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CALL TO ORDER

[Time: 00:00:05]

Mayor Lane: Good afternoon, everyone. I would like to call to order our December 10th, 2013, regular City Council meeting and we'll begin, please with a roll call.

ROLL CALL

[Time: 00:00:11]

City Clerk Carolyn Jagger: Mayor Jim Lane.

Mayor Lane: Present.

Carolyn Jagger: Vice Mayor Virginia Korte.

Vice Mayor Korte: Here.

Carolyn Jagger: Councilmembers Suzanne Klapp.

Councilmember Klapp: Here.

Carolyn Jagger: Bob Littlefield.

Councilman Littlefield: Here.

Carolyn Jagger: Linda Milhaven.

Councilwoman Milhaven: Here.

Carolyn Jagger: Guy Phillips.

Councilman Phillips: Here.

Carolyn Jagger: Dennis Robbins.

Councilman Robbins: Here.

Carolyn Jagger: City Manager Fritz Behring.

Fritz Behring: Here.

Carolyn Jagger: City Attorney Bruce Washburn.

Bruce Washburn: Here.

Carolyn Jagger: City Treasurer Jeff Nichols.

Jeff Nichols: Here.

Carolyn Jagger: City Auditor Sharron Walker.

Sharron Walker: Here.

Carolyn Jagger: And the Clerk is present.

Mayor Lane: Thank you. A little bit of business and instructions. We do have cards if you would like to speak on any subject or for public comment. That's the white card the city clerk is holding up over her head to my right and there are yellow cards if you have written comments on any item on the agenda that you would like to comment on and we will read those in the course of the proceedings. We have two Scottsdale police officers in front of if you have any need for their assistance and the area behind the Council dais are reserved for the Council. And we have rest rooms over here clearly mark rest room sign.

PLEDGE OF ALLEGIANCE

[Time: 00:01:17]

Mayor Lane: We have Brownie Troop 793 with their leader Susie Irwin to lead us in the pledge. Ladies, if you would move to the microphone, if we could all stand, if you can, and lead us in the

Pledge of Allegiance.

Brownie Troop 793: I pledge allegiance to the flag of the United States of America, and to the republic for which it stands, one nation under God, indivisible, with liberty and justice for all.

Mayor Lane: Thank you very much, ladies. If you could turn that microphone around on your own. Boy, there you go. And introduce yourself and tell us where you go to school and what your favorite subject is.

Brownie Troop 793: My name is Haley. I'm in third grade. I go to Cheyenne and my favorite subject is math. My name is Emily. I'm in third grade and my favorite subject is everything. And I go to school the Cheyenne. My name is Ainsley, I'm in third grade. I go to Cheyenne and my favorite subject is math. My name is Michaela and my favorite subject is writing and I go to Cheyenne. My name is Ali. I go to Cheyenne, and my favorite subject is math. Hi, my name is Avery, and my favorite subject is reading, and I go to school at Cheyenne and I'm in third grade. My name is Ali, I'm in third grade. My favorite subject is math and I go to Cheyenne. My name is Taylor. I'm in third grade. I go to Cheyenne and my favorite subject is writing. My name is Eva and I go to Cheyenne and I'm in third grade.

Mayor Lane: Thank you very much, ladies.

INVOCATION

[Time: 00:03:10]

Mayor Lane: This afternoon, we have an invocation given to us by Pastor Cynthia Cone from the One Life Christian church. Cynthia, Pastor.

Pastor Cynthia Cone: If we could prepare for grace in the manner of our tradition. O great spirit, you are an awesome God that gives life and you give energy to young ones. You also give wisdom to those who make decisions. It is a time of year that we come you to knowing that you have much in store for us and much in store for this community. Bring them together at this time of year and even though there are difficult decisions to be made. We know that in the greater picture that you have, that you have much to share with each of us. If we will keep our heart and our mind turned towards you. So on this night, and in these chambers, let there be wisdom and let there be energy but let there be mission that is set out for the good of the people. In your name we pray, amen.

MAYOR'S REPORT

[Time: 00:04:23]

Mayor Lane: Amen. Thank you, Pastor. Just a bit of news, I suppose that you might want to know about as it comes out, you probably have heard a little bit about what has happened with C.P.S. and some of the situation has developed with the lack of investigation on a number of files, some 6600 files that were actually not attended to at all. What we have done and I have asked our staff, our City

Manager and our police department working with resources that have been made available to us through RICO funds and that, and that is to ask the child welfare investigation team to give us an accounting of those files that are Scottsdale, within our Scottsdale jurisdiction, those cases that have not been investigated or actually have been trashed and to make sure that we look at those particular, investigate those files and make sure that we have a complete accounting for that. The C.P.S. situation is a difficult one.

The Governor is working on it and trying to bring it and reform it and correct the system on the overall, but in the meantime, we have a number of backlogs and also items that were just literally overlooked that we're going to try to make sure we give some assistance to the state in catching up on that. This is about protecting the children that may be endangered by virtue of the lack of the investigation on this. So we're in that process right now of identifying those cases that are Scottsdale and we will be working on that. I just .it's something that the police department and, frankly, our city staff and our City Manager embraced wholeheartedly as an effort that would be important to our constituency here in Scottsdale. And I certainly have called upon other municipal Mayors to look and see if they cannot do the same thing for their individual communities. We will hope for the best on that and hopefully these investigations don't uncover anything that was dangerously overlooked. Nevertheless, that's what we are in the process of doing.

On a little bit of a happier note, I suppose, I would like to say that this is our last Council meeting for 2013 and I would like to wish everyone on behalf of my wife Joanne and our family and the entire Council to have a Merry Christmas and a happy holidays and a joyous New Year. I realize this is not the end of the meeting, but the rest of you may not be here for the end of our meeting. So I just wanted to extend that right away. Thank you very much. So with that, City Manager, I understand there is no report. No presentations.

PUBLIC COMMENT

[Time: 00:07:13]

Mayor Lane: Just on public comment, we do have public comment period that's reserved for city public comment regarding non-agendized items. It's limited to five minutes and a maximum of five speakers and there will be time at the end of this meeting to do the same. At this time, we do have only one comment and it is Cynthia Hill. Cynthia, if you would.

[Time: 00:07:56]

Cynthia Hill: Good evening. My name is Cynthia Hill and I'm the executive director of the Police Officers of Scottsdale Association outreach programs, and my address is 7229 East First Avenue, Suite 203, Old Town, Scottsdale. And I'm here today for a wonderful reason. I know you are all like, yay! But I want to share with you and the public about our upcoming program shop with a cop and it's a program that our Scottsdale police department employees voluntarily participate in annually. This is our 11th straight year of coordinating the Shop with a Cop program in Scottsdale. When we first started in 2002, we took 50 kids from Scottsdale and Salt River Pima Indian Community. We are now

11 years later and we are coordinating two Shop with a Cop events, taking 400 kids this year. Funding is generated in large part by the City of Scottsdale, Salt River Indian Community and the Phoenix area residents, businesses and through nonprofit grants from groups like the Scottsdale Charros and the Scottsdale Active 2030 club. We are pleased, truly to have such terrific supporters of our police programs and my heartfelt thanks goes out to each and every person who donates to this program. The first event is this Sunday, December 15th, and sponsored by the Scottsdale Fashion Square Mall. We have tripled from 30 teen to 90 teens. They are selected for need, volunteerism, good school attendance and then special circumstances.

They will be treated to a hot breakfast by the Scottsdale Fashion Square Mall, followed by with pictures with Santa and their officer and two hours of shopping to spend \$150 on things they want and need for themselves and their families. The second event starts at the Chaparral Suites Conference Center on December 21st and that was donated by former Councilman Tom Silverman. We will have everyone in one room. There will be almost 700 people there. And the kids and law enforcement officers will have a chance to win some really great prizes as they interact and, of course, Santa will be there.

So then the kids will get into their school buses and they will head up the 101 with lighted escorts by 14 different police agencies from around the valley and the state of Arizona. 14 different police agencies help us do this and I think that's just truly outstanding. And I would tell you, but I'm running out of time who they all are. Just know that there are a lot of them. 325 children, ages 7 to 12 will be paired up with an officer to spend \$150 at this event, and participants for this program are identified through school resource officers and community organizations. At risk youth are not always our poorest kids, they are also our kids who have experienced great loss, domestic violence or a serious illness in their family. This is true community policing. It's essential to build bridges to develop trust and become part of community, and this is what POSA tries to do. Our police officers are very special. They chose this profession because they want to make a difference and I want to thank you because I know that almost all of you will be attending that event and I'm very excited and it will melt your heart. Thank you.

Mayor Lane: Thank you, Ms. Hill. That completes the public comment at this time. So we do have one other order of business.

ADDED ITEMS

[Time: 00:11:23]

We have an Added Item, the supporting materials for item 19 were added to the agenda less than ten days prior to the meeting. Do I have a motion to accept the agenda as presented or continue the items to the January 14th, 2014, meeting? And I might just explain that that are the changes made to the WestWorld food services and marketing license agreement and Monterra food and alcohol license agreement.

Councilwoman Klapp: Motion to accept.

Vice Mayor Korte: Second.

Mayor Lane: Motion has been made and seconded. No further requests to speak on it. So then we have it and we are ready then to vote. All those indicate by aye. It's unanimous, 7-0, accepted on the agenda as indicated. Okay.

CONSENT AGENDA

[Time: 00:12:38]

Mayor Lane: The next item of business will be the Consent Items. We do have a request to speak on one of the consent items, and that is item 14, which is the Independent Ethics Reviewers Professional Services Contract. And that is Mr. Washington. Mr. Washington?

[Time: 00:13:18]

John Washington: Sorry, Mayor Lane. You lulled me to sleep there. I just have one question on this issue and it really isn't the point to who the individuals will be who will be appointed to the commission, but it occurs to me that we have exercised our ethics ordinance a couple of times, maybe three times since the Council voted to approve it. And nothing has ever come of those. And there were some significant inadequacies identified by one of the reviewers that was impaneled to review a complaint in which this individual said, basically, there's nothing that they can do to enforce the ethics ordinance. So I just question the Council, why do we even go through this charade of appointing folks to the ethics Council if the Council has never lifted a finger to try to improve the ordinance and give it some more teeth. I hope we can address that to Mr. Washburn and why we haven't been able to do anything with the ethic complaints filed. Thank you.

Mayor Lane: Thank you, Mr. Washington. That completes the requests to speak on the Consent items of 1 through 17. Unless there's any other comments from the Council, which I see none. I would accept a motion to accept these items.

Councilman Robbins: Mayor, I move that the Council approve consent items 1 through 17.

Mayor Lane: Motion has been made and seconded. All those in favor of consent items 1 through 17, please indicate by aye and register your vote aye. Consent items 1 through 17 pass unanimously, 7-0.

REGULAR AGENDA

[Time: 00:15:14]

Mayor Lane: That moves us on to our Regular Agenda items, starting with item 18, which is the Fiscal year 2012/13 Annual Financial Audit. And we start with a presentation from our auditor, our City Auditor, Sharron Walker. Ms. Walker.

[Time: 00:15:31]

City Auditor Sharron Walker: Thank you, Mayor, members of Council. What I'm going to do is give you a real brief overview of the annual financial results. The audit was conducted by the C.P.A. firm CliftonLarsonAllen. I just have a couple of slides here since this is first time the audit results have been on the Council agenda. I have a couple of slides to give you an overview of what that involves. So first, the Council is responsible for having an independent C.P.A. firm audit the annual financial statements, and that is contracted to the audit firm. This year it was CliftonLarsonAllen, and historically the City Treasurer's office which also prepares the financial statement has been managing that contract. So in April of this year, the Council assigned me audit contract responsibility to the City Auditor's office, and at its November 18th meeting, the Audit Committee received those audit results and in the interest of increased transparency for the public, they wanted me to bring the results to the Council so that the full Council could accept the audit report. So for the next two slides, what I'm going to do is just summarize briefly the audit reports that are attached to the agenda, and they total 440 pages so I won't go through all of that.

The City Treasurer has previously given the Council an overview of the year-end financial results back in October, as the C.P.A. was drawing its work to a conclusion. What I will do is focus on the auditor's results. So first, what the annual financial audit is comprised of, the auditor reviews the city's comprehensive annual financial reports, and it also, the audit also includes the annual financial reports of seven component units, defies community facility districts, the municipal property corporation and the Scottsdale preserve authority. The C.P.A. firm gave an unmodified opinion on all of those financial reports, and what that means is that in the C.P.A. firm's opinion, those financial results are fairly presented in all material respects. So basically reliable financial reports. In addition, one of the required parts of that annual financial audit is called a communication with government and those are, those are attached to each of the financial reports or come along with each of the financial reports. Basically communicating aspects to the governing body. So that includes things like the C.P.A.'s firm's review of significant estimates, the C.P.A. firm's review of accounting changes that resulted from implementing new accounting standards during the year, any corrected or uncorrected misstatements identified during the course of the audit. That's what you will find in the letters that are communications with governments for each of those financial reports.

The next item listed under the city's comprehensive annual financial report is management letter. That's not a required component, but it is, it is a communication that's prepared when the C.P.A. firm has observations, areas that they think can be improved, and so I have included that, even though it's not required, I have included it just for transparency and this management letter communicates some improvements that the firm believes to be made in regard to I.T. controls related to accounting and financial reporting systems. Also some of the annual financial reports have an internal control communication, and that is when the C.P.A. firm has identified issues or matters that they think are significant deficiencies or material weaknesses, some auditor terminology that are, again, areas where the city's internal scrolls over accounting and financial reporting can be improved. Because the city receives and spends federal and state funding, they are also reporting obligations that go along with those monies.

So for the federal funding, because we spend more than \$500,000 of federal financial assistance and actually in fiscal year '12/13, the city spent about \$20 million in federal funds, we are required to have what's called a single audit. It's basically looking at the city's schedule of expenditures of federal funds, and looking at internal controls and compliance with federal requirements. The C.P.A. firm give an unmodified opinion on all of these reports they did have to reissue the 2011/12 single audit because during the course of this audit, they determined there were some ARRA funds, some American recovery funds that were not properly identified and the schedule had to be redone and the C.P.A. firm had to do some additional testing, unmodified opinion on all of those reports, though.

And then the last couple of items are related to state funding that the city receives. So there was also an unmodified opinion on the highway user revenue fund, HURF uses and the LTAF, the local transportation assistance fund that's required. So those are the reports that are included in the audit results. Jeff Nichols, the City Treasurer's office, is responsible for preparing, compiling those financial reports and I would be happy to answer any questions you may have about the audit results.

[Time: 00:22:03]

Mayor Lane: Well, thank you, Ms. Walker. Just a couple of questions. I know there may be some additional ones but I will start off. And that is that there has been increased emphasis on reliance on a management letter for assurances by management of the compliance and of disclosure and of management techniques that secure proper county records. Has that changed materially and have we had a drop off in reliance on internal control issues? You mentioned internal control, but we seldom see anything with regard to testing anymore or materiality of issues and exposure and risk issues, where internal control isn't exercised.

Sharron Walker: During the course of the audit, the C.P.A. firm does, did get management representation letter, which basically is management providing assurances that, of certain matters related to risk and controls, such as whether or not management is aware of any fraud that has occurred, whether or not there are any matters of compliance related to bond financing. There's a whole series of compliance and internal control type areas that the C.P.A. firm asks management to sign off on representations for. I didn't go into it very much, but there were some accounting corrections that were identified during the course of the audit and they were large dollar because the city has large dollar transactions. For example, some of the, a couple of the areas that were identified relates to the accounting and the financial reporting for certain bond transactions, that occurred with three of the C.F.D.s and it was just a matter of whether the bond transactions were recorded as an advance or a current refunding. The bond refunding was handled differently this year and so the accounting needed to be changed and that was missed and it was corrected when they brought it to the accounting staff's attention. So the accounting firm, in the communications that are included in your agenda packet do identify some corrections such as that, but the treasurer's office did correct all of the significant errors that were identified during the course of the audit.

Mayor Lane: You mentioned something about the fact that some federal funds reinvestment funds or otherwise had been miscategorized or.....

Sharron Walker: They were not identified as being ARRA funds and that's a requirement on preparing the schedule, the federal expenditures, the federal assistance is that each of the grants has to be identified as what the source is and these were, this particular error was because the granting agency that provided the money to the city had not identified them as ARRA monies and so the accounting, the accounting staff did not identify them as ARRA monies on that schedule.

Mayor Lane: So no liability or refund or anything like that? No consequence, just a reclassification?

Sharron Walker: Just a matter of reissuing the schedule with corrected information on it.

Mayor Lane: Are there any new items required in our account, by the general accepted governmental accounting standards?

[Time: 00:25:45]

Sharron Walker: The C.P.A. firm in its, the C.P.A. firm in its communication with governments does identify there were four accounting standards that came into effect. They related to service concession arrangements, financial reporting entity, just a clarification of how to define that and then a change in how deferred outflows, deferred inflows, net position were reported. So the ones that occurred this year were fairly technical, but there are future accounting standards, changes that will make a significant impact and one of those that's commonly talked about is the upcoming change to how pension liabilities are reported but that's not effective yet, until fiscal year 2014/15. So that's another year or so down the road, a couple of financial reports down the road, but that is something that I know that the accounting staff, the City Treasurer's staff is working on determining what the impact of that will be. I don't know that they know yet what the impact will be but basically the city will need to reflect on its financial statements a proportionate share of the unfunded liability for the retirement of these systems for the A.S.R.S., the P.S.P.R.S., the public safety. So there's a significant accounting change coming down the road in a couple of years and the accounting staff will have a little bit of time to identify and give you a better idea in the coming months what that impact will look like.

Mayor Lane: Will the accounting firm that we engage for the C.F.R. have a part in evaluating that disclosure amount and the various components of it?

Sharron Walker: That will be a part of the audit when they do the audit for the 2014/15 C.A.F.R. That will be a required disclosure, a required accounting change and so that will be a very significant part of the audit that year, I'm sure.

Mayor Lane: And I guess specifically, the concern would go to whether or not they have to independently verify various components or elements that make up that liability.

Sharron Walker: Because it's still, because it still is a year, year and a half down the road, I think some of those details are still being worked out, training, information, that I have seen indicates that that is.....

Mayor Lane: Well, I guess, put another way, how much reliance our auditors will put on their representation of those components.

Sharron Walker: Right.

Mayor Lane: And one final thing from me. I think was a reasonable good move on the part of this Council and I think it was a good move on the part of this Council to transfer the, sort of the controlling and the managing element of our independent auditors through your office but one thing I wondered whether there has been, as we are talking about the management level and the internal control, whether there's an evaluation by those auditors of your department and the role you play in internal control in compliance and frankly, in financial accounting.

[Time: 00:29:58]

Sharron Walker: Auditing standards require a C.P.A. firm conducting a financial audit to take certain steps if they are going to rely on what is classified as internal audit. Our structure is more independent than internal audit because we report to the Council rather than to management. But the audit firm would have to take such, take additional steps like verifying the abilities of the staff and reviewing our work. And so it's just generally more efficient for an audit firm to do their own testing than to specifically rely on internal audit, but they do each year meet, have each year, even before this year met with me to inquire about what audits we have done and take a look at our reports. So they do, but only to a limited basis, just because auditing standards would require them to do more work than to be able to specifically rely on ours.

Mayor Lane: That and the independent evaluation of your department which I know and congratulations, frankly, that you received high marks from your peers in that group, does have a tendency, presumably for them to rely on your record, your reputation and frankly looking at those reports in limiting their own testing.

Sharron Walker: Since we do have a peer review by an independent team of auditors that comes in and specifically reviews the quality of our work, that they shouldn't have any hesitation in relying on our work. It's just because of auditing standards and the documentation, the efforts that they have to go to, that it's generally more efficient for them to go otherwise, but I completely agree that the work that my office does, we take great pride in doing high quality work for the Council.

Mayor Lane: Yeah, and I'm sure it has some impact on the testing that they do and so it goes to your credit. Thank you very much. Vice Mayor Korte.

[Time: 00:32:06]

Vice Mayor Korte: Thank you, Mayor. How many years has CliftonLarsonAllen been contracted with the city to do our audit?

Sharron Walker: CliftonLarsonAllen is at firm's most recent iteration, the most recent combination. The firm that it began as, Krunston Turbovich, I was afraid that that question may come up. Did I do some quick research and I found contracts back to 2000. I think they started doing the city's audit maybe in the 1990s, but it has been a number of years.

Vice Mayor Korte: Then with that being said, is the, you as an auditor, are you looking at, perhaps, you know, creating a proposal in opening this up to new auditors and perhaps creating a policy around that change of external auditors on a regular basis?

Sharron Walker: As an auditor, I do think it's a good idea to periodically have fresh eyes taking a look at the city's financial statements and internal controls. The current contract has another two years of one-year extensions and we, I definitely will be doing an R.F.P. as we get into that last year. One of the reasons why I don't necessarily feel like it's critical to do that sooner is because of the fact that the firm has gone through a couple of combinations in just the last couple of years and so they have rotated some of the audit staff. So we have had some new eyes conducting the audits, new individuals involved. And so that's given me a little bit more assurance that we are getting a fresh look at the audit, but we will be going through an R.F.P. process at a minimum as we are in that last extension.

Vice Mayor Korte: And then last, in your opinion, what do you think that cycle should be?

Sharron Walker: I don't know that there's any particular, any specific time period, but with the city's approach to contracting, is that generally a contract is let for one year with four extensions of it. The contract can cover five years and I personally think that a good time to be taking a fresh look. And the reason why is because the firm does gain some efficiency the first year as a learning process. And so the second and the third year, they get a little bit more efficient but I do think that if the same firm is doing the audit for an extended period of time, it can get too easy to not look as closely. So I do think it's important to have a fresh look.

Vice Mayor Korte: Thank you, Ms. Walker. Thank you, Mayor.

Mayor Lane: Thank you, Vice Mayor. I would just say that obviously this is something that comes to us annually and we need to consider that when this contract comes for renewal. Councilman Robbins?

[Time: 00:35:14]

Councilman Robbins: Thank you, Mayor. Ms. Walker, you mentioned there was an internal control letter issued for some C.F.D. issues and then it also mentions that in our Council report. Was the same issue found in every C.F.D. or were there different issues?

Sharron Walker: It was the same issue in all three of the C.F.D.s because the bond refunding in fiscal year '12/13 was done as a current refunding where normally we do an advanced refunding and so it was a little bit different accounting and that was missed and so it was the same for all three of them.

Councilman Robbins: Thank you.

Mayor Lane: Thank you, Councilman. It looks like we have no further questions of you Ms. Walker. Thank you very much for the presentation.

Sharron Walker: Thank you.

**ITEM 19 – WESTWORLD FOOD AND ALCOHOL LICENSE AND MARKETING AGREEMENT AND
MONTERRA FOOD AND ALCOHOL LICENSE AGREEMENT**

[Time: 00:36:20]

Mayor Lane: Next item is our item 19, which is the WestWorld Food Services And Marketing License Agreement And Monterra Food And Alcohol License Agreement. And for this, it looks like the presenter will be our illustrious Mr. Katsenes.

[Time: 00:36:36]

Community and Economic Development Executive Director Paul Katsenes: Thank you, Mayor. I would like to prepare and ask your indulgence. We're anticipating making a three-part presentation today. I will provide the details of the PowerPoint and then we have scheduled Mr. Nichols, City Treasurer Nichols to discuss any funding questions. And then a short presentation of Mr. Unger who is National Western Capital Corporation, and as a result of that, I have been admonished to be very brief, to the point and get started quickly. And so I will with your indulgence. You see the title, WestWorld Food, Alcohol And Marketing Agreement.

If you approve this request and the funding request of \$200,000, not a single penny will be spent on food and alcohol services. This is a request for event development, sales and marketing at WestWorld. This is not a request that includes any dollars dedicated to food, beverage or alcohol service. And so I will move along in our presentation. And suggest you to a little bit of background of where we have been. You remember, and we all remember that WestWorld was 100,000 square foot open air arena and as a result of your decisions in of March of 2012, you said it's time to expand. It's time to improve that and so what has been done under your direction is that it has become a 300,000 square foot enclosed climate controlled facility available for year-round use.

And as a result of that decision, you brought along three other partners, the Arabian horse association, the Barrett Jackson auction, auto auction company and the Arizona Quarter Horse and those three are the 20-year commitments that they pledged each year to support this expansion and debt service. Excuse me. We also have two additional partners, the Bureau of Reclamation and I will show you the map that will show them outlined in purple and the Monterra license. The Monterra is the area that we lease from the Bureau of Reclamation. The green area is the City of Scottsdale owned land. That beige area up in the corner is Arizona State land just to give you a sense of our layout. And this shows the Monterra building and its location just above the Polo field to the left, to give you a sense of how these facilities lay out. The important point to remember about the Monterra is that we have had an existing license there for quite some time. It started out in 1996. It has been revised. It's been sold.

Mr. Unger owns it under National Western Capital Corp and has been operating Monterra and we're here to tell you what this, what it did was provide a liquor license for WestWorld, provided events in Monterra and as a result of those events, he provided food, beverage, and alcohol in Monterra. And when invited, he used the Monterra kitchen facilities to provide food, beverage and alcohol elsewhere on WestWorld, but the license for Monterra is for food, beverage, alcohol, and events in Monterra, and that's the way that it has been operating. And as a result of that, then he is, he, as an operator, did sales and marketing for events in Monterra. So we have some marketing experience there. As a result of your decisions to expand WestWorld, we had expanded needs. So we, in that 300,000 square foot facility that I spoke to you about just a moment ago, the Tony Nelssen Equestrian Center, we had five kitchens part of your exhibits and those kitchens have not been equipped. They have been built out or in the construction trade they have been stubbed out so the pipes come out for gas and water and sewer and, et cetera, but there isn't any equipment. There was a need for equipment. We always anticipated reaching this point in solving the equipment issue. We also have a need for food, alcohol and beverage service throughout WestWorld and the reason, fundamentally we are here tonight is a sales and marketing for WestWorld all year. And in conversations with each of you individually and collectively as with this project forward to you, and with the Convention and the Visitors Bureau and the Tourism Development Commission and with the tourism community, these marketing needs were the list of priorities that were developed and agreed to continuously. Bring new events to WestWorld. Create new events at WestWorld. Hire and pay and supervise staff to sales and market for events in WestWorld.

[Time: 00:42:19]

And as a result of that, needing website and creating marketing material and having expenses of traveling and entertaining for the event development business and at the same time coordinate and leverage our Scottsdale Convention and Visitors Bureau and our tourism development community and our Tourism Development Commission. Those were the continuing themes we heard from you, both on that frame and in this frame, were the continuing things you said you wanted to have in anything we brought forward to you. And so tonight, we are going to show you that there is a marketing plan and a strategy that's dedicated and contracted for as part of this contract. If you approve it, it will become an obligation of the contract. Marketing, you said to us would be, should be performance based so that anyone that markets has to meet certain targets and that's part of the contract. The ability to cancel if these are not met is part of that contract. And the city, if all the contract stipulations are met, the city will pay but only if performance is met.

The second part of this, as you will remember from the beginning, it's a food and alcohol license, and the reason we have the food and alcohol license is to continue and streamline and update the Monterra agreement that was substantially needed some support and updating. And so we have a need at the food and leverage level for the equipping and paying for five kitchens. We have an obligation in the contract that they will provide a quality and variety of food that it will include a food plan, that they will have trained and adequate staff and they will have security and cash and credit handling standards at other times at these podiums and these meetings we talked about standards, financial standards and managing of gross receipts out there and we find that it's efficient but we want

our new partner to equally honor those. And so we have what we consider a well-established vendor in the Phoenix market that we are proposing to you tonight. From the food and beverage side, the money comes from, to the City of Scottsdale from the food and beverage provider. So if there's any food or beverage provided for any event, they will pay us a commission on their contracts for the events there. They will pay us food and beverage at the rate of 20%. They will, if they serve alcohol, they will pay us 30% commissions and in this case, the contract obligates them to finish out five kitchens that we have spoken about in the Tony Nelssen Equestrian Center, all components of the contract.

The real reason we are here tonight is for the marketing discussion. You have outlined those criteria, those priorities that we just went over a moment ago, and in the contract, we have taken those criteria, taken those priorities and itemized them in the contract. We have described next in the contract in a variety of different ways so there is no misunderstanding and there are dates and commitments and times and dollar amounts that must be sent. And so we are asking our Northwest National Western, excuse me, National Western Capital Corporation to market for shows and festivals and events aimed at out-of-town tourists that we are asking them to increase event bookings and that we are asking as a result of some of their outreach that we gain in national and international exposure, and that they aim at group and individual tour business and much the same way that our coordinated tourism approach in this community does and that they aim at multi day events attracting people from outside so that in essence we are attempting to fill hotel rooms as a fundamental basis for this activity. And that we work with producers the last item on this, to create new events.

[Time: 00:46:45]

There is a requirement for our annual marketing strategy presented to us that will outline advertising, event, and consumer promotions and database marketing and public relations efforts, all of these will be outlined, there is a requirement for them to establish a website. There's online marketing promotions and programs, and the kinds of categories and shows that we have spent months discussing with them. This is literally been a six-month process of refinement and refinement and approach. All of these are part of the contract and will be submitted to us on annual basis and then reviewed on a quarterly or semiannual basis so we know exactly where we are in the process. These are the revenue targets that we have talked about again and again. So in this year, what's left of this year, there is an obligation in fiscal year '13/14 to reach \$3.2 million of gross revenue to WestWorld. Next year, it's a \$4 million figure that we are as a target putting in the contract that must be met. And in '15/16 it becomes a \$5.2 million target that must be met. So these substantially increasing great leaps until we get to 5.2 and not plateau but reach an operating level that we think is realistic and then we have put in an escalation so that every year it continues to grow as a target that must be met at a 4% escalation. These revenue targets are part of the contract. And if they do those, if they meet those, then all of the other categories of obligations in the contract, then you said we will pay for performance.

And so this is the one of two steps of paying for performance. A base marketing fee of \$200,000 per year. And so if you look at this, you say to yourself, wait a minute, there's not a full year left in FY '13/14. That's true. And so we took the fact that there's an enormous need to get started fast, to get

started hard, to get started right out of the gate, and so we went down to FY '16 and '17 and advanced \$100,000 to this year so that they could start with the full amount and start immediately to do the things that needed to be done at full steam. And when they get to '16 and '17, they will drop down to the \$100,000 and then come back up in '17 and '18 to the \$200,000 and stay there with a 4% escalation just as we saw when we raised their targets by 4%. And then to encourage them to do even more and keep them working hard and not level off at \$5.2 million, we said, if you do a better job than just our targets, then we are performance basing your results, and so we will not pay for the first \$3.2 million, but if you gain any more than that, then for the next million over 3.2, in other words from 3.2 to 4.2 million, there's a potential to earn 10% more. And for anything over \$4.2 million, anything over \$4.2 million, it would be paid at a 15% rate. Those items are in the contract.

Mayor Lane: Excuse me just one second. I want to make sure that it's abundantly clear that we are talking each of these goals are over and above existing business. The existing business is 3.2. So these goals are over existing business.

Paul Katsenes: Yes, Mayor. And so the ask or the request from you tonight is to approve these contracts and to approve a request of \$200,000 and we have proposed two sources that Mr. Nichols will speak to from a source of funds. First one is the General Fund operating budget appropriation, a contingency transfer to WestWorld operating budget funded by the tourism development fund or secondly, the General Fund operating budget contingency transfer to WestWorld operating budget. I will, of course, remain for questions of the next two speakers and I will take my material and we'll be back up here if you need us. There's one last thing I would like you know and these are the people that have been involved diligently in the last six months working on these projects. This is the inside city team. There is one other component that I think, Mayor, it's acknowledgment and that is City Clerk Carolyn Jagger and her team that, if you will excuse me the expression, yeoman's duty to help us come to this point. Thank you, Mayor. Thank you, Council.

Mayor Lane: Thank you, Mr. Katsenes.

[Time: 00:52:25]

City Treasurer Jeff Nichols: Elmo, if you will, please, Brian. Mr. Mayor, members of Council, as Paul just noted, you have a couple, is that the right side up? There we go. You have two options for funding this, given two options at your disposal, your choice. First is General Fund contingency, and all I'm trying to show here is we started the year with \$5 million in General Fund contingency. You have made several decisions. Staff has come to you with recommendations and you have allotted a certain amount of those funds. To date, the commitments total \$1,950,000. So we have a balance of approximately \$2.5 million. We have some that have already been taken action on. We have some as placeholders. There's been some confusion today and I might have been the cause of it for not speaking up at a meeting, but for that I apologize. I wanted to give the Council option and I didn't want to tie the City Manager's plan to give him the only option of General Fund contingency option and I told him I would look elsewhere to see if we could fund this marketing contract. I look to this ordinance, which was passed in May of 2012, and it's regarding the Princess lease revenue payments. And you will notice in there, that it says the City Council of the highlighted areas establishes a special

revenue fund. This was the first ordinance you passed that night related to this topic. There were two of them. To be known as the special revenue fund for tourism development.

The second one, 100% of transient lodging bed tax revenues and 100% of Princess Hotel lease payments shall be received into the special revenue fund for tourism development and the third, funds received into the special revenue fund for tourism development may only be spent for identified purposes as determined by the City Council through ordinance. That was the first ordinance that you took action on that night. The second ordinance, I'm sorry. The second ordinance, Ordinance 4019 and Section 1 delineates the flow of funds in the tourism development fund. You will notice there, 50% of the transient lodging bed tax revenues, the General Fund transfer, and then items 3, 4, 5 and 6, the ending paragraph there was the one that I was dependent on in making a recommendation to the City Manager, that at the end of each fiscal year any unused fund in the special revenue fund for tourism development will be available for use in subsequent years for any of the nonmarketing tourism categories. So you take out number one, it can't be used for that. Accept the General Fund category. So you scratch off number two and any funds that flow through to the fund balance can't be used for those two items and may be allocated without limitations except they may not be leveraged for multiyear commitments such as debt service payments is the example. I was of the opinion and I will go to the flow of funds that's reported on here. You see on fiscal year '12/13, when you get down to the bottom here, and these were numbers before the audit was completed. So I'm not certain they have been updated but they were approximately \$7.2 million in funds that had flowed down into the fund balance and the tourism development fund.

[Time: 00:56:15]

I specifically looked at the \$1.2 million that was going to be allocated for event and event development of which an '11/12 we spent \$1,000,039 leaving a balance of \$160,000. I look to the \$500,000 for administrative other professional services of which? '11/12, we spent about \$378,000, leaving approximately \$121,000. So I was of the opinion that enough money it flowed down into the fund balance at the very end, was in compliance with the two ordinances as adopted by Council on May of 2012, and that this funding would be available. However, we instructed the city attorney's office, and we are in agreement that we would give you all two ordinances, two resolutions to choose from. You can fund the \$200,000 from this year to get this contract going from General Fund contingency or I believe and it may be a question you want to ask the city attorney that you can use \$200,000 from the tourism development fund to fund this contract to get it going as well. With that, I would take any questions you may have.

Mayor Lane: Thank you, Mr. Nichols. There may some additional questions but we will go to some cards as well. Excuse me, is someone else going to present, though? Okay. And thank you, Mr. Nichols.

Jeff Nichols: You're welcome.

[Time: 00:57:53]

Fred Unger: Mayor and City Council, my name is Fred Unger. My office is at 7234 East Stetson Drive in downtown Scottsdale. Thank you for this opportunity to tell you a little bit about our approach to the food and beverage and marketing of WestWorld. First of all, my company, National Western Capital Corporation, acquired the concession rights to Monterra at WestWorld in 2001. So we are quite familiar with WestWorld and your future goals for the property. I'm sure that you have all had the opportunity to visit Monterra in the past, but, however, you may not have been there recently, ever since we spent \$200,000 improving this city-owned property and launching our new successful marketing plan. Here is the new Monterra at WestWorld brochure. I wanted to quickly go through it. And you can see we have made the property appealing to a variety of different users. And we're very proud of what we have done. And we had a wonderful kickoff and this is down on the Polo fields, showing what we can do on the Polo field. M Catering has been providing the food and beverage at Monterra for the past six months and with your approval tonight, will do the same for the Tony Nelssen Event Center and all of WestWorld and we have a little brochure of M Culinary Concepts. They have approximate 40,000 square foot catering facility, commissary kitchen nearby. So their capability of handling just about any size event from two people to 50,000 people is well within their capability. And this is a particularly interesting slide to me.

Brandon Maxwell on the top left and Michael deMaria on the top left, I hired 20 years ago to go to be the general manager and chef at Lon's at the Hermosa Inn and they did such a wonderful job. They were destined to move on to other facilities, and that's how life is and what a joy in life when you have an opportunity to reunite with people that are special to you. Michael deMaria back then, 20 years ago wasn't the celebrity he is today and I think Michael is in the audience or somewhere. There he is up on the ledge. He and his entire team bring to this facility is a unique ability to have something more than rubber chicken. You as politicians have had plenty of rubber chicken dinners. They can customize their menu to just about anything and that local flexible expertise is very, very valuable. This is an interesting slide. They operate on a national basis, but if you look locally here for 14 years they have been putting on the food and beverage at the Phoenix open. The LPGA, Barrett Jackson for eight years, Brophy, Fiesta Bowl, et cetera. This is a very, very capable organization and I'm absolutely thrilled to be affiliated with them. I think that's maybe the 16th hole. I'm not sure. There's Barrett Jackson. Now, I would like to explain our approach to the marketing of this beautiful new event facility. For starters, Brian Dygert and his capable and seasoned team at WestWorld are the finest equestrian venue operators in the nation. I'm so excited to have the opportunity to add to his efforts by providing a strong marketing team and thus work creatively together. Secondly, having Rachel Sacco and her experienced staff at the CVB available to provide their expertise is critical to achieving our marketing goals. Both by participating on the CVB board and from past collaborations with Rachel, I know we will continue to use our synergy to benefit WestWorld.

[Time: 01:03:02]

Next, I want to share with you the background of Etzel, a national events and marketing company, which I believe is the right national company to work with our team. Etzel has offices in the bay area, Los Angeles, Portland, Oregon, with near future expansion plans including an office here in Scottsdale, if we are lucky enough to receive your approval, which would feature heavily an expertise in venue bookings. As part of its long-term Etzel is seeking to open additional offices in Dallas, Chicago, and

New York City. They are no stranger to Scottsdale. These are some of the organizations they work with. There's the Etzel team. This is the BCS championship game that ESPN broadcasts from our waterfront. This is one of the, this obviously looks like the Oregon pep rally. This was between auburn and Oregon. Within a matter of three or four hours, we had 20,000 auburn fans followed by 20,000 Oregon fans. And we made mention of Scottsdale, I believe, 54 times on national TV and Etzel with our team made this happen. They do the Safeway Invitational, the ESPYs.

They are going to be doing the Rose Bowl Fan Experience in 2014, the upcoming BCS national championship in Pasadena also. And that's Etzel. Lastly, my company, National Western Capital Corporation has been in existence for over 30 years and has developed and managed hotels, restaurants, and real estate developments in a variety of Scottsdale and its adjoining communities. We moved my company to Arizona in 1987 and have chosen Scottsdale as our home base for much of the same reason you have. We believe in and love Scottsdale. All or portions of these partners have collaborated on several ventures here in Scottsdale. ESPN Super Bowl broadcast in 2008, on the city's plaza; ESPN's BCS national championship broadcast and fan fest tailgate party in 2011; and most recently we won the coveted rights to broadcast ESPN's 2015 Super Bowl show here in Scottsdale which was the result of our team work. Mayor, I believe you played an important role and experienced our creativity in front of ESPN's site selection committee. Thank you and thanks to all of your hard working employees at the city which are also part of our team. I am passionate about Scottsdale and WestWorld. I'm personally committed to doing whatever it takes to achieve our mutual goals. Your positive vote tonight allows for the combining the city staff, the CVB, my company's entrepreneurial and managerial expertise with the Etzel organization and m catering to unify Monterra, the Tony Nelssen events center and all of WestWorld to achieve the financial and tourism goals you envisioned when you made your major commitment to develop WestWorld into a world-class facility. Now, let's bring more events to WestWorld so that there will be more heads in beds and therefore additional revenue to Scottsdale's restaurants, retail businesses, and the city itself. Thank you for your support.

Mayor Lane: Thank you, Mr. Unger. With that, we may have some additional questions and maybe from any of the folks who gave a presentation. I would appreciate if you stand by. We do have a number of requests to speak on this. Not significant, but certainly four individual cards that would like to speak towards this and I will start with David Scholefield. And followed by Kathleen Glenn.

[Time: 01:08:15]

David Scholefield: Good evening, Mr. Mayor, and City Council. No PowerPoint. I'm sorry. Just some feelings from the heart and a statement I would like to read into the record, if I may. David Scholefield, 1275 West Altadena. I'm employed in the hospitality industry in Scottsdale, Arizona, and I'm your Vice Chair of the Tourism Development Commission. As defined by the City of Scottsdale, the Tourism Development Board is to recommend to the City Council conditional approval or denial from all uses of the special revenue fund for tourism development. On behalf of my fellow commissioners, I'm here to champion the tourism development commission to not approve the funding of the WestWorld food and alcohol license and marketing agreement, Paul, could you have come up with a longer name?, through a General Fund operating budget appropriation transferred to be funded by

the tourism development fund. Prop 200 does allow for funding of tourism-related capital projects and to date the Tourism Development Commission has supported substantial requests from the Desert Discovery Center and Museum of the West and the TPC of Scottsdale, and you have subsequently approved all of these. All of these entities have their own internal infrastructure, business plan and management teams and sales activities and they receive no funding for the operational necessities or shortfalls. If you do vote to support the WestWorld food and alcohol license and marketing agreement, through the bed tax dollars, it is the consensus of the commissioners on the Tourism Development Commission, and we also understand echoed by the Scottsdale Convention And Visitors Board of Directors, that this could set a precedent whereby any City of Scottsdale owned or operated facility could request funding through the Tourism Development Commission. Buses transport tourists, garages accommodate tourist vehicles and parks welcome tourists. If you approve the motion before you with the bed tax, all of these and other city owned and operated facilities could conceivably make a request to the tourism development committee for your approval. They form part of tourism package, but they should not qualify for qualification for bed tax dollars. Please know that these comments are in no way reflective of the supplier, nor a comment about the marketing and sales plan that has been submitted, as they were not seen or reviewed by the Tourism Development Commission. Your Tourism Development Commission believes strongly this is not the intention of Prop 200 funds as approved by the citizens of Scottsdale. Thank you very much.

Mayor Lane: Thank you, Mr. Scholefield. Kathleen Glenn, followed by John Washington.

[Time: 01:11:15]

Kathleen Glenn: Good evening, Mayor Lane, Council. I'm Kathleen Glenn, currently I serve as the chair for the Tourism Development Commission. I reside at 13214 West 94th Way and we had our meeting last week. Mr. Katsenes has presented this agreement and had requested action that we consider bed tax funding as a possible option. We listened to the presentation and unanimously decided that this was not something that we want, a direction we wanted to recommend because we did not want to go into operational expenses that shouldn't, excuse me, should not be paid out of bed tax. It goes within the criteria of Prop 200. Tourism-related event support, tourism research, tourism-related capital projects. The other one on the Ordinance 4018 that was presented earlier, the Princess partnership specifically says for tourism-related capital projects and no other purpose. The majority of the events at WestWorld are currently regional events however, except for Barrett Jackson. It's great for the community, but currently it does not enhance the tourist experience. As we are looking at the budget for the bed tax, 50%, over 50% is designated to WestWorld funds. You've got 1.8 going to capital projects and over 2 million dedicated to construction shortfall out of the carryover balance. Now, in saying all of that, we welcome the opportunity to work with Mr. Unger and his team. We really would love to have him bring events to the TDC that encourage guests and develops, well, develops the tourist experience, but on an individual basis, if he brings the events, we would love the opportunity to work with him. Thank you.

Mayor Lane: Thank you, Ms. Glenn. Next is John Washington, to be followed by David Smith.

[Time: 01:13:34]

John Washington: I'm John Washington. I live in the Peaceful Valley neighborhood down the street. I spend a lot of time up in the WestWorld area and contracting is a particular interest to me, municipal contracting. The City of Scottsdale does it. Hearing the testimony of the two commissioners, I may actually apply to be on the TDC, but, of course being the Council would probably vote to abolish the TDC shortly thereafter. I think it's ironic that this item comes on the heels of the previous item the City Auditor talking about, you know, auditing issues, in particular, the management letter. I would point out, as I have to the Council before, that the Scottsdale Cultural Council got a similar management letter that was never made part of the public record. I have a lot of issues with that. I think it's a violation of process and good management principles, but I would also note to tie that back into this current item, that, you know, that in essence is a service concession, just like the City Auditor talked about. We already know that we have some problems in those areas. By a show of hands, how many people actually read all 180 pages of this contract in the last 24 hours? That's what I thought. I think it's extremely unwise to bring an document like this for your consideration with this kind of money at stake, with only 24 hours to consider it. We're not all C.P.A.s and it's really hard to understand what's going on with this contract. Now, with all due respect to Mr. Unger who I didn't even know was the concessioneer on this and the city staff members that have invested so much time and brain power in bringing this to the Council, I like and respect all of them. Well, I respect all of them. I think we are trying to kill too many birds with one stone here. How many different agreements are rolled up in this contract? I mean, this is ripe for abuse. I'm not saying that the concessioneer would abuse it but this is the kind of thing that the procurement code specifically anticipates and it encourages us not to do. No bid contracts and multiple contracts within one contract, and multi-term contracts. Now I understand the City Council changed the procurement code in 2012 and pulled some of these real estate-related items back into capital projects. But I don't see any references here to any sort of city policies that would permit us to do this. There's no references in this presentation to the city procurement code. There's no references to the capital projects restrictions in the folks that ought to be looking at it from that perspective and there's no references to the overarching state law that governs how political subdivisions in the state can let these kinds of contracts. And specifically, I didn't see any reference to Prop 412 which was, you know, an amendment to the city charter that the Mayor promoted that these dealt with these kind of issues. I could go on, but I'm out of time so I will wrap it there. I hope that we'll ask some quick questions about the legality of these, particularly with regards to the procurement code and the procurement issues and state law, you know, without regard to all the time and the nice people that have invested their time in this process. Thank you.

Mayor Lane: Thank you, Mr. Washington. Next is David Smith.

[Time: 00:17:12]

David Smith: Good evening, Mr. Mayor, members of Council. It's been a while since we talked. My name is David Smith. I reside at 10801 East Happy Valley Road in Scottsdale and I'm here tonight, obviously not as your former Treasurer but as a private citizen and I'm here to support the marketing agreement that has been put before you. But at the same time, I intend to urge you to reject the companion request to fund \$200,000 by a transfer from the tourism development fund or for that matter from the General Fund contingency reserve. I find myself in perfect harmony with the

members of the TDC, these are fellow citizens who you have selected as your representatives for the city's Tourism Development Commission. These individuals are preeminent tourism experts in Scottsdale. In fact they may be experts in the state or the nation, but they know best how to grow tourism and how to spend our tourism dollars for the greatest benefit and they have spoken with a unanimous voice, recommending the marketing agreement and that you not fund the \$200,000 from the tourism development fund. And I hope you defer to their expertise and respect their opinion and ultimately I hope you agree with their recommendations. I support the contracting agreement as a marketing undertaking for WestWorld. It's been more than two years since you have first entertained the idea of expanding the Equidome it was in a sense founded on the marketing strategy of build it and they will come and that's a good sound byte for a movie, but it's not a very good strategy for a business as complex as WestWorld. And so now you have a marketing plan. It's Exhibit I in your packet. It's short and probably shorter than the Gettysburg address but we do have a marketing program underway what I don't agree with is using money that was here marked for tourism events, and tourism capital projects to pay for staff, whether it's city staff or contract staff to drum up new business for WestWorld. That's not what the voters intended when they approved the bed tax proposition in 2010 and it's not what this Council intended when you put the Princess hotel lease revenues into the tourism fund. You applied the voters guidelines for all of these tourism funds. You set up a financial policy 21a and if you violate it now, as one of the previous speakers said, you are opening a Pandora's Box to fund all manner of operating expenses in the future. But I will go beyond what the TDC people recommended and I will say further that you shouldn't pay for this out of the contingency reserve. The contingency reserve is established each year to provide funding for expenses that arise unexpectedly during the year and I don't think anybody could possibly say that they never expected they were possibly going to have to pay for somebody to drum up business for WestWorld. So if they screwed up the forecast, I suggest you let them find the money somewhere else in the budget, but that's not what a contingency reserve is for. Basically, Mr. Mayor, I'm concerned that this project is continuing to suck the oxygen out of the room, and I want, I urge the Council at this point agree to reining in the monies that we're throwing at this project as best you can, exercise more oversight, and fundamentally begin to hold somebody accountable for this project and its overruns and shortfalls. Thank you very much.

[Time: 01:20:59]

Mayor Lane: Thank you, Mr. Smith. Well, that completes the public testimony on this particular item. We have an opportunity to pose questions to any one of those who presented on this. I will ask one thing that I suppose was presented in the testimony that I would appreciate, Mr. Washburn, whether or not the elements of this contract from all applications of city funds has been reviewed for regarding, whether it's the use of these funds or whether it's Prop 400 or 412, not 400 but 412, and whether or not they are consistent as far as what we can see legally.

[Time: 01:21:46]

City Attorney Bruce Washburn: Mayor, members of the Council, the City Attorney's office has reviewed all the matters that been brought before you this evening and we consider them all to be within the legal authority of the City Council.

Mayor Lane: All right. Thank you, Mr. Washburn. I appreciate that. We had a little bit of a run over of the particular language in our ordinances and I think Mr. Nichols, you had mentioned them specifically. Excuse me. As we think about whether or not, it's interesting to note that there are two options that we have are contingency reserve, which I would tend to believe is not an application here at all because of how we are to allocate contingency reserves and under what circumstances. This doesn't seem to qualify for that. But I am interested in the language that we have in the ordinances that as I have understood and from my notes, indicate that it is for event development and I'm not sure if we have taken the time to try to, to use that language and to define that language when we have done things with the balance forward, and, of course, at the end of this fiscal year, it's estimated to be \$7.2 million, and those are unused funds that have accumulated in all of the categories and if I understood correctly, again from the notes that any unused funds in the special revenue fund for tourism development will be available for use in the following years or any of the nonmarketing tourism categories. And you mentioned this specifically, Mr. Nichols and correct me if I have any of this wrong.

[Time: 01:23:42]

Except the General Fund category and may be allocated without limitations, except that they may not be leveraged from multiyear annual commitments such as debt service payment. If that is the case, those categories under our policy now, which outlines specifically as we have it from our ordinances, the 1.2 million for events and events development, the 500,000 for tourism-related administration and research, which we know that has been used for a variety of things tourist related, and the 500,000 which is a category that I heretofore, I don't think we have used at all, that has a one-time commitments for capital projects, the events and event development or administration and research and then, of course, the balance of tourism-related capital projects in the form of one-time commitments or multiyear annual commitments, not to exceed \$600,000 per project.

I will go back to the definition of event development. When we look at under that definition, the uses of the carryover balances that we have heretofore already the hospitality, the desert discovery phase two fee, the museum for west five-year match and donations up to 400,000 for that agreement, the museum of the west debt service reserve and the TNEC equestrian center and that again some advanced funds intended to work it through its early stages. I'm wondering whether or not the only real option in view of economic circumstances, in view of the contingency fee, the lack of definition and the use of contingency fee, whether or not considering certainly the recommendations that have been given to us, whether or not this isn't something that is event, an event development type of fee.

The contract the city has or the city might have, if it's agreed, to develop events, if that doesn't apply under that definition, I'm wondering where else it might be. The city has no other, to the best of my knowledge, and maybe I should ask the City Manager, do we have any other marketing agreements? I mean, other than with the CVB for destination marketing? So this is, this would be a first-time event for us to get involved with anything that's related to tourism events and marketing of them to fill a venue? So we don't have any other marketing agreements. This is new and it's not necessarily in the general repertoire of our operating expense. Well, I guess I would be looking for that definition a little

better. The way I see it, that seems to be the area that it would fall in under. Now what category it would fall in under, whether it's carryover balances or whether it's administrative professional services, or whether it's that category which we have defined as one-time commitments, the capital projects events an event development or administration and research, that pie slice as we used to refer to them as, I'm not certain of that, but it seems to be in this realm. I will withhold my final thought on this until we hear from the rest of Council, but Councilman Littlefield.

[Time: 01:27:46]

Councilman Littlefield: Well, it's interesting that we're arguing over the question of where the \$200,000 would come from and I think we should really ask the more basic question of why are we doing that at all? Former Treasurer Smith made the observation that we have thrown a lot of money at the Nelssen equestrian center and we want it to succeed and we want it to bring in new business and no wants that more than I do. But I never felt that we needed to hire marketing firm. In fact, we had that discussion multiple times up here. I believe that we have the people in house who can do that. I don't really believe we need to be spending \$200,000, but there's also a more important process issue here, independent of the money, and that is some of the stuff that we heard one of the speakers talk about, which is no matter how important it is to have WestWorld succeed, we really shouldn't be bypassing good financial and purchasing processes. Sole source, every time we do a sole source contract, that creates problems. I complained for years about the sole source contracts we have with the cultural contract and the Rural Metro back in the day and I won't come back and be in favor of a sole source, multi mixed up, throwing everything into the same contract thing. So I, independent of the question of where the \$200,000 comes from, I don't think we should be spending the \$200,000 and I'm opposed to this item on process issues. So, you know, I will be opposing it based on that. What we should do is we should go back and we should run this through the way we would do any other contract or any other service which is go out for bids again and it doesn't have to be done this week. It doesn't have to be done right now. Let's go back and do it right and let's not bypass good common sense practices.

Mayor Lane: Thank you, Councilman. Councilwoman Milhaven.

[Time: 01:30:01]

Councilwoman Milhaven: Thank you, Mayor. Mayor, philosophically, I agree that taking the money out of the tourism fund is consistent with what I think the intention was, if the marketing fee is to cultivate events, that was the goal and so philosophically I agree. But practically, we have got a TDC of citizens who invest their time to advise us and if unanimously they told us no, I think we need to respect that. It's clear from the emails and the conversations that I had over today and yesterday from the folks who feel strongly about this and would not like us to take it out of the development fund that process and communication was poor. I think the fact that some of the materials were not loaded for us to review until last night is just one indication that the process and the communication was poor. And so for me, I'm okay to take it out of the General Fund operating contingency.

And then I would like to make another comment to staff. I have a great deal of respect for the folks,

the citizens who serve on our boards and commissions and I hope as you conduct yourselves, on bringing items forward to this Council, that you show the boards and the commissions the same respect and give them an opportunity to vet and discuss the issues. Also, I would hope that staff does not see their role as one of the filtering what the members of our boards and commissions have to tell us. I think their opinions are important and I invite all members of all boards and commissions to come to the Kiva after they have vetted an issue to share with us their point of view and I so want to thank folks of the TDC and all the citizens who serve on our boards and commissions for their investment in our community. And then the last point I would like to make is we issued an RFP for marketing firm. I understand there were other responses, in addition to Mr. Unger's company, and that we were entirely appropriate in following the process. So I don't know if there's any other comments.

Mayor Lane: Yes, we do. Thank you.

Councilwoman Milhaven: Thank you.

Mayor Lane: Councilman Robbins.

[Time: 01:32:17]

Councilman Robbins: Thank you, Mayor. I think Mr. Smith made a comment earlier that if you build it they will come and that's really appropriate with this facility. We have been working on it for a long time and I know a lot of people in the equestrian community wanted to see WestWorld expand and I think we have done that appropriately. One of the things I was adamant about when we approved the expansion of the Tony Nelssen center. We are behind the eight ball. This has taken longer than I had hoped. We put out an RFP. We didn't get back the responses that the city staff wanted to see or the Council wanted to see and so we looked to a vendor, a person that we had a contract with already and expands his role and expanded his expertise as well. So I think the process, it doesn't always work out exactly as you plan from the beginning, because it didn't. We are at a different point now than I thought we would be, however, I'm excited about who we have before us, the expertise they have, the investment in the community that they have, and I think that this contract will do great things for the city. Now, I do agree that the financing of this, funding of this, the first year is a little cumbersome and obviously coming from two different funds, we are not sure where it will come from is a difficult part of this, but it is a performance based contract. Years, next year, the year after, that and the year after that, it comes from new business. So this year is, we are starting a new program, a new marketing campaign, and you have to dig a little to get that off the, you know, coming out of the gate. And so I think now it's appropriate to take it from the contingency fund. I agree with Councilwoman Milhaven that we have a citizens committee, the TDC that says, you know, don't touch those monies and so I will respect that as well and so taking it for the contingency fund is not my first choice, but I really believe that we need to get this thing going. We can't just sit back and let WestWorld go the way it's been going. We have invested a lot of money and we need to make sure that it's done appropriately and correctly. So I would definitely be in favor of this deal as it sits and I'm excited that Fred is behind it and his team. And I think the performance based aspect of it, where new events are going to fund this marketing campaign from here on out is a good way to do this. So I guess Mayor, I will just make a

motion and we can go after that. I move that the Council adopt Resolution 9584 and that the money comes from Option A.

Councilwoman Klapp: Second.

Councilman Robbins: Thank you.

Mayor Lane: I'm sorry do we.....

Councilwoman Klapp: We have two seconds.

Mayor Lane: Okay. Pick one. Did you get it? Okay. All right. Would the second like to speak to it?

[Time: 01:36:03]

Councilwoman Klapp: What's proposed here, we are essentially hiring a contract group instead of hiring internal staff and I think that's really a good thing, quite frankly. I know it's been suggested that it can be done internally. We have some talented people here, but I don't think we have anybody internally that can do this. I'm not aware of anyone internally that has the expertise do what will be done with Mr. Unger and the various companies working with him. Secondly, I think \$200,000 is a bargain for this, based on my experience in hiring marketing people. It will cost \$200,000 and beyond that, as Councilman Robbins suggested, they will be bringing money to the city that will pay for any future contract costs. So hire somebody, pay benefits, hire a contractor that can generate new business for us. It's actually going to increase revenue. We don't, we don't provide incentives to employees at the city to bring in business. So they are being incented to bring in a lot of new business for WestWorld, which an internal employee wouldn't have that kind of motivation. So I think all things considered for what's being proposed here, having the group that Mr. Unger has suggested do this work for WestWorld, which we have been asking for a long time and I know that it's been discussed whether or not somebody should be hired internally or whether it should go outside, and I think everyone came to the conclusion that looked at this, that we needed to go outside. So I think we have ended up with a good proposal that ought to be funded through the General Fund contingency fund.

Mayor Lane: Thank you. Thank you, Councilwoman. Councilman Phillips.

[Time: 01:38:04]

Councilmember Phillips: Thank you, Mayor. Mr. Katsenes, did we put out an RFP?

Paul Katsenes: Yes, sir, we did.

Councilmember Phillips: Can you tell me the results?

Paul Katsenes: We received two responses, the purchasing department reviewed them. They declared one nonresponsive. We interviewed the third one, I'm sorry, the second one. And the panel

that developed that RFP was composed of our big three, representatives of our big three events, Barrett Jackson, Arabian horse show and Sun Country. Representatives from the Convention and Visitors Bureau, representatives from the Tourism Development Commission to create that RFP, and we let it out and got those two responses and we pulled those people back in together to sit as a panel. And that panel after hearing that one response said we don't want to give you a recommendation.

Councilmember Phillips: Okay there was an RFP that didn't come to Council but you had an RFP and Mr. Unger was the one you decided on.

Paul Katsenes: It was not responded. That's right.

[Time: 01:39:09]

Councilmember Phillips: Well, I didn't see the other two. I'm very confident in Mr. Unger, and, you know, the fact that he's willing to pay for the five kitchens, which I figured is, you know, \$600,000 or \$700,000 to furnish all the stoves, ovens and fridges for those kitchens is quite a commitment on his part. I have no problem with that whatsoever. I think Mr. Unger is going to be a great asset to us. What I have a problem with, and I agree with the Tourism Development Commission that we shouldn't be using it from the development fund. At the same time, I agree with Mr. Smith, we shouldn't be taking it out of the contingency transfer because that's for emergencies. And I don't consider this an emergency. So I'm faced with the question of not funding it at all, unless we can find another way to get this \$200,000 that makes more sense. So I don't know if we ask Mr. Nichols or the City Manager if there's another place that we can get this from.

Jeff Nichols: I could speak to that. I may let the City Manager or he can say whether he agrees with what I would say and I would say if the Council directed staff to fund this with \$200,000 to be found within the current operating budget, the General Fund operating budget, I think that staff would be able to do that. Where that would come from, I don't know, but it would be bringing something back to you that is currently funded and letting you know that something that is funded is now unfunded and won't be done that was approved in the fiscal year '13/14 budget.

[Time: 01:40:54]

Councilmember Phillips: Okay, well, I would consider making an alternate motion then to go that route.

Councilman Littlefield: Second.

Mayor Lane: The motion is made and seconded. Would the second like to speak toward it?

Councilman Littlefield: Well, I seconded his motion because I think it would be nice to have that discussion. I will let that go at that for now. We will see how that works out.

Mayor Lane: Mr. Washburn, did you have a comment on that?

Bruce Washburn: Just to make sure I understand the motion, is that it is to approve Resolution 9584 or adopt Resolution 9584 but to have funding of the \$200,000 come from existing budget and not from either one of the two options; is that correct?

Councilmember Phillips: That would be correct. Thank you.

Bruce Washburn: Thank you.

[Time: 01:41:50]

Mayor Lane: Okay. We have an alternative motion on the table as well. I just, there's a couple of things I suppose that I think really need to be said. One is with respect to the Tourism Development Commission and their recommendations through the last two years make sure that we put this together, as they recognize it, as the staff did, that our current efforts or efforts internally were not only not materializing with building up of clientele or events, any kind of event, new events to the facility, it became painfully obvious that we needed to do something. When the RFP went out, there was one that was essentially nonresponsive as has already been indicated and the other was frankly far more expensive of a proposition. So we ended up with a situation we are talking about with somebody who currently has a license and working with us and it is in accordance with procurement code but nevertheless, it is a situation we felt was going to be a workable situation. I have got to say, that one of the intents of the bed tax and the increase in the bed tax and the allocation by policy and by ordinance was to off-load from the General Fund the cost of tourism development, whether it be infrastructure or whether it be promotional effects, even as a TDC now advises us with regard to what kinds of promotional incentives they give to new events in town. I have become very concerned when there's a protection mode that surrounds those kinds of funds to the detriment of the city's ability to promote and sell and get this venue filled. There's been some great deal of consternation as to whether or not, and frankly, it was voiced in some of the testimony with regard to the money that's been spent on this facility. Good, bad or indifferent, the fact remains that it has. Changing it is not going to help by trying to deny its ability to work. But for us to trade off in a very, very tight budgetary year and it will get tighter yet by virtue of other things that we have to commit to, for us to think about the idea of now unfunding something that we did in a very tight funding market with the pressures that are on other things, seems absurd to me, whether we are talking about funds that are available under this ordinance and under this tax and I think fully consistent with it. Certainly it's consistent as far as hiring a consultant and this is an action plan to get events into this facility. So I'm for the idea of a program to get events to have a contracted agent.

In fact the TDC, when we had these discussions a year and a half ago, suggested strongly that it either be the CVB pick this up as a destination marketing kind of cost or it's an event. event production. One way or another, we are marketing our tourism venue in this case. The idea in this tight market of denying the use of these funds particularly when there are the funds available and it frankly doesn't threaten anyone, the idea of putting it on a contingency fee are not only emergency funds. They are one-time funds because if we throw this 200,000, we are talking about a structural change in our

budget, once again, which will just put us on the deficit side further, even, well, it depends upon when this would come in, but if it comes in within our current fiscal year, further than where we are already. So I'm a bit maybe incensed, a little frustrated with the approach on this. I do get concerned when we get into protection mode about monies that somebody's commission may have in an advisory role to submit. There's a certain amount of authority and there's a control to advise this Council to give this event or this event sums of money in order to promote these events into the venues in the city. I don't see how this is so far removed. The worst thing that possibly could happen, I suppose is if we hired somebody, a commission agent to get events in here and then we gave them an incentive on top of that, which I, is something I'm a bit fearful for in any case.

One reason not to, I suppose, would be because if that's how we are going to sell the place, by trying to incentivize people to come. So I'm between a rock and a hard spot on this deal because I don't like either one of these deals. So you can probably, and frankly, maybe that's the reason I'm here. But, in any case, that's my take on it, as it is right now, and I think trying to rein in and I have the utmost respect for our former City Treasurer to rein in, at this point in time, a facility that we have in place, is, we have an opportunity to book the events in it and make it truly a year-round climate controlled facility, we should be doing it. We should be making every effort to do it. Internally we are not doing it. It's not happening. In fact, if anything, there's been a little bit of a shrinkage in some areas. So with that, I probably have invoked something from the City Treasurer. You would like to speak, Mr. Nichols?

[Time: 01:47:59]

Jeff Nichols: Mr. Mayor, members of the Council, just clarification of the statement I made earlier with which the City Treasurer indicated his agreement, I had mentioned we would bring something back to Council for their consideration as an offset for this \$200,000, however, if this contract is approved this evening, we have 14 days to pay this amount, which would not be sufficient time to bring something back to Council even if we identify it for a reduction in the current fiscal year '13/14 budget.

Mayor Lane: If I understand that correctly, it may be, Mr. Washburn, that would say that really frankly, that action can't be voted on?

Bruce Washburn: No, Mayor, you can give them direction to find the money, they will, yeah, they will find the money, and they will have to reallocate funds some way.

Mayor Lane: But it wouldn't be tied with an agreement to accept this agreement?

Bruce Washburn: Well, if you adopt the alternate motion, then it will be up to the City Manager to find the funds to pay the \$200,000, just Council won't have a chance to weigh in on where those funds should come from. It will just be up to the City Manager to find them in the budget.

Mayor Lane: Okay. Whose gore is going to be axed on this one? Okay. Well, with that Vice Mayor Korte.

[Time: 01:49:22]

Vice Mayor Korte: Thank you, Mayor. You know, a couple of years ago that this expansion was approved, and actually I was sitting in the audience at the time that the Council approved it, and at that point, I felt that it was a very ill-defined construction expansion, and I was very concerned that there was a total lack of any business and marketing plan. I remember Councilman Robbins saying that marketing and business plan needs to be brought forward. That was two years ago, and quite honestly, I think that's unacceptable. Unfortunately, we are in this position today and one could say that with a multimillion dollars investment and asset with a multimillion dollars debt service, you could call this an emergency and that the contingency fund, the use of the contingency fund is appropriate. I could also make the argument that the use of tourism development funds do fit the criteria, which I do believe it does, but echoing Councilmember Milhaven's words regarding the lack of process, the lack of due process and the lack of transparency for this contract in front of the tourism environment, I think undermines their confidence in us and the city. So I will be supporting the original motion because it is time to show us to get off the can and it's time to stop kicking the can and to get off the can and to move forward and make something happen. It also is my vote of confidence in Mr. Unger and his team to make that happen.

Mayor Lane: Thank you, Vice Mayor. Councilman Littlefield.

[Time: 01:51:31]

Councilman Littlefield: Well, I'm sitting here listening to this. First, I will have to withdraw my second to Councilman Phillips' motion. However we decide to fund this, assuming it passes, I'm against it. And there's a real forest and trees problem here. We are sitting here, well, do we pay for this with tourism money or do we pay for the General Fund or out of contingency? But we're missing the big point. I mean, look at what's happening up here. We have a contract that we have had for less than 24 hours. We are mixing marketing and catering. I mean it's like the old "Saturday Night Live" skit about the product, is it a dessert topping or a floor wax. Why are those two in the same contract? It's sole sourced which is always bad, and I still don't agree. Part of the, when we first started this Tony Nelssen Equestrian Center, no one was a bigger supporter of it than I was. Part of the reason for doing it was that our esteemed WestWorld General Manager said, yeah, I know of all of these horse shows out there that we could bring in in the summer when he need more heads on beds if we had a facility that was climate controlled so that we could do that. All right? And the idea was that we already knew who those people were. So now we're talking about going out and hiring a marketing firm, which I never agreed with. We had this argument up here before, with a sole source contract, which I hate, with a contract that we haven't even really looked at and you can see up here all of this back and forth. Nobody is really enthused about this. Everybody is, everybody is kind of like, oh, my God, you know, are we going to regret this? Well, so if we are not comfortable with that, at least we ought to just delay it if nothing else. I will vote against it but frankly, what we should do, we should delay this and stop and go back and do it right. And it doesn't matter how much effort has been put in. We can't say, well, you know, it's all of this work and so we have to do it even if it's not right. No. It's not right, we'll go back and do it right. And then everybody up here well say, well, everybody involved is nice people. That's not the point. The point is we are not doing this the right way. We are not doing it in a

responsible, intelligent manner and I guarantee you if we approve this tonight, no matter how we decide to fund it, that at some point down the road, we will go, oh, boy. I can't believe we did that.

Mayor Lane: Thank you, Councilman. Councilwoman Klapp.

[Time: 01:54:28]

Councilwoman Klapp: I disagree and I'm enthused. I believe this is a good agreement. We should remember that we used to have just an equestrian facility. We agreed that this would be a multiuse facility. So we can't expect Brian Dygert to be able to pull in the kind of events that we would have in a multi-use facility. I think he understands where our expertise is and we do too. We know we have to find the expertise for this multi-use facility that is for car shows and all kinds of other events. I don't believe I will regret my decision and I would like to give the Mayor a little bit of comfort because he said the monies from the contingency fund have to be for one-time uses. This is a one-time use. We are funding \$200,000 for the initial agreement and in future years the revenue generated by this company will pay for future agreements. So we will need this money one time. So if that gives you any comfort Mayor, that's the way we are viewing it is one-time funds to get this marketing going and I believe based on the presentation we heard tonight and other information I have heard over the course of the last few weeks and months related to the companies that will be marketing WestWorld, that I think that we are going to find that we will finally be able to get new events at the facility and start seeing the revenues that we anticipated when we all agreed to expand the equestrian center in the first place.

Mayor Lane: Thank you, Councilwoman, and I really, I feel much better. Frankly, it actually did go to a, just a clarification, I was going to make, that it is coming out of contingency. So it is not a budget item. It will not be a line item in the budget. And so this will have to be decided again in following years because this is an annual cost of this contract. So it will have to decide not in the budget but as a separate contractual item. I had just exactly the same thing in mag, just a couple of days ago, a few days ago. So it is not a budget item. It is something out of contingency. Funds just like the repairs to the parking garages, one time deal, not a line item. So we'll go through this exercise again and maybe we can look at whether those funds do materialize as Councilwoman Klapp has tried to comfort me with. And we'll see how that goes. But I still think that it's an improper way to go. I do believe the tourism funds should be used for this kind of enhancement of tourist venues. Vice Mayor Korte.

[Time: 01:57:46]

Vice Mayor Korte: I call for the question, Mayor.

Mayor Lane: We want to vote on the call for the question. All those in favor in calling the question, please indicate by aye. Okay. We have called the question then. So, and so since the alternative motion, the second was withdrawn, we are left with the original motion. And since there are no further comments on that, then we are then ready to vote. Those in favor, please indicate by aye, those opposed with a nay. The motion passes 4-3. That was myself, Councilman Littlefield and Councilman Phillips opposing. For different reasons.

Councilwoman Klapp: You can't qualify yourself.

Mayor Lane: Okay. Well, thanks, everybody for the presentation and the information and thanks for the testimony that was give and thank you to the TDC for their input on this. Okay.

ITEM 20 – DEFINE OPERATING BUDGET PARAMETERS FOR PROPOSED FISCAL YEAR 2014/15

[Time: 01:59:22]

Mayor Lane: Let's move on from item 19 to item 20. Define the operating parameters, budget parameters for proposed fiscal year '14/15. Mr. Behring.

[Time: 01:59:32]

City Manager Fritz Behring: Mr. Mayor and Council, the annual budget process is probably the most important policy document that you will be involved with. It represents what the elected officials feel is important, what services the city will provide, and what those services will cost our residents and our visitors. While the decisions that have to be made regarding the budget are often difficult, the process does not have to be. But in the end there are financial realities that we are facing today and we will continue to.

Mayor Lane: Could I excuse you for one moment and you can stay right where you are. This shouldn't take long. Apparently the absence of our, well, our silence did not necessarily accept our CFR, the independent accountant's report so we have so verbalize that acceptance. I would accept a motion on item 18, which was our independent accountant's report just to accept that report as was presented.

Councilwoman Klapp: Mayor, I move to accept the report as written.

Vice Mayor Korte: Second.

Mayor Lane: The motion has been made and seconded. No further comment on that. If we are ready to vote, please indicate aye. The motion passes 7-0. Pardon the interruption. We missed that and I wanted to make sure that we got that further.

Fritz Behring: A big factor that we face is the economy after the recession. In 2006 and 2007, the city generated over \$120 million with its 1.1% sales tax. We estimate that next year we will only generate about \$106 million. That difference of \$14 million between our peak revenue collection and our expected revenue collection next year, which is higher than this year, helps to demonstrate the scope of the problem that we face moving forward. While the Council has made difficult decisions in the past, I wish I could tell you that you have no more difficult decisions to make but I can't. You have to make some additional difficult decisions to move this city forward over the next several years to get us to a structurally balanced budget, to control spending and to recognize that the financial realities that we face are not over, and that we are not out of the woods yet.

What I'm going to do is go through a brief presentation to give you a quick overview. What I hope to do tonight is to get input from you as the governing body with policy directives in two years on the revenue side of the equation and the expenditure side of the equation. What are you willing to support? What you are not willing to consider so it will make my job a lot easier as I put this budget together and make your job a lot easier as you go through a budget process in the end so we can arrive at a budget that's realistic, that the Council can accept and the city can live with. To begin with, I will quickly go through some of the information.

The two items we will talk about on the revenue side deal with the, only really the two things that you have control over. Those are local sales tax and local property tax. And looking at our current budget. Local sales tax is a major portion of our revenue for the General Fund. It equates to 42% of our General Fund revenues. The next chart details the breakdown of those funds, where we get those funds from, how much we expect that we will get this year, originally when the budget was adopted we had estimated a little over \$100 million. Those numbers have been revised upwards because the economy was a little bit stronger than we expected to \$103.4 million. We expect next year based on our current data that we should be able to expect \$106.2 million of revenue in that line item.

[Time: 02:03:49]

The next shows a ten-year history and forecast period to give you an idea of the amount of sales tax money we have selected and how close our estimates, staff's estimates have been to reality. The small dot on the column indicates the estimate and the chart, the column itself identifies the reality. We have taken into account changes in state law. State law has been modified by the legislature and the governor. Because of that change in state law, we will be seeing a reduction in our revenue stream in sales tax. We estimate that that impact for the next fiscal year, during '14/15, excuse me, the following fiscal year, '14/15, that's right, is five months of activity, about \$1 million of lost revenue and thereafter, we can expect to lose \$2.4 million of sales tax revenue.

That has been factored into our preliminary estimates. Another significant source of revenues into the General Fund are property taxes. They equate to 11% of our revenue stream. And the primary property tax detail is provided on this screen. Next year, we expect that while we're taking in about 25.5 million this year, we expect to take in about \$26 million next year, assuming no increase in tax rate, just based on the fact of new construction and new valuation in the community. We will be talking about optional tax increases when it comes to property taxes, something that we would like to get some direction from the Council on, as we move forward.

So this is what we are here tonight to talk about. As we talk about property taxes and we talk about revenues, the two areas that I really need to understand the Council's direction on are sales tax and property tax. If we were to look at considering a modification of our sales tax string, it would have to go to the ballot. It would not be able to be incorporated into the next fiscal year's complete budget. So really the question is, does the Council have any interest in or any consideration to consider raising property taxes as part of our budget process? It doesn't mean that you will be held to this in the end but this helps to guide me as I prepare the budget instrument and the budget process because if the

Council is clear that they do not support a tax increase, that creates a different set of parameters that I have to work within I'm a firm believer, if you do not control the revenue side of the equation, you will never control the expenditure side of the equation. If the Council politically can support consideration of these things, let me know now, and we can modify and we can develop a budget that takes that into account. If there is no political support on the support of the Council, for tax increases, let me know that as well. It makes my job much easier to put a budget together that you can accept. So this is where I welcome your input and your consideration.

[Time: 02:07:19]

Mayor Lane: The screen is just lighting up here. Obviously if I were just to start, I think what you are indicating is just from a timing standpoint and I'm not advocating one way or the other, but the sales tax increase is not a prospect for any kind of solution and any kind of near term.

Fritz Behring: No.

Mayor Lane: If there was any appetite for that. Not that there is. So your first question is an automatic no. The second one on the 2% allowance, we have held relatively firmly to the fact that we have not increased the property tax to this level for the last several years and, of course, that's a 2% allowance up to 2% increase. So there actually is a prospect of something in between. If I were to, speaking for myself, I'm sorry, the additional question here is previous three fiscal years? The previous fiscal year has been no.

Fritz Behring: Because the city has not exercised that option. You can exercise it next year if you choose to.

Mayor Lane: Now with those three, the 2%, if you did the simple math on it, up to 6%.

Fritz Behring: That's right.

Mayor Lane: Plus the current year.

Fritz Behring: Based on your history, I have a good idea where you are headed on that but I have to ask.

Mayor Lane: Understand. If the first is no, I would say, well, I won't speak for everyone else, but personally, I feel no on both. Councilman Littlefield.

[Time: 02:09:03]

Councilman Littlefield: Well, you know, when it comes to increases, increases in the sales tax, it's not a question of whether we would increase the sales tax. It's a question whether we would ask the voters to increase the sales tax because, of course, that's the only way that can happen. Now, you can argue about why the last election turned out like this did, and we have argued about that and we probably

will continue to do so, but the bottom line is for whatever reason, I think the voters spoke. They are not interested in increasing taxes. So that being the case, I'm not interested in asking them to increase taxes either.

Mayor Lane: I'm sorry. Thank you, Councilman. Councilman Phillips.

Councilmember Phillips: Yeah, I will not be supporting raising any taxes.

Mayor Lane: Okay. Thank you, Councilman. Councilman Robbins.

Councilman Robbins: Thank you, Mayor. I'm a no on all of these, except for the number three, which we have had a policy the last several years of, I mean, some years that zero, we don't have any increases and other years there is a light increase because of the tort recovery. So I would be in favor of maintaining that policy.

Mayor Lane: You know, if we are considering, pardon me, if we are considering all three, I'm in the same boat on that one as well. Councilman Klapp.

Councilwoman Klapp: I say no, no, no and yes.

Mayor Lane: Thank you. Councilwoman. Councilwoman Milhaven.

Councilwoman Milhaven: Ditto.

[Time: 02:10:36]

Mayor Lane: Vice Mayor?

Fritz Behring: Good idea.

Mayor Lane: Did we hear from you? You know, one thing I might ask is obviously we may be faced, I may ask Mr. Washburn on the tort recovery, do we have any idea as to what we might be faced with in that area?

Bruce Washburn: Mayor, members of Council, the tort recovery that's being requested reflects, actually the, is being discussed reflects actually tort payments in this year.

Mayor Lane: Yeah.

Bruce Washburn: And we did have the substantial payment in the locus matter and some other payments. That's why this year's requested amount is considerably higher than it's been in the past.

Mayor Lane: So that will have an impact on the rate that we are talking about on the property tax.

Bruce Washburn: Yes.

Mayor Lane: An increase to the rate.

Bruce Washburn: The rate can only be increased to reflect payments, judgment payments approved by Council, and as I pointed out, in this last year, we have had substantial recovery payments approved by Council and so that's -- that's why it's being reflected in this next coming year's tax.

Mayor Lane: Understand. Pardon me for interjecting. Councilman Phillips and Littlefield, on three, where are you on that? On item three on the property tax tort recovery? Just come out of the General Fund.

Councilmember Phillips: Yeah, I would oppose it too then.

Mayor Lane: Okay. And Councilman Littlefield. Yes on it? Okay. You would allow it. Thank you. Mr. Behring.

[Time: 02:12:57]

Fritz Behring: Let me provide a quick summary on the revenue side of the equation. Our current estimates show that we should show sales tax revenues increase from original estimates, the current fiscal year to the next fiscal year somewhere in the ballpark of \$5.7 million of additional revenues. We expect to see about half a million dollars in property tax increased. We expect to see a total increase in our resources for the General Fund, including other revenue sources of approximately \$9.5 million.

Mayor Lane: Now, if I might, and correct me if I've got this wrong, just so the public is aware and I think I've got this right and I'm pretty sure I do, when you are talking about an increase on the property tax of a half a million dollars, that's due to valuation, an increase in improvements, new construction or improvements to property?

Fritz Behring: That half a million dollars is not because of a change in the rate. That's because of new construction primarily.

Mayor Lane: And essentially people's valuation changes so their individual taxes might change, but overall, the total levy would change only from new construction or improvements to current property.

Fritz Behring: So in general our estimated is we have \$9.5 million of new revenue in the next fiscal year in the General Fund to use. So it might be simple to say, okay, Mr. City Manager, you have \$9.5 million, what can we buy with the \$9.5 million. What I will caution you on, because our budget was not structurally balanced this year, ideally that you had revenues equaling expenditures, we were relying on cash on hand to get us through the fiscal year, and we really don't have \$9.5 million to work with next year. If you want, one of your goals is to have as structurally a balanced budget as you can possibly get. In that situation, because we did rely on about \$5.2 million of cash on hand to keep us going for the current fiscal year, we have a little bit of room to work with on the expenditure side, but

not as much as you might think. So as we start down the path of discussing expenditures, keep that in mind. Some of the, go ahead.

[Time: 02:15:20]

Mayor Lane: I'm sorry. It may be covered as we go through this, but I just wanted to touch base on the idea that given what we just saw last night on the capital side, and the shortfalls that are anticipated in those things that need to be addressed on the capital improvement sides on continuing basis, is there an impact that we have quantified for where we are going to, how much we are going to have to find in order to accomplish some of that program? Or all of that program?

Fritz Behring: We don't have that finalized, as was mentioned last night. We will be reporting back probably in early February with a plan and some recommendations on the capital program which could have an impact on your current general operating expenses. Councilmember Phillips requested that we look at the option of adding more existing general daily revenues, annual revenues to transfer those funds to the capital project and we will look at those options and price them for you but we don't have a figure for you tonight. This is assuming basically business as usual without a change in our capital improvement program or policies and how we fund them. Any changes that the Council might adopt on that, in that regard will have further impacts on our operating expenses.

So we talk about expenditures. We have some big key items here in the expenditures side. Obviously we have a larger workforce in the city. Personnel cost is a huge cost for the city. It would be helpful if I had some idea from the Council going into the budget process what amount of money, if any are they willing to consider for salary adjustments as we move forward. For several years, the city has, I'm going to go into this next screen here. For several years during the budget crisis, the city has had erratic approach to dealing with salaries out of necessity, out of financial realities. The two charts. Two lines, one shows market adjustments and the yellow color, those were guaranteed increases in salary. At the same time, people were eligible, in some cases for an additional merit up to that additional percentage. So if you looked at '06, '07, salaries were raised 3%, and then on top of that, people were eligible for up to a 5% merit adjustment in addition to the 3%. So there's a few large years with some high costs for salaries and then there was a decrease with the recession, and the employees took a wage cut and for the last fiscal year, the current fiscal year, employees have been eligible for up to a 2% pool of funds for salary adjustment. Obviously when you don't stay in tune with salary adjustments you get out of whack with other communities in the valley and we have had those issues with some of the departments and the perception of equality and the perception of being competitive on salaries.

[Time: 02:18:34]

It's a huge cost in putting a budget together and if the Council has a desire or some ideas as to where they would feel comfortable on the issue of salaries and compensation for our employees it would be useful to know that so we can develop a framework going forward. I think it also sends a message out to the workforce as to what they can expect and it's not a last-minute decision, that gets brought before the Council at the tail end of the budget process but it can be incorporated up front in the

budget process.

Mayor Lane: I think I understand what you are asking for us. It's a difficult one and maybe that's why it's given to us. Nonetheless, when you have the variables that we are talking about, it makes it even more difficult for us to try to frame it and frankly, either to increase expectations and/or to paint a worse picture than may be ended up, at this point would be difficult and personally, I'm not trying to shuffle this back off to you. I think as we look at these numbers, we are looking for some input from you as to where this fits into it and how we muster through this. So like I say, with the variables that are out, there I think it's going to be very difficult for us to tag it one way or the other and maybe that's, like I say, we will see how everybody else feels but that's what my feeling is. Councilman Phillips?

Councilmember Phillips: Well, thank you, Mayor. I think like the Mayor is saying, we can't quantify an amount for that, but what I would like to see is part of a budget every year so that it doesn't come up at a certain time of the year, once in a while and we suddenly have to figure out how to deal with it. If we have a plan in place to deal with it all the time, it would work out better. So if salary is part of the budget process, I think it's a good idea.

Mayor Lane: Thank you, Councilman. Councilman Littlefield.

[Time: 02:20:48]

Councilman Littlefield: Are you asking these one at a time or do you want us to go down the list of salary adjustment, staffing level, city court?

Fritz Behring: I would like to get an idea on each of these topic areas and some of those things you may not be able to give me direction on tonight, you can give me some questions and staff can come back to you with some options but I would like to have kind of as much of an understanding on each of these as we can as we move forward.

Councilman Littlefield: Well, I would say for me on salary levels for salary adjustments that the only adjustments we should make are in those areas in which our salary structure is noncompetitive and the obvious answer is midlevel police officers where we are losing to other jurisdictions. So I think we need to make that adjustment, just because in the end, we lose those people after having spent all the money to train them and it ends up costing us more in the long run and making us less safe. I would make those salary adjustments about the only in those areas in which we are losing key people. And you are going to ask us on each of these other things separately then? Okay.

Mayor Lane: Thank you Councilman. Councilwoman Klapp.

[Time: 02:22:04]

Councilwoman Klapp: First I have a question. If for each 1% adjustment in salary, what is the dollar amount?

Fritz Behring: Right now we estimate each 1% of increase cost in salary would cost the budget about a \$1.5 million. So a 3% increase in salary would cost the General Fund \$4.5 million. A 4% would cost \$6 million.

Councilwoman Klapp: And we only have \$9.5 million to work with.

Fritz Behring: Right.

Councilwoman Klapp: Okay. Because we are now going toward a pay for performance system, I really believe that we should make adjustments based on performance of the entire workforce. So I think there needs to be a salary pool as you referred to, where each department head will use the monies for performance pay as they see fit. Some people might not get an increase if there hasn't been good performance, but I don't believe we should exclude the workforce and say some people will get it and some people won't. That's not my decision. That's your management's decision. So I believe there needs to be a salary pool and I would be, I would be willing to consider up to 3%. We did 2% last year. If we don't feel that the budget will handle 3%, then perhaps less than that, but I think the comfort level would likely, for me be around 3% as a salary pool for adjustment.

Fritz Behring: Thank you.

Mayor Lane: Thank you, Councilwoman. Councilwoman Milhaven.

[Time: 02:23:52]

Councilwoman Milhaven: Thank you. I think it's important that we keep perspective on the competitive environment and if we are comfortable, we are competitive then I think moving forward I would love to see us set a policy that is predictable and reliable. And so somehow maybe we could set some kind of a policy that says increases would be a function of the price index or the change in revenues so that it's formula based in the future and so looking at the preliminary information I have here, I think 3% probably fits within those parameters but I would sure love for us to set some sort of policy statement so we can peg future increases to C.P.I. and/or revenue increases to the city. Thank you. Oh, I have another question. May I?

Mayor Lane: Sure. I don't know if we are doing the.....

Councilwoman Milhaven: It's on salaries. Councilman Littlefield said that he believes there's still inequities in the police salaries and my understanding was we had addressed all of those. Could you respond to that?

Fritz Behring: Council took action earlier this year to award additional funds to deal with what we call the gap between the average salary of your midrange police officers and what you were currently paying. If you are going to always chase the average of every city in the valley, that will change every year, based on what other cities do for pay raises. But I think the problem that we have had here

demonstrates that we have to have some type of an ongoing policy that we can predict and that we can plan on and we can finance and plan around moving forward. So we can stay competitive with our competition in the communities, for not only the police department, but for all of our departments and I think that the chief is working towards that end and so is my staff.

Councilwoman Milhaven: So as of this moment, we are okay?

Fritz Behring: The fix that was proposed by the chief, I think it would be fair to say we took care of that problem but if we don't have a program moving forward that stays one other communities, we will just be back revisiting this problem again down the road.

Councilwoman Milhaven: Thank you.

Mayor Lane: Thank you, Vice Mayor Korte.

[Time: 02:26:14]

Vice Mayor Korte: Thank you, Mayor. I think the most important thing is predictability. Let's create a policy to have these amps, these high points and low points does not serve our employees well. It does not provide an environment of trust and of good work ethic. I think we need to provide a predictable policy, whether that's 2%, 3%, whether that's on C.P.I. or cost of living, whatever that is, we need to do that. And regarding some funding gaps, I thought that there were some, you need to get that, Bob?

Councilman Littlefield: Nope. I'm fascinated by what you are saying.

Vice Mayor Korte: I believe there were some salary ranges and some gaps in that 7 to 10-year, 11-year, tenured officer. I can't remember where I saw that. It was recent in materials that were provided by the city. If those, and there were significant differences of several thousand dollars we are year. I would like to see that taken care of, if we can.

Mayor Lane: Thank you, Vice Mayor. Councilman Robbins.

Councilman Robbins: Thank you, Mayor. I think competitive pay is what we need to strive for and I agree that there needs to be a system in place where I think merit adjustments, pay for performance type of system is what we are primarily looking at, and it's predictable and tied to revenues, obviously, because if it's not tied to revenues, then, you know, if the, we are a service organization so primarily we are paying for employees which is a good thing. I mean, that's what we do. But if we eat up a lot of the revenue and there's nothing left for other types of issues that come up, we need to have some flexibility in there, but I know in the past, we were a little bit strident about not allowing managers or people that have the ability to give out those merit pay, we were tying their hands and I think that was a mistake. I have evolved to where I think some of the managers need to have more say in how their employees are compensated. I think that's a good way to go.

Mayor Lane: Thank you, Councilman. Councilman Littlefield.

Councilman Littlefield: No.

Mayor Lane: Well, it disappeared. You were there.

Councilman Littlefield: I was? It must have been the ghost of Councilman Littlefield.

Mayor Lane: You are trying to pull a fast one on me here. I guess I have to say that since we are sort of addressing this on more specific terms than maybe I anticipated, certainly, a formula and a pool on the basis of merit is something that I think would be important and I also think that it's very important for us to be looking at the entire workforce as one. I think that's a very important aspect and to do otherwise gets us into a difficult period and a morale, a potential morale issue. The only thing that I suppose, and I think it was mentioned by Councilman Robbins and that is you do want, I think we do need to reflect on what I was initially saying, the variables that we have, we don't want to dig a hole for ourselves somehow or other and let other things go lacking and to bring up sort of a tragic consequence of thinking otherwise is the city of Detroit and, of course, Philadelphia and Chicago, and San Bernardino and Stockton, all of whom are undergoing after years of potential lack of attention to that very concept of spending what you have, have put themselves into bankruptcy. And, of course, that puts everybody at risk. I think just out of an area of caution, we need to make sure that we are tying it to what our resources are ultimately. Calculations be fine, C.P.I., I certainly agree on most of that, but it's still that kind of thing was born of a condition that was out of our control completely, when you have a 30% drop in city revenues. That's what happened. Anyway, that's the only refinement I would make to my earlier comment.

[Time: 02:31:19]

Fritz Behring: There's no other comment on that, I will bypass the staffing levels issue and I will go to a couple of these quick items first of all, and that is the city court, two F.T.E.s. In the past there was some discussion where there was an understanding between the courts and the manager's office that some of the positions that were transferred to one of the other accounts, one of the other funds would come back into the General Fund and I cannot seem to get my computer to.....

Mayor Lane: If I might, Mr. Behring, that was a scheduled kind of transfer back and I think two for three years each to try to get acclimated. They went over to the city court because of independent funding and during the budget funding they needed staffing. I got their status, their activity report and I noticed on a number of levels they are down substantially. I mean I suppose that's good in a certain sense that they are prosecuting or whatever far fewer people which may be an indication of a number of things but nevertheless, the revenues, because of fines and other assessments through that is down substantially but so is the level of activity. And I'm wondering whether or not the court, it's in the very early stage of things but maybe there's something to that. I mean, as far as an adjustment of staffing there.

Fritz Behring: My understanding at this time is that they would still like to have two of the positions

transferred back to the General Fund to pay for those positions. We are not talking about adding positions. We are just talking about which fund.

Mayor Lane: No, absolutely. I wonder if they may be at a point of contraction again too.

Fritz Behring: Okay. Okay. At this time, we will do what we can to accommodate that understanding between the Council and the courts in the past and move forward on that.

Mayor Lane: Okay. We have another question by Councilman Littlefield.

Councilman Littlefield: The real Councilman Littlefield. What do those two positions do?

Fritz Behring: Judy?

Budget Director Judy McIlroy: It's my understanding that the two positions include the court administrator and a secretary position.

Councilman Littlefield: Okay. If, in fact, their activity level is down, is there an opportunity for them to cut some other staff and make up for that?

Fritz Behring: There may be. There may be. Those are the types of things that we will look at.

[Time: 02:23:03]

Councilman Littlefield: Because if they are doing less, maybe they need less people or fewer people would be correct.

Mayor Lane: Thank you, Councilman.

Fritz Behring: One item that has.....

Mayor Lane: Sorry, one other question or comment from Councilwoman Milhaven.

Councilwoman Milhaven: I wasn't here when that was moved. Why would the General Fund pay for a Court Administrator and their Administrative Assistant.

Judy McIlroy: Mayor and members of the Council, I believe it was three years ago as a General Fund budget-balancing strategy, we moved nine and a half positions from the General Fund over to the court enhancement fund. That fund can take, my understanding, security positions, things that will enhance the court and technology and those were the positions that were identified that would meet the criteria for use of that special funding.

Councilwoman Milhaven: So if the FTE are supporting the courts and those uses are appropriate with the source of funds, I wouldn't, I don't see any reason to move it back into the General Fund. One

woman's opinion.

Mayor Lane: If I might, Councilwoman, it was a combined effect, actually for some capital needs that they wanted to fund through the court enhancement fund which is for physical capital assets in security and frankly positions, actually when they instituted screening process and some of the added enhancements in security. They moved these nine and a half positions that really didn't technically qualify for that fund and that's because there was a shortage of funds and they, with the General Fund, when the downturn, so they moved them into that category and we're now in the process of trying to get them back to where they originally were. And that was paid for by the General Fund. Now, I don't know whether the court system has become dependent upon the recovery of the enhancement fund which is another thing, the enhancement fund cannot on a routine or regular basis continue to support those positions. It doesn't have sufficient funding on annual basis and it has reduced the funds for the purpose it was designed for, over the course of time. It can't continue to fund it and it frankly doesn't qualify but the other was that it was going to become a source of revenue stream for some capital enhancements and improvements that the court system is looking for. I don't know whether that's still in the works or not, but I know that was part of the strategy when we did it.

Judy McIlroy: Mayor and members of the Council, I don't have that information. I do know that currently the fund is generating about \$300,000 less revenue than what it is spending. The current balance is a little over \$2 million.

Fritz Behring: Switching topics.

Mayor Lane: Thank you, Councilwoman. Councilman Littlefield.

[Time: 02:37:17]

Councilman Littlefield: I would like to say in the spirit of the season, Councilwoman Milhaven has a point. This was an agreement we kind of made with ourselves. I remember we were here when that happened and certainly it's opened to being revisited in light of changes in the activity levels and the other financial activities that have happened. As much as can be paid out of that, we ought to do. I agree with her, it ought to be revisited.

Mayor Lane: And just for the record, I wouldn't disagree with that either. The only concern I have is if they are, they are looking to try to fund some of their capital improvements, I think we do need to look at that as well.

[Time: 02:38:07]

Fritz Behring: Right. We will certainly look at that. The next item that I put on the list is an item that in my short time here with the city, I have heard repeatedly has been a point of contention with some, is the amount of money that we have a contract with the Cultural Council for the Arts. And this might be a good segue into are there any parts of budget that specific members of Council want us to investigate further, such as options on either modifications to those agreements, those staffing levels,

those service levels or reductions or additions? And so I only bring that up as an opportunity to start the discussion. If there is an interest on the part of Council that staff spends time to revisit this issue, and to look at some options, it would be helpful to know that early on in the process and if there's not a consensus to look at it, then we'll spend our time in other areas. But.....

Mayor Lane: Thank you Mr. Behring. We do have a comment from, a comment or a question from Councilman Littlefield.

Councilman Littlefield: It should come as no surprise to you that I think this is an area where we can save some money. Art is nice but it's not as important as all the other things we have to do. I also think that it's a mistake. The contract that we have with them to run the center for the arts, I think that's something we should look at bidding out and I'm kind of surprised you skipped over the staffing levels question.

Fritz Behring: I'm going to come back to that.

Councilman Littlefield: Well, then I will save my comment on that for later.

[Time: 02:39:44]

Mayor Lane: I'm sorry, what was the thought on the Cultural Council, what was your thought there?

Councilman Littlefield: Cut.

Mayor Lane: Eliminate the contract?

Councilman Littlefield: Yeah and then bid out the, bid out the contract to run the Center for the Arts so instead of becoming a liability, maybe we can turn it into an asset.

Mayor Lane: But basically cancel that contract. That's your request on that? Okay. I.....

Councilman Littlefield: I know you are shocked to hear that.

Mayor Lane: No. But as I might have suggested, it's something that we do visit from the standpoint of the contract terms. I do call out for and I'm not sure it isn't something that is subject to a decision each year and that's an increase in the contract and we did some things last year with increasing it where in the previous years we had held steady on it. I think there's probably some, at least it's an area that we definitely should be looking at.

Fritz Behring: It's my understanding that the current contract provides for a 3% increase in the next fiscal year.

Mayor Lane: But I think it's subject to availability or our opinion. Councilman Phillips?

Councilmember Phillips: I would say moving forward that Cultural Council notwithstanding, there are other more important things on the budget that are above this that I would rather see, I think, we have to make sure about public safety and I think we should have a higher contribution in the C.I.P. before we start looking at things like the Cultural Council.

Mayor Lane: No other comments only that? They just lit up the board here. Councilwoman Milhaven.

Councilwoman Milhaven: Well, we could lock the door and save \$4 million, but I don't think that's what our community wants. You know we talked about the dominant season of arts and culture and Councilman Littlefield doesn't like to compare us to the Sister Cities, Mesa is out pacing us. They are spending \$12 million to support that Mesa Arts Center and that Arts Center is spectacular! I think the little \$4 million that we spend a year is a good investment. And I know that 3% accelerated was only meant to keep the Cultural Council whole in terms of inflation. So while I understand, we need to look at every single contract. We need to hold them accountable to performance measures. This is part of who we are as a community and I think it's important for us to honor this contract. Thank you.

Mayor Lane: Thank you Councilwoman. Vice Mayor Korte?

[Time: 02:42:34]

Vice Mayor Korte: I have become very concerned when we start talking about eliminating the value and the culture of Scottsdale. Scottsdale is based, Scottsdale has been built around the big ideas and the arts and the creativity and the innovation and thinking outside of the proverbial envelope. \$4 million is not a lot of money to maintain that cache and to continue the good work that the Cultural Council has done in the past 20 plus years, 20, I can't remember how long. I would certainly be open to eliminating the 3% increase, but I think that there's some other areas that we could look at. It wasn't three or four years ago this Council had to look at some real tough things to balance the budget and that was back in I believe 2009. And perhaps we need to go back to that list. I know that we as a community have the highest per capita number of libraries in, I think the country. I know at least in the state, and I think there's some other savings and other programs that we need to look at.

Mayor Lane: Thank you, Vice Mayor. Councilman Robbins?

Councilman Robbins: I just wanted to offer my support for continuing the contract with the Cultural Council.

Mayor Lane: Thank you, Councilman Robbins. Councilman Littlefield.

[Time: 02:44:24]

Councilman Littlefield: Well, this is interesting because it's not a matter of whether or not arts is a nice thing to have or libraries are a nice thing to have, it's a matter of our your priorities. You only have so much money. The taxpayers are not willing to toss more money at us. What we should do is start with what is the most important priority and build out and then when we run out of money, we stop. And

that's the answer here. It's not is art a good thing? No. It is a good thing. But that's not the question. The question is: Where do we spend our money? And we should spend it on what's most important first. And I'm sorry, \$4 million is a fire station with half a million dollars left over. You know? And it was interesting in the last bond election we talked about how we have firefighters living in a station that's rat infested that needed \$3.5 million. Well, there you go. There's your \$3.5 million. What's more important? Building the fire station or funding the Cultural Council? It's not about is art a nice thing to have. And the budget is filled with these kind of things, all right? There's all sorts of stuff that back in the day when money was flowing and the sales tax was coming in, everybody was down here and I remember thinking at the time we never turn anybody down who wants anything. Well, money is not there anymore! There's some things that are asked for by nice people that would be good things to have, that we just don't have the money for. And this is one of them right here. You know? You want to fix that fire station? There's your \$3.5 million. What's more important? The Cultural Council or the fire station? And I bet there's probably 100 of these kinds of comparisons in there. It's not a question of whether it's a good thing or a bad thing. It's a question of what's more important and I'm sorry, this is less important than lots of other things we could do with that \$4 million.

Mayor Lane: Thank you, Councilman. You know, as we were talking about, I'm sorry. Let me go ahead, Councilwoman Klapp.

[Time: 02:46:36]

Councilwoman Klapp: I wouldn't agree with a drastic measure to just cut \$4 million by not funding the Cultural Council. That would shut down the performing arts center, the museum, all public art. That's crazy. This is an artist community. We also have priorities that are beyond just some of the things that are always offered by cities, but I believe that Scottsdale, in particular, is looked to as a cultural and artist community. So what would that say about our community if we decided that of all the things that we could cut, we are going to shut down the performing arts center and the museum? That just makes no sense to me as a citizen of Scottsdale. So I wouldn't support that. I do agree with what Councilman Korte said that we need to be looking at, do we have the money to give the 3% increase? That's something we struggle with every year but I don't agree with cutting it out and just eliminating the Cultural Council because it's not the Council. It's the services that are provided here through the Cultural Council to the community that includes performing arts and all kinds of other activities, including lots and lots of free activities that are provided to school children and that is an important part of any strong community, is to make sure that the arts are available to everyone and that's what makes Scottsdale what it is. So I can't see eliminating this. It would make no sense for me as a citizen of Scottsdale and I would bet a lot of other people that live here in the city.

Mayor Lane: Thank you, Councilwoman. You know, the idea of shutting it down, even though I know that it's been announced and has been pressed, I think is not something anyone other than one person here on the Council would suggest. That's, if there's nothing else, irrespective of where you are with regards to the arts, it's a major component of what makes Scottsdale for sure, and also is an attraction for our business community, a thriving business community that we might not otherwise have the attraction to. And it also is a component and any kind of site selection criteria for businesses and/or residents to be coming to our community. I think it's a positive element in our community.

That doesn't mean we don't look at the contract. I think we should be looking at every contract that we have. We haven't yet quantified exactly what our issue is here and frankly, if we are going to preserve the infrastructure in this great city, and keep it great, it's going to be important that we look hard at all kinds of programs and all kinds of departments for what we are doing and how we are spending our money. I don't think anyone is necessarily off the table as far as a review and consideration for. My thought about the contractual terms are just that. It's something we have dealt with and we will deal with again, along with a number of other things. And I think it's going to also equate to staffing levels in every department, again it's going to come down to what our situation actually is. I mean, and what we are going to have to do for staff and for our infrastructure and the entire scheme of things.

So all I would want to say is that I'm not looking, certainly I'm not looking to endorse any kind of shutdown. Whether or not at some point in time the city decides that we, in time the city decides we need to let out an RFP for a contract change, that's something else again but we best look at exactly what our investment is in the current group before we do that kind of thing, as well. I mean, that's an area thing that has an awful lot riding on the current structure and governance that's in place right now. So, you know, I just, we can get into a slash and burn. We can get into some crazy arguments about different things but I think we are going to have to fairly look at everything. And this is maybe one of them. Councilman Littlefield.

[Time: 02:50:48]

Councilman Littlefield: Well, Councilwoman Klapp asked what message it would send. The message is that the Council is willing to make the tough decisions to live within its means and spend the taxpayers' money wisely. That's the message it would send. It's not a matter of what we would like to have. It's a matter of how much money we've got and right now, if you look at what the City Manager said yesterday and tonight, there's not enough money to fund everything we need, much less everything we might want. That's the message it would send. And I'm sorry to harken back to this but I hate, you know, don't be tone deaf. What message did you just get a couple of weeks ago from the voters? They don't think we are spending money wisely. They shot us down on the bond issue. I mean, come on. They want us to make these tough decisions and that's the message it would send is that -- you know, if you do this across, well, we will cut a little here and cut back on that and we don't want to make these people unhappy, we end up just like we are right now and kick the can down the road and next year we will have the same discussion only the numbers westbound -- the numbers will be worse. I have a list of several other things I would like to cut too. This just happens to be the most obvious. If we don't start doing that, if we don't start doing that, we will just make the situation worse. Next year, the esteemed City Manager will be sitting up there and we will be having the same discussion, only we will be in a deeper hole.

Mayor Lane: Thank you, Councilman. I'm not sure we may be at a point of public comment, but you still have more to go, beyond this particular slide.

[Time: 02:52:37]

Fritz Behring: I just have a couple of brief comments and then I think we can take information from tonight and we'll come back to you in January and continue this dialogue. As we move forward in the budget process because it will be a different budget process than I think you had last year and hopefully one that will move it along faster and make it easier to for everybody in the long run. One thing I did want to talk about is overall staffing levels and overall costs. This pie chart demonstrates our current staffing level here in the City of Scottsdale and over the last several years we have reduced quite a few positions in the city. But to get an idea as to how we got to this position, if you look at staffing levels in the General Fund, between fiscal year 2003/2004 and fiscal year '13/14, our workforce grew by 15.5%. Even taking into account the big cuts that we recently had because of the budget crisis. Staffing levels overall in the city between 2001 and 2014, our current fiscal year increased by 13%. At the same time, the city's population only grew by 6%. While the money was flying the door, it was easy to say yes to projects and new services and we do still have a robust city staff. And our city staff is representative of the services that we provide.

Overall, if the Council is looking at new initiatives and new services that will require additional staff, I don't get the impression that anybody's proposing anything new from the dais and so we don't have to look at any additions. If we do have to look at spending cuts, obviously one area as we downsize or refine the budget is going to have to be in the area of staff. Staff is a huge part of our operations. There's way to do this smart and painlessly or painlessly as possible through the elimination of vacant positions and the reorganization of the city where possible to take advantage of vacant positions. Keep in mind that the vast majority of the positions that the city eliminated in the past, when they eliminated 370 positions, 277 of those positions were vacant. So it is the easy way to deal with this problem and I think we need to continue to look at that moving forward. But just in a simple, and I didn't want to make these comments early because I didn't want to taint your discussions. I wanted some input. As I see the picture moving forward, with the amount of revenues that we expect to have, the amount of expenditures that if we needed to just continue business as usual, and to provide a 3% bucket of money for salary adjustments, based on a merit type performance type basis, in order to do those things, and to get us to a balanced budget, where I'm not relying on cash on hand, I have to cut about \$3 million of expenditures. And not \$3 million of budget because it's easy to say you cut the budget and you really don't cut spending. Our spending pressures are moving up.

[Time: 02:56:06]

We are spending more today than we were two years ago because of the cost of running the city government are going up. If I was to do, I think we could do the things we just talked about and have a balanced budget next year if I had \$3 million of spending cuts and that means spending cuts of \$3 million of current operations whether it be staffing contracts, services, a library, whatever the things are that we have to look at, if we could find \$3 million of real spending cuts, we can have a structurally balanced budget and what that structurally balanced budget does is it leaves you about \$11 million of excess cash in your General Fund to carry you through and the next two fiscal years where we are going to have a problem because we have an extra payroll period during one of our fiscal years. That's going to cost us about \$10 million extra that it typically wouldn't. So if you want to preserve your General Fund reserve, you want to be fiscally prudent, you can still do a lot of things you are talking about, salary adjustments. If you want to do more salary adjustments, I need to find more

savings.

If you want to do less salary adjustments, I don't have to save as much but to give you an idea of the scope of where we are headed, to have those things laid out for next year, we have to find about \$3 million in savings. We have to fine tune our operation that much. And that seems like a lot of money, but this is a \$200 plus million dollars General Fund operation. It can be done if we put our heads to it.

[Time: 02:57:52]

Mayor Lane: Mr. Behring, I mean, I appreciate what you are saying certainly and one of the things that concerns me is maybe even some of the decisions we made over the last couple of evenings in meetings, we need to look very hard at contracts. We need to look very hard at memberships, all manner of things that are in each and every department, and when they come to us, they don't all come to us, but administratively, there's undoubtedly some latitude in accepting and rejecting some of those. I think that's another area. I realize it's not going to have quite the same kind of impact that staffing adjustments might have, but every bit that's saved in those kinds of areas protects something else. And maybe that might be more important to us than some of those expenditures. But, you know, I think that one of the things that we are missing a little bit tonight is any sense of urgency in the fact that we do need to, as has been suggested, because we don't have the other resources of a bond, that we make sure, yeah, you were mentioning about having any unallocated reserves, some 10 or \$11 million, in a year, we will have an extra payroll and that will take that right there by itself. But one of the other ways on the capital side is to be able to invest more in the C.I.P. out of whatever we can squeeze out of one-time monies into the C.I.P.

And that is something, you know, I mentioned last night about the fact that in the high times, the reason so much money went into the C.I.P. was because it was one-time money that they didn't want to incorporate into a permanent budget change and so that was a good way to sideline it. Of course, when the economic tables turned, it just wasn't there. I mean, that was as simple as that. The other thing is, and I don't know that, we haven't quantified it yet, but what assets the city could sell that we don't have a need for. I mean, some of which we have been talking about over the last couple of nights too, particularly as it relates to capital needs.

[Time: 03:00:09]

Fritz Behring: And part of that capital program that I will be bringing to you in late January, early February will include several options, such as using our existing excess cash reserve in the General Fund to fund the capital projects and that sounds like an easy option, but be careful if you spend that money, it's going to make balancing that budget that much tougher going forward. I have also identified some properties that we are evaluating right now whether or not we can liquidate those properties. I'm a firm believer in my short tenure here that the City of Scottsdale owns too many properties. We have too many facilities scattered throughout the city and we have to combine our workforces more efficiently and effectively and if we can get rid of two or three office buildings, and downsize our footprint, it will help to control our costs. We have to look at those options. We have to

look at a variety of options and a lot of this will be culminated as part of the C.I.P. process that we will be reporting back to you in January, February.

Mayor Lane: Very good. We do have a question or a comment from Councilman Littlefield.

[Time: 03:01:14]

Councilman Littlefield: It's interesting you just said we have too many properties and I also heard you say that we have too many chiefs here and not enough relative to the number of Indians we have. So am I to understand you will be coming back to us with a specific list of which properties you believe we could get rid of?

Fritz Behring: Yes, we are working on that right now. I met with staff and we have identified properties that I think are logical properties that are easy to market. And I should say we are trying to liquidate one of the properties that the city owns, the water department owns I think it's referred to as the Dix building up near the water site. We had that up for bids. Nobody bid on the property. So we had no official bids come in when we had an auction on that property. So we will have to revisit that and maybe reduce our price a little bit. But we have excess property and inventory that we simply don't have to own and operate.

Councilman Littlefield: Okay. And can I assume that you will come back to us if you think we've got too many managers or whatever with a plan to cut back on that?

Fritz Behring: Well, when I interviewed for this job, the policy directive comes from the Council and in the policy directive from the Council is they want options, I will bring them options. I don't want to cross the line of proposing policy directives that the Council is not cooperative with. If the Council wants those types of options, I will be happy to bring, as I've mentioned, I have identified about \$3 million that we have to cut in spending. I will be happy to bring lists of options to consider to arrive at that total.

Councilman Littlefield: I want to see 'em.

Fritz Behring: Okay. We have some tough decisions to make. But if you want to get the financial house in order, we have to, you know, protect our bond ratings, and to protect our financial stability of the city, our revenue streams are not coming back as fast as we had hoped. They are coming back. But we have to live within our means and it's going to be tough for the next two to three years.

Mayor Lane: Yeah. Thank you. Thank you, Councilman. Councilwoman Klapp.

[Time: 03:03:27]

Councilwoman Klapp: You mentioned that one of the ways to do some reductions in staffing levels is reorganization and eliminating vacancies. Will you be coming to us with a reorganization plan?

Fritz Behring: It sounds like that the Council is open to that idea and I will incorporate that into our cost cutting options.

Councilwoman Klapp: Yeah, I have been on the Council for five years and I have seen many reorganizations but I do believe that there is probably a better way of organizing the work, finding a way to get efficiencies through the reorganization and if you have some vacancies that make sense that can be eliminated, that would certainly be something I would like to see, because, you know, not vacancies where we have to fill them for very important jobs. I'm not talking about that, but there have been vacancies hanging on for years now that we could get rid of. You have to fund them, unless you eliminate them. So as far as I'm concerned if there's a way to reorganize, find efficiencies and eliminate some vacancies that have been vacant for quite a long time. Or even as people leave, you take a look at reorganization so nobody is hurt, as you said but through attrition, you can come up with an organization that will cut out some costs that you feel is necessary over the next year, I would certainly be open to that.

Fritz Behring: Good. I appreciate that.

Mayor Lane: Thank you Councilwoman. Councilman Phillips.

[Time: 03:05:04]

Councilmember Phillips: Well, I would certainly agree we could look at reorganization if you think that's a good way to do it. Obviously it's not up to the Council to decide which employees come and go. I think that's up to the department heads and the Indians and the City Managers for the chiefs. If you feel that we have too much going that way, I think you should present that to us. The other point I wanted to make was, again, you know, we put in \$2.5 million or 20% of the construction tax for C.I.P., I don't think that's enough. I think the fact that the bond failed, the voters want to see us being fiscally responsible. I think if we make it a city policy, that we will put in \$5 million in a year into our C.I.P., it shows the voters that we are being fiscally responsible and finding ways to fund our infrastructure instead of going to the voters and trying to put it on the property tax. I would really like to be able to come back and show the voters that we can do that.

Mayor Lane: Thank you, Councilman. That looks like we are done with the questions on this. If you receive the guidance that.....

Fritz Behring: I have enough for tonight.

Mayor Lane: Very good. Thank you very much, Fritz. You know what, I'm really, very, very sorry. I know that this dialogue has taken place sort of interactively but we do have a card and Jim Hill, along with some time from Cynthia Hill wanted to speak to this issue. So, four minutes, Jim.

[Time: 03:06:45]

Jim Hill: Thank you, sir. Mayor, members of Council, my name is, sorry. I'm using my outdoor voice.

Jim Hill, I'm the president of the Police Officers of Scottsdale Association, 7229 East First Avenue. Scottsdale, as we have seen in the awards and the papers we're one of the safest communities out there, and we're very proud of that. And we also want to make sure that we stay that because everything else that this city achieves is based on safety first. Nothing else can thrive here without safety. Tonight, I'm here to ask you to make fixing the police department's broken compensation system a priority for your 2014/2015 budget. In the recent past, you have moved the starting salary for the police and firemen and provided some money to attempt to shore up some of those middle ranges. Unfortunately, shoring up that middle range was half filling the pothole. That did not solve the problem. As soon as you voted to approve that and not the 5% that night, we were already still behind the eight ball. We were below market average. We are still below market average as you go through those ranges. So we didn't solve any problems that night. We are filling potholes. While other P.D.s have a set system, that allows police employees to move through the ranges, at a reasonable pace, we have one that takes 19 years to get through it. That's not feasible. It's not going to attract people here. It's not going to keep the people here. If you stay with a 2% or 3% per year and say that's what all employees get, you are dooming the Scottsdale police department to be a training ground for every other police department in the valley and our bordering states. They will come here and get trained. There's no movement. They are seeing other cities have already restored the 5%, normal step increases that are common in law enforcement. That's a whole different thing than normal pay raises. So when you look at them, they are apples and oranges. If you want to be competitive, you need to reinstitute that. Because there's no compensation system, our P.D. employees are continuing to leave to police departments that do have those systems and it doesn't depend on the yearly battles over fixing potholes instead of completing a road. We need a road. We need a system. We have all seen that Glendale is preparing and up staffing for the 2015 Super Bowl. While they are going to hire 30 more cops, we are losing cops to Gilbert. We are losing cops to border states, to private sector and now that Chief Duggan has gone down the road to Chandler. He knows what has here and he will hit us up.

[Time: 03:09:23]

We have also seen in the Arizona Republic them talk about overtime and dispatch. Why is there overtime in dispatch? In the article it says all the positions are filled with about eight of them being trainees. Those dispatchers up there that are full-time are covering those. Our dispatchers are working an average of around 20 hours a week overtime. We are burning them out. And why do we lose them? Why do we have the costly group of people in training? There's no system for them to move through the pay ranges. They are stuck once they are hired. It needs to be a P.D.-wide system. We need to build the road. We believe that logical system is a return to the 5% merit raise system. We have always had pay for performance in Scottsdale. We never had automatic step. It's always been merit raises. We need to return to that. I can't speak for what the other city departments do or need and how they compare. I can only talk about the police department. And what we need is a 5% merit raise system implemented in the police department, industry standard, norm for police departments. That's what we should have if we are going to remain competitive. If you do the 2 and 3% and everybody else is getting 5%, we are just going to keep falling further and further behind. We will never catch up. And our employees are smart enough to know I can do down the road. My lifetime earnings increase, if I stay here, I dig a hole. We need to solve the competitiveness. We know

there will be some initial expenses but once you get that fully funded and you get all of those people up into the top ranges it should be there, it will equal itself out. It will level out under the normal organization. You will have minimum maintenance levels. So once it gets up and running, once we get there, it will be very minimum maintenance and that's what we need. We need to reinstall that system. Thank you.

Mayor Lane: Thank you, Mr. Hill. Okay. We completed item 20.

ITEM 21 – ORGANIZATION STRATEGIC PLAN

[Time: 03:11:36]

Mayor Lane: And we would move on to our final regular agenda item and that is the organization strategic plan. Mr. Stockwell.

[Time: 03:11:45]

Strategic Initiatives Director Brent Stockwell: Good evening, Mayor and members of the City Council. Once again I'm the only thing standing between you and your next break. So I will make this short. Tonight's item is to formally adopt a mission statement and priorities for the organization and implement the priorities and provide regular progress updates. First part, the first part is the mission statement is intended to be a broad but clear statement of purpose for the entire organization. Memorable and memorizable. The revised statement by the City Manager and the Executive Team, simply better service for a world class community. I will provide the previous mission statement and an alternative mission statement. They are shown on the screen. The second part is your priorities. These were first developed on May 8th, discussed several times since then. These have been fleshed out with a description and key objectives. They were presented to you back on September 17th, and are included in your packet. So we are asking you tonight to adopt Resolution 9576, which will formally adopt a mission name and priorities with or without any further changes and then direct staff to implement the priorities and provide regular progress updates to you. Updates will be included in the twice monthly City Council update or scheduled as an item at a City Council meeting. For example, you had a McDowell Road discussion on October 8th. You have discussed your fiscal sustainability priority the last three meetings. You have approved funding for an economic development strategic plan last night, and you have a transportation discussion scheduled for February. So thank you very much. That concludes my presentation.

Mayor Lane: Thank you, Brent, and it looks like, you know, I certainly appreciate the work that's gone into this from the beginning. And if there was a motion to be made, I think I will wait and see what there is, but I think the number one option here is a very good one. It is memorable and rememberable if there is such a word. And the priorities seem to be consistent with what we talked about previously. So I would, and I'm presuming that the priority stands alone in the options as far as the mission statement are just as indicated one through three. So with that said, I will start with Councilman Robbins.

Councilman Robbins: Thank you, Mayor. Nice job, Brent. I think the reformation of that mission statement is very well done, and I appreciate that. And, of course, the priorities are good because we have talked about these and basically adopted them already. So with that being said and I thank you for your work and the work of the staff. I make a motion to adopt Resolution 9576.

Councilwoman Milhaven: Second.

Mayor Lane: A motion is made and second. Would the second like to speak toward it? No? Okay. Motion is made and seconded. We have Councilman Littlefield.

Councilman Littlefield: I'm opposed to changing the current mission statement. Go back one slide. No, one more back. Okay, number two is the current mission statement and I was here in 2004 when that was adopted. And that is specific about what we should be doing. I think number one is way too vague. I'm opposed to changing the current mission statement. I'm not sure why we think number one would be better. Number two says exactly what we should be doing, providing quality core services, planning and managing growth, quality of life shall be the city's paramount consideration. I don't see what's wrong with that and I don't see why it needs to be changed. So I'm opposed to changing it. I think that number two was a good idea in 2004 and it's a good idea now.

Mayor Lane: Thank you, Councilman. No further comments on the subject. There's no call for testimony on this issue. I think then with the motion and the second on the table, I think we are now prepared to vote. All those in favor please indicate by aye. Those opposed with a nay. Motion passes 5-2, with Councilman Littlefield and Councilman Phillips opposing. That is our final item on the regular agenda. There's no further public comment. We have no petitions. And we have no other Council items.

ADJOURNMENT

[Time: 03:16:58]

Mayor Lane: I will accept a motion to adjourn.

Move to adjourn.

Mayor Lane: Thank you and then we have a second. All those in favor of adjournment, please indicate by aye. We are adjourned. Thank you all very much.