr. Paladini said first you have to find out how much is being used for rent and how much for caretaking.

Other special revenue funds include: Aker Trust and miscellaneous gifts and donations; governmental grants.

Enterprise Funds

Water Fund

- Restrictions on collection and use of impact fees complicate funding and delivery of system capital projects.
- If needed projects are to proceed, and less/fewer impact fees are available for funding, the burden on existing rate payers must increase

Mr. McConnell said staff will be looking at the Aquifer Protection fee.

Councilman Lamerson questioned the 80/20 split. Mr. McConnell said the basis for the 80/20 split is complicated. Some is about water management and some is about future populations. All factors went into the determination of the 80/20. At some time in the future this will need to be updated and validated. The Big Chino will get built if the market will support the cost of the water.

Wastewater

- Similar issues and considerations as those for the Water Fund
- Implementation of the Wastewater Capital Program is behind that of the Water CIP
- Several large projects, to respond to new conditions and regulations
- The biggest project is for the Airport Phase I

Solid Waste

- The Tipping Fee reduction is due to a change in accounting.

Mr. Woodfill reviewed the list of capital projects for FY2014.

Stephanie Miller explained that the \$600,000 for Landfill Cap Repair is a place holder. We have \$1 million set aside for landfill maintenance. This money is collected from the users. Although Household Hazardous Waste Collection Day is very popular, the last time we had it, participation was way down so staff decided to go to an 18 month schedule.

Airport

Mr. Woodfill reviewed the Airport Fund; revenues and expenditures.

Jeff Tripp, Airport Manager, explained the request for \$1 million for a new Aircraft Related Fire Fighting Truck Replacement. Councilman Blair said the terminal does not fit and we have plans for a new terminal. Something always comes up. He asked when they will be going out for request for proposals. Mr. McConnell said we do have a Master Plan and since that time we have had additional thoughts. We will revision the airport area, including the terminal. We need to go through a validation process and

determine if part of the game plan is to lengthen the runway for future commercial service. He noted that it is a conversation for FY14.

Mayor Kuykendall asked if we get reimbursed for the Law Enforcement Officers and noted at one time we were. Mr. Tripp said we are not getting reimbursed at this time. He said we have challenges with the terminal and cannot market ourselves to a major airline with the current terminal.

Councilman Lamerson pointed out we are a small city and we need to look at the big picture. He said our airport handles our current needs. Mr. Tripp said there are a lot of factors to consider if Council determines that they want to improve/enlarge the airport.

Mr. McConnell said these numbers are for the master plan and it needs to pencil out for a City with 40,000 people. It has to work financially and it has to be what the community wants. He asked why we would go into debt for one flight a week.

Councilman Carlow asked about the restaurant. Mr. Tripp explained that the restaurant is old with equipment from the 1950's. He asked what the cost benefit of renovating is if we are going to go with a new terminal.

Golf Course

Ms. Zelms reviewed the actual revenues and expenditures. Food sales are up a little and the overall operation of the golf course is virtually in the same place as in the past year. She noted that costs exceed revenues.

Councilman Kuknyo questioned why the beverage sales are so far down. Ms. Zelms said staff will check the accounting to make sure beverages were not added in food totals.

Ms. Zelms reported there is about a net income loss in golf operations of (\$146,349.00).

Key items, issues and considerations:

- Continued operating deficit
- Loan from General Fund estimated to total \$4.05 million by the end of FY14
- Local competition among courses
- National and local decline in golf
- More clarity regarding the fit of Antelope Hills as a threshold asset into a higher level Airport Area business and tourism economy, and how to operate the golf, food service, and meeting venues
- Policy for dealing with current and future operating deficits financially

Councilman Blair said in the private sector, numbers like these would close down a restaurant. He questioned the \$300,000 for personnel in Manzanita Grille/Centennial Center. Mr. McCarley said there are additional salaries that come out of that total for

staff who work both sides of the golf course and temporary staff who come in for special events. He wants to see the vision to make this course work.

Mr. McCarley said the cost of their food is higher than that of a private business. He discussed the number of employees and the benefits they receive. He noted that the cost of effluent water has increased dramatically.

Councilman Scamardo explained that our employees get paid more than what private industry pays their workers. The maintenance workers also get higher salaries and benefits.

Mr. McCarley reported that over the past four years rounds of golf have decreased from 70,000 rounds to 60,000 rounds. He believes as we re-vision the whole area, Antelope Hills can become part of the economic solution not the economic problem. He feels we have leveled off. In the long range plans, Antelope Hills has to play a part in the entire area. We have a challenge which is also a great opportunity.

Councilman Arnold said this is the year we need to make a decision, whether changing the configuration or something else. Between management and Council we need to move the golf course in the right direction.

Councilman Lamerson said he agrees with Councilman Arnold that we need to make a change. He does not believe the City of Prescott would be better off without the golf course. He agrees the golf course can be part of the solution. He likes the idea of potentially having an executive type golf course and a hotel and making the area a tourism magnet.

Councilman Kuknyo said only golfers use the golf course. It bothers him that we are having the same discussion we had last year. He asked if rounds would decrease by having an executive course.

Councilman Scamardo asked if Council supports putting the entire golf course operation out for a Request for Proposal for a management company to take it over. Councilmen Arnold said he would support having this on an agenda to discuss in more detail. Councilman Blair pointed out if we do that we lose control. We need to look at the bigger picture as relates to the development of the airport area.

Mr. McConnell said at the end of the day there is a fixed amount to run a 36-hole golf course. He said it was a declining game and there is no basis to think that it would ever be better. He felt the City is headed toward contracting out the entire operation. He said there is no alternative and the question is when they would do it. The view from the staff perspective is to maintain the asset, realize that it will not break even, and integrate the asset into the larger picture.

Councilman Kuknyo asked if the City did anything last year to reduce costs. Councilman Carlow said visioning is the key and it should be done in 90 days.

Councilman Kuknyo asked why staff showed up at this meeting with numbers that cannot be explained. He would like to see a 10 percent decrease. Councilman Blair said we need a grander plan. Get someone in to redesign the nine holes and plan for a conference center. Then if you want to put out a Request for Proposal, that will be fine.

Mr. McCarley said he is trying to provide a quality golf experience. You can cut to a certain point and it will affect the entire property. We present a first class product. If the Council wants to present a typical municipal golf course with a hot dog stand, that is up to Council, which he does not agree with. There are no capital improvements for the golf course. The Cart Path was on an original improvement list but he is now using the millings from streets. He said if they want to break even, they need to slash expenses, stop watering, cut back on service and staffing. He also noted that the new fleet of golf carts cost \$500,000.00 per year for four years. Mr. McCarley suggested cutting the South Course to nine holes.

Councilman Blair agreed and said the water could be put back into the portfolio and we could keep the North Course at a high level.

Mayor Kuykendall said he brought in a restaurant guy to look over our operations. He did show him the balance sheets and was told our food is too high and the labor overhead is too much. The airport area is complex. He said there are several things that have to be done with the land and the golf course is a plus. He noted that there are some opportunities in marketing and said he would volunteer to put together a small group of successful professionals in the community to come up with a plan in six weeks. He said that government does not do well putting together an overall scheme of money making opportunities. If that is Council's desire he will be happy to do it. Some of the solutions may be difficult to take. He feels there is a solution.

Councilman Scamardo talked about the increasing number of players at Antelope Hills and said that he is in favor of the Mayor's proposal.

Mayor Kuykendall recessed the meeting at 3:49 P.M.
Mayor Kuykendall reconvened the meeting at 4:00 P.M.

Internal Service Funds

Mr. Woodfill reviewed these funds, which include:

- Engineering
- Fleet Maintenance
- Self Insurance
- Facilities Maintenance

Total City Budget

Mr. Woodfill said we are level for the year. Capital projects are up a little from last year; 2.62 percent. Our budget as proposed is \$173,111.928; up 8.2 percent.

Mr. Woodfill reviewed where the monies come from. There is a net change of \$34,315,786. It is almost \$10 million higher than we projected last year.

The remaining steps include the tentative budget on June 11, 2013; a public hearing on the budget on June 25, 2013; Adopting the Property Tax levies on July 9, 2013.

Mayor Kuykendall suggested a 9:00 A.M. Workshop on budget on June 4, 2013 and the Regular Workshop at 3:00 P.M.

II. ADJOURNMENT

There being no further business to be discussed, the Prescott City Council Budget Workshop of May 21, 2013, adjourned at 4:10 P.M.

MARLIN D. KUYKENDALL, Mayor

ATTEST:

LYNN MULHALL, City Clerk