

PRESCOTT CITY COUNCIL
BUDGET WORKSHOP PART 3 MEETING
THURSDAY, JUNE 15, 2017
PRESCOTT, ARIZONA

Minutes of the Budget Workshop Part 3 Meeting of the Prescott City Council held on June 15, 2017, in the Council Chambers located at City Hall, 201 South Cortez Street, Prescott, Arizona.

1. CALL TO ORDER

Mayor Oberg called the meeting to order at 9:00 a.m.

2. ROLL CALL:

Present:

Absent/Excused:

Mayor Oberg
Mayor Pro Tem Lamerson
Councilman Blair
Councilman Lazzell
Councilwoman Orr
Councilman Sischka
Councilwoman Wilcox

3. PLEDGE OF ALLEGIANCE

Councilman Lazzell

4. DISCUSSION ITEMS

A. FY 18 Budget Workshop Part 3

Mark Woodfill, Finance Director, presented Fiscal Year (FY) 18 Budget Workshop Part 3.

Follow-up items:

- Ø \$40,000 GPREP (Greater Prescott Regional Economic Partnership) budget removed
- Ø Community Development reclassifications
- Ø Removed from budget
 - New Organization Chart
- Ø Fire Department Assistant Chief reclassification
- Ø Removed from budget
 - New Organization Chart
- Ø Bullet proof vest grant

- Ø Grant funds are provided by the Department of Justice, Bulletproof Vest Partnership

Councilwoman Wilcox asked if there would be a second fulltime code enforcer. Mr. Woodfill replied no, the Full Time Equivalent (FTE) is for one code enforcer and one secretary. Mr. Woodfill said they could collect data and determine if another code enforcer was needed. Michael Lamar, City Manager, asked if there was interest from Council to add more FTE's. Councilman Sischka said they would need more information to see what would be the return on investment, if they added FTE's.

Mayor Pro Tem Lamerson said they had to prioritize there staff. Mayor Oberg said they added a 24 hour hot line, and a secretary to relieve the officer form doing administrative work.

Jon Paladini, City Attorney, said they could adjust the city code and give the City Manager authority to deputize others to do code enforcement duties. He said Michael Fleming, Code Enforcement Officer, was doing a great job and maybe they could do more on educating.

Councilman Blair said he could not support a position until he had data that showed the code enforcement officer was over burdened. He said the code enforcement officer did a great job. Councilwoman Orr said she agreed with Councilman Blair. She said they were strapped City wide staffing wise. Councilwoman Wilcox said she would like to see the data, but they had to take responsibility to make a policy decision about code enforcement, and they needed to have a proactive policy. Councilman Blair said he would like to see the list of complaints. Mr. Lamar said they would supply them with a call volume the next time they reviewed the code enforcement officer position. Councilwoman Orr said if it was an education problem the City could do something through the communication department to get the word out.

Mayor Pro Tem Lamerson asked how many engineers were employed with the City and how many code enforcement officers. Henry Hash, Public Works Director replied six engineers, and Mr. Lamar replied, one code enforcer. Mayor Pro Tem Lamerson commented they could privatize and contract some of the engineering positions, and hire another code enforcer.

Mayor Oberg said the consensus of Council was they needed further information on code enforcement.

Mr. Woodfill presented the Fire department organization chart for Fiscal Year (FY) 2018.

Mr. Woodfill said the organization charts were revised back to the original three Battalion divisions. Councilman Lazzell asked where the brush crew was on the organization chart. Mr. Woodfill said it was under the Community at Risk Reduction for permanent positions. He said the temporary positions were moved under Parks and

Recreation. Councilman Lazzell asked what “temporary” meant. Mr. Woodfill said seasonal employees. Mr. Lamar said Joe Baynes, Parks and Recreation Director, took these positions, but the way the grant was funded, the managers had to stay under the Fire department. Councilman Lazzell said it was confusing to have seasonal employees under Parks and Recreation but managed by the Fire department. Mr. Lamar said they wanted to keep them separate from Public Safety Personnel Retirement System (PSPRS) and fire clean-up was under Parks and Recreation. Councilman Blair said if Don Devendorf, Community Risk Reduction Division Chief, was the supervisor, why put them under Parks and Recreation, leave them under Fire. Mayor Pro Tem Lamerson asked Mr. Paladini for clarification, if they were qualified firefighters and works for the Fire department and had to pay into the PSPRS. Mr. Paladini replied yes. Mayor Pro Tem Lamerson asked if they work under the Parks and Recreation and not qualified firefighters, would they still have to pay into PSPRS. Mr. Paladini said yes, however, there are a lot of factors in regard to PSPRS eligibility. Mayor Pro Tem Lamerson said then why not privatize or contract it out and put the liability on them. Mr. Paladini said the appropriation was budgeted and if Council wanted to, they could. He reminded them with the new initiatives that would go into effect on July 1, 2017, it would give temporary employees a level of benefits. Councilwoman Orr asked if the Management Coordinator and Fuels Reduction Technician participated in the PSPRS. Mr. Woodfill replied no. Mr. Paladini said PSPRS was complicated and they had to keep the seasonal employees from participating in firefighter duties.

Councilman Sischka asked Mr. Baynes what they would get from the move. Mr. Baynes said they would get help to clear trails and other non-firefighter related functions.

Mr. Lamar asked Mr. Baynes, if it added a burden to the department. Mr. Baynes replied no, it was beneficial to the department.

Mayor Pro Tem Lamerson suggested privatizing it and having the Parks and Recreation supervise. Mayor Oberg asked if they used the grant money to pay for employees to clear brush. Mr. Lamar replied yes.

Mayor Oberg said the forest rangers did plan on doing more controlled burns. It made sense to have fuels people out at the airport and he supported having people in Parks and Recreation.

Councilman Blair said they needed to establish a procedure, where they would be used and it was up to management to determine the priorities, the trails or saving a properties if there was a fire. Councilwoman Orr said she agreed with Councilman Blair. Mr. Lamar said there was mutual respect between the departments and it worked well. Councilman Blair suggested going out for a Request for Qualifications (RFQ) or Request for Proposal (RFP) and see if it would save money. He asked if they did would they lose

the grant funding. Mr. Lamar said there were limitations, but something they could explore to privatize the work.

- PSPRS discussion
- Unfunded Actuarial Liability
 - Ø HB2485 as amended by SB1442 enables Public Safety Personnel Retirement System (PSPRS) employers to individually decide to extend the length of the period used to amortize their unfunded actuarial liability from 20 years to 30 years.

Ø Following is a comparison of the FY18 rates with the two amortization options.

	Trust Funding Level	20-Year Rate	30-Year Rate	Change
Prescott Fire Dept.	36.04%	91.61%	73.90%	-17.71%
Prescott Police Dept.	24.94%	85.43%	69.21%	-16.22%

- Ø The FY18 budget was developed using the 20 year amortization period.
- Ø Using the 30 year period would save an estimated \$1.5 million in FY18, but cost a projected \$74 million more than using the 20 year period.
- Ø For the 30 year period to be used in FY18, starting July 1, 2017, Council will have to take action before June 20th.
- Ø Council can take action to extend the amortization period in the future when more information is available.
- Ø Staff does not recommend the extension of the amortization period, at this time.

Pros and Cons of Extending the Amortization Period

- Ø Pros
 - Annual required contributions would be lower.
- Ø Cons
 - It will cost more to pay off the unfunded liability, estimated \$74 million
 - The City's unfunded actuarial liability would increase an estimated \$11 million over the next 12 years
 - The City's PSPRS trust funding levels will drop over the short term
 - It continues to postpone the pension cost to future years

Councilwoman Orr asked if they took the 30 year extended payment plan for amortization period, what it would look like.

Mr. Woodfill said the comparison between a 20 year and the 30 year amortization was the 20 year estimate would be \$53 million and the 30 year estimate would be \$74 million and if Proposition 443 did not pass, it would go up to \$200 million.

Councilwoman Orr appreciated all the work that had gone into the presentation. The sooner they could pay the better.

Mr. Woodfill presented on the Parker/Hall Refund of excess contributions:

- ∅ The final issue to be resolved from the Parker/Hall lawsuit is the return of contributions made by employees hired before July 20, 2011, over the 7.65% rate.
- ∅ There are 106 employees and former employees that the City needs to refund excess contributions paid over the 7.65% rate.
- ∅ Total amount of the refund is \$1,004,236 plus interest. Final determination of the interest rate is still being decided by the court with an anticipated decision in the next few months.
- ∅ There are 2 options for refunding the excess contributions:
 - Refund the contributions and take credits on payments due to PSPRS in FY18, this will reduce the assets in the City’s PSPRS trusts increasing the unfunded liability
 - Refund the contributions from other sources
- ∅ City staff is recommending that the refund of excess contributions and interest payments be made out of the City’s General Fund reserve to avoid increasing the unfunded liability, the tentative budget has been increased to enable this method.

Mr. Lamar asked what the impact on interest was. Mr. Woodfill replied about \$211,000.00.

General Fund Summary and Fund balance and the revised FY18 tentative Budget:

	<u>FY17 Budget</u>	<u>FY17 Estimate</u>	<u>FY18 Budget</u>
General Fund			
OPERATIONS			
Revenues and Transfers in	\$ 35,526,886	\$ 35,900,858	\$ 36,339,229
Expenditures and Transfers out	<u>33,450,233</u>	<u>32,358,822</u>	<u>35,272,998</u>
Change in Fund Balance Operations	2,076,653	3,542,036	1,066,231
Capital and Contingency			
Capital Projects and Transfers	3,152,159	2,850,455	2,679,210
Dispatch Partner Capital Reimbursement	-	(162,397)	(782,475)
Contingencies Using Fund Reserves	<u>382,428</u>	<u>382,428</u>	<u>1,731,390</u>
Total Change in Fund Balance	(1,457,934)	471,550	(2,561,894)
Fund Balance - Beginning	<u>32,126,336</u>	<u>32,126,336</u>	<u>32,597,886</u>
Fund Balance - Ending	<u>\$ 30,668,402</u>	<u>\$ 32,597,886</u>	<u>\$ 30,035,992</u>
Ending Balance - Detail			
Reserved for:			
Operations (policy)	\$ 7,105,377	\$ 7,180,172	\$ 7,267,846
Long-term obligations	2,927,922	2,902,547	2,386,407
Internal Loan	4,408,328	4,408,328	4,408,328

Capital Projects	853,431	1,433,527	345,933
Unassigned	<u>15,373,344</u>	<u>16,673,312</u>	<u>15,627,478</u>
Total ending Fund Balance	\$ 30,668,402	\$ 32,597,886	\$ 30,035,992

The consensus by Council was to take it out of the General Funds Reserves.

Mr. Lamar asked if it was the end of Parker/Hall. Mr. Woodfill replied yes.

Mayor Pro Tem Lamerson with the \$30 million in the Reserve Fund Balance would the City be able to send the mandated amount, plus the \$10 million out of the Reserve Fund Balance and include the amount from Proposition 443, if it passed. Mr. Woodfill replied yes.

Councilwoman Orr asked if the unsigned reserve of \$15 million was part of the \$30 million in the Reserve Fund. Mr. Woodfill replied yes. Councilman Lazzell asked if the only way to replenish the reserves was if the revenue was up or they did not spend all that was budgeted. Mr. Woodfill replied yes.

Mayor Pro Tem Lamerson said they had to move forward and show the public they were serious about paying off the unfunded liability.

Revised FY18 Tentative Budget

	FY17 Budget	FY18 Budget	% Budget Change
Operating	\$ 82,621,876	\$ 84,918,974	2.8%
Capital	73,766,026	84,266,495	14.2%
Internal Service	7,470,859	9,971,379	33.5%
Contingency	<u>3,430,000</u>	<u>9,696,403</u>	182.7%
Total	<u>\$ 167,288,761</u>	<u>\$188,853,251</u>	12.9%

Mayor Pro Tem Lamerson asked why they had scheduled to spend the money on capital projects that would not be completed and stay closer to what was spent last year. Mr. Woodfill said they would address it in part 2 of the budget workshop.

Mr. Woodfill presented the continuation of Public Works capital discussion including Wastewater centralization timeline and Project Prioritization.

Mr. Woodfill presented the Wastewater Centralization. He said they were working with Water Infrastructure Finance Authority (WIFA) to work out a plan to finance a \$22 million loan at a low interest rate over the next five years, opposed to the 50 to 60 years projected and still remain in compliance. Councilman Lazzell asked Mr. Woodfill to explain what WIFA was. Mr. Woodfill said it was grants through an Environmental Protection Agency (EPA). The one they were working on has a 20% subsidy which

means they would receive a Triple A bond rating and WIFA would pay 20% of the interest and they would get 80% of the Triple A rate.

Henry Hash, Public Works Director, thanked Mr. Woodfill for working out the loan with WIFA. He said Mr. Orosz would present the Centralization Improvement Project (CIP) funds. He said for Schemmer Drive Council wanted it to be one of the top priorities. They looked into this project and have determined it would take \$2 million to address all the issues. Mr. Orosz will go into further detail but they are options and one of them was to switch two projects that have been funded to finish Schemmer Drive or resurfacing the road to extend the life five or six years at a lower cost.

Steve Orosz, Programs Capital Manager, presented the FY17 CIP expenditures by fund.

Mr. Orosz said the Streets fund had \$45 million either contracted out or in the process of being under contract. He said they have completed more projects than they had in the past. Mayor Oberg asked if the Request for Proposal (RFP) going out now would be using Fiscal Year (FY)17 expenditures or FY18. Mr. Orosz replied FY18. Mayor Oberg asked if the \$45 million of expenditures was from FY17. Mr. Orosz said what they were presenting was a window of June, July and August to bridge the gap for fund balance purposes. Mr. Woodfill explained it did not matter when the projects were under contract, but when the projects were completed. If a project was completed by June 30th it would come out of FY17, and everything else after June 30th would roll over to FY18.

Mr. Lamar said he asked Mr. Johnson to show the budget actual instead of what was budgeted over the last three years. Mr. Woodfill said they did not have the FY17 actual, but in FY16 what was budgeted was \$46.5 million, and \$17.3 million was spent. In FY15 \$70.2 million was budgeted and \$22.4 million was spent. Mr. Orosz said the past history was not pretty. They were moving in the right direction with the implementations of the Public Works Director and they were continuing to get better.

Mayor Oberg said how many contracting firms they had to work with. Mr. Orosz said they had a great pool of contracting firms locally and from areas in Phoenix, and Flagstaff who are relocating to the City on various projects. Mayor Oberg said his concern was contracting firms who did relocate to the City for various projects, but did not have sufficient workforce to pull from locally.

Councilman Sischka commented on Mr. Orosz mentioning part of the past history was not pretty, what did he mean by that? Mr. Orosz said in the past they did the design and construction at the same time. When they started looking at the budget, and analyzed what they could deliver realistically. They noticed a big difference between FY15 and FY16, when they started to separate the design and construction. They now design first and follow-up with the construction a year or two later. Some of the initial cost was not included in the project and now it was to get a more realistic cost of the projects, they

call it a group project cost; it would align a more realistic schedule on projects. Councilman Sischka asked if it meant they had a bunch of money just sitting out there. Mr. Orosz replied no. He explained the fund balance process, and indicated they had more projects than money.

Mayor Oberg asked if finance was investing the fund balance. Mr. Woodfill replied yes.

Councilwoman Wilcox asked why the bulk of the money was being spent beyond the five year projections. Mr. Orosz said they were getting the design phase ready for the construction stage and spreading them out a little and as money was available they would get them started allowing them to get to a good stopping point. Councilwoman Wilcox asked if the design stage was premature as things could change in the five year timeframe. Mr. Orosz replied yes, they would not get to a completion stage with the plans until they saw how things would evolve.

Councilwoman Orr asked what the projection for FY18 was. Mr. Orosz said about sixty plus percent. Councilwoman Orr asked the City Manager what his recommendation was on the Capital budget. Mr. Lamar said what he heard was the Council wanted a more realistic budget for Capital expenses. He appreciated Public Works improvement and them doing a better job. He said Council had to look at the Capital budget and rely on Public Works recommendation. If Council did not want to approve 100% of the Capital budget or they could approve 75%, if they felt it was more realistic. Mr. Orosz said they wanted to move along the projects in the queue, but sometimes there were issues with the projects and they were not completed. It would bring down the percentage and it would hurt their overall estimation. Mr. Hash said when they presented project numbers it covered everything to get the projects completed. He had instructed staff not to add a project if it was one or two years out in the books until it was ready to be started. Their realistic approach had improved and would continue to improve as project design and construction come together. Mayor Oberg said he understood and it was appropriate.

Mayor Pro Tem Lamerson said he had concerns regarding some of the road construction and communication with the local residents regarding road design. Councilwoman Orr commented she did not think Smoke Tree Lane would look the same in five to six years from what they were proposing. Councilman Lazzell commented they did have several meetings with the residents, and he did not think it was the design but the length of time it had taken to complete the project. Mr. Hash said they had turned the road into a win, win situation with safety and beatification. Councilman Lazzell asked if the big ticket items would expend most of the money doing these projects. Mr. Orosz replied yes. Mayor Pro Tem Lamerson commented when they deliver unrealistic expectations they would receive an unfavorable response, but he agreed it would be a safe street once it was completed.

Mr. Orosz said priorities did change from year to year and they did identify the need to prioritize the projects.

Councilman Blair commented on Shalimar Street and the eastside of Lawson Street needed to be improved and fixed. He asked Mr. Woodfill if they would be able to charge an impact fee for infrastructure on building permits, as it would have a direct impact on the streets from the developments. Mr. Woodfill said they did a rate study on impact fees for building permits and they could only charge an impact fee if it related to a capacity increase. For example, if they were adding a lane, they could charge an impact fee. He said they were scheduling a rate study in FY18 and they would be looking at the current ten year plan for streets to see if there was a capacity impact fees they could implement. Mr. Paladini, City Attorney, said the simplest way to get the infrastructure built was to have the developer pay for the standard of the demand, and once it was built they would turn it over to the City.

Mayor Pro Tem Lamerson said his concern was the public health and safety of the residents. Mr. Orosz said what they programmed was one project per year and they did prioritize. Councilwoman Orr said they received a lot of input from their constituents and would like to have more input on prioritization of projects. Mr. Lamar said he agreed.

Mr. Lamar asked of the \$46.5 million budgeted what could be postponed. Craig Dotseth, Utilities Manager, said they could potentially move \$20 million over the next five years. He said in order to maintain compliance with the system and capacity lines, the following were critical:

- Sundog Trunk Main, Phase B
- SR89 Lift Station
- Sundog Lift Station
- Sundog Trunk Main, Phase A
- Airport Trunk Main Sewer Improvement 177 Airport WRF Expansion Phase 2

Mr. Dotseth said the Airport Expansion Phase 2 and Sundog equal Basin and Plant decommissioning could wait until FY24. Mr. Lamar asked if there were any other cuts they could make from next year's FY18 budget, and could streets come down to the 75% completion they had estimated.

Mr. Orosz presented utilities information and said all of the items were well on the way to completion. Mr. Lamar asked if there was wiggle room for cuts. Mr. Orosz replied no.

Mr. Orosz presented the Streets construction and where it was in the completion process.

Councilman Blair asked what phase 4 meant in the Rosser Street pavement reconstruction. Mr. Orosz said it was the last segment of the reconstruction. Councilman Sischka asked why Smoke Tree Lane was not higher on the list. Mr. Orosz said there were other projects identified as almost complete and they wanted to move forward on them. Mr. Lamar asked where they were with Carlton and Alarcon Street pavement reconstruction. Mr. Orosz said the design built was almost finished and the

construction part could be moved out. Mr. Lamar asked if the other projects on the lower end of the list could be moved out. Mr. Hash replied yes. Mr. Orosz said the Willis /Cortez Street was going out to bid on the 26th of June and was a needed project. Mr. Hash said the staff did give Council the best decision on all projects. Councilman Blair said Wills/Cortez was high priority for public health and safety issues.

Mr. Orosz addressed Schemmer Drive at a cost of \$2 million.

Option 1:

- Ø Rosser Street phase IV funded FY15 \$2,685,000
- Ø N.Washington/Churchill Street \$1,529,650
 - ✓ Funded FY18 \$ 135,000
 - ✓ Funded FY18 \$1,394,650
- Ø Option 2 was to mill and repave existing surface
 - ✓ Up to 5-years useful life \$ 225,000
 - ✓ Improve driving surface
 - ✓ Pavement rehabilitation Budget

Mr. Orosz wanted to give the Council some options for guidance.

Mr. Lamar asked if they could do something for Smoke Tree Lane. Mr. Orosz said they had more issues at Smoke Tree Lane but would look at it more closely for options for FY19.

The consensus of Council was option 2.

Councilwoman Orr said since it could be looked at it would be great. Mr. Hash said they would take a closer look at Smoke Tree Lane. Mr. Oberg said they would like to get a committee together to look at streets traffic density.

Councilman Lazzell commented on the growth of everything around the City had caused problems. Councilman Blair said they need to do a better job on the growth. Mr. Orosz said they were looking at the downtown area to make improvements to move traffic. Mr. Hash said they would do a comprehensive study and come back to Council with a presentation. Councilman Sischa asked if a traffic engineer would be able to look at a diagonal cross walk so pedestrians did not have to make two stops. Mr. Orosz said they would look at a program in their tool box and for other options.

ADJOURNMENT

There being no further business to discuss, the Special Meeting of May 25, 2017, adjourned at 11:25 a.m.

Harry B. Oberg, Mayor

ATTEST

Maureen Scott, City Clerk