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CALL TO ORDER

[Time: 00:00:04]

Mayor Lane: So I would like to call to order the January 26th, 2016, regular city council meeting. We'll start with a roll call, please.

ROLL CALL

[Time: 00:00:12]

City Clerk City Clerk Carolyn Jagger: Mayor Jim Lane.

Mayor Lane: Present.

City Clerk Carolyn Jagger: Vice Mayor David Smith.

Vice Mayor Smith: Present.

City Clerk Carolyn Jagger: Councilmembers Suzanne Klapp.

Councilwoman Klapp: Here.

City Clerk Carolyn Jagger: Virginia Korte.

Councilmember Korte: Here.

City Clerk Carolyn Jagger: Kathy Littlefield.

Councilwoman Littlefield: Here.

City Clerk Carolyn Jagger: Linda Milhaven.

Councilwoman Milhaven: Here.

City Clerk Carolyn Jagger: Guy Phillips.

Councilman Phillips: Here.

City Clerk Carolyn Jagger: Acting City Manager Brian Biesemeyer.

Brian Biesemeyer: Here.

City Clerk Carolyn Jagger: City Attorney Bruce Washburn.

City Attorney Bruce Washburn: Here.

City Clerk Carolyn Jagger: City Treasurer Jeff Nichols.

City Treasurer Jeff Nichols: Here.

City Clerk Carolyn Jagger: City Auditor Sharron Walker.

City Auditor Sharron Walker: Here.

City Clerk Carolyn Jagger: And the Clerk is present.

[Time: 00:00:40]

Mayor Lane: Thank you very much. We have some items of business I suppose we should cover. We do have cards if you would like to speak in public comment or any agenda item and those are white cards the city clerk is holding up over her head to my right over here and there are yellow cards if you would like to give us some written comment on any of the agenda items and we will be reading them during the course of the proceedings.

We do have Scottsdale police officers Jason Glenn and Tom Cleary right immediately off to my -- maybe about 11:00, out in front of me here if you have any need for their assistance, they are

here for you. And if there are any medical emergencies please see the Scottsdale fire representative for assistance and that person is directly out there on the vestibule. The areas behind the council dais are for staff. But we have rest rooms under that sign if you have a need for them and they are there are for your convenience.

PLEDGE OF ALLEGIANCE

[Time: 00:01:35]

Mayor Lane: Tonight, we are honored to have Cub Scout Pack 344, the pack leader Steve Pettigrew to lead us in the Pledge of Allegiance. If you guys could come forward and if you are able, please stand. Any time you are ready.

Cub Scout Pack 344: 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, gentlemen. If you could, turn the microphone around. We had this choreographs and tell us where you go to school and what your favorite subject is.

Will Spargo: My name is Will Spargo, I go to school at Copper Ridge and my favorite subject is math.

Wyatt Pearson: My name is Wyatt Pearson. I go to Copper Ridge. I'm in fifth grade and my favorite subject is math.

Colin: I am Colin. I go to DCS, and my favorite subject is sports.

Brandon Welsh: My name is Brandon Welsh. I go to Pinnacle Peak Elementary School. My favorite subject is math.

Lars Hordnagen: My name is Lars Hordnagen and my favorite subject is science.

Jack Ludwig: My name is Jack Ludwig and I go to Scottsdale Preparatory Academy. My favorite subjects are math and art.

Gage: My name is Gage. I go to Pinnacle Peak Elementary School. My favorite subject is probably P.E.

Evan: My name is Evan, and I go to Desert Canyon Elementary School and my favorite subject is math.

Ethan: My name is Ethan. I go to Desert Canyon Elementary School and my favorite subject is sports.

Nick Welsh: My name is Nick Welsh. I go to Pinnacle Peak Elementary School. And my favorite

subject is reading.

Joshua Pettigrew: I'm Joshua Pettigrew, I go to school at Desert Canyon and my favorite subject is any sport.

Nolan: Hi, my name is Nolan. I go to Copper Ridge School and my favorite subject is reading.

Keifer: Hi, my name is Kiefer, I go to DCS, my favorite subject is math.

Mayor Lane: Very good. Thank you very much, gentlemen. Thank you. Thank you. Well, that was very nice and thank you for those troop leaders and those scouts to be here.

INVOCATION

[Time: 00:05:19]

Mayor Lane: The invocation this even will be presented by Rabbi Ariel Shoshan from the Scottsdale Torah Center.

Rabbi Ariel Shoshan: Almighty got instill within the mayor and the members of city council the courage and wisdom needed to lead this great city. Grant them understanding of the potential that this day holds as they work together for the common good of all people, resident and visitor, here and throughout the valley of the sun. Open their hearts to respond meaningfully to the of those who hunger for justice, hunger for equality and hunger for opportunity. Open the hearts and minds of the city's residents to judge the work of our elected officials favorably and about them let the words of proverbs speak, and you shall find favor and good sense in the eyes of God and man. Give them the strength and the wisdom to ensure the security of this great city and to strengthen the hand of our distinguished police department, fire department, and first responders who care for our lives as they are called to risk their own. We ask you God, to bless each and every member of this august body. In order to fulfill the vision and the purpose of this great city, for us and all who will follow in the future. Let us pray that together this body will do their part to create a world worthy of your presence and blessing. Amen.

Mayor Lane: Amen. Thank you, Rabbi.

PRESENTATIONS/INFORMATION UPDATES

[Time: 00:06:52]

Mayor Lane: We have a little bit of a presentation and announcement. As a matter of course, we have a couple of major events that occur here early part of remember and through February and if you are not familiar with some of the things that go on within this month, it's noted as our western month, and we do some things as far as promoting western wear with the school systems and frankly, with everybody who can participate within the city here. But we do have a major event that will be

coming in this coming Monday I believe it is. Is that right? Oh, sorry, it's Friday. Pardon me! It's Friday.

And it's a Hashknife and these are the riders that -- Hashknife riders, the pony express riders. They have been doing this for 63 years. And they travel from Holbrook, 230 miles, on horseback to deliver the mail. Some of the mail we actually take up there for them to deliver it back to us, but nevertheless, it is an important event and it's been going on for a long time and it is very important. And one of the pieces of mail has been a ceremonial invitation to the Parada Rodeo to the governor. So that's brought down by virtue of that pony express. If you are familiar with the history of the pony express, the pony express in its reality never existed in the state of Arizona that we know of. But we have it now and have had it for the last 60 some years. So that's one thing.

And that actually lends itself to the beginning of a week that we participate with the Parada, and the Parada is the next weekend. Next week from this coming Saturday. Oops, I got that wrong too. The 13th. I'm sorry. Maybe I -- I've got to go back to my notes. I have to start following some of the rules the Vice Mayor is religious with. But in any case, so on the 13th. So that will be the parade here downtown which is my next order of business here.

Because we want to make sure that the -- we have declared the month of February 2016 to be Parada Del Sol month. We have a proclamation to this effect. And urge everyone to participate in the Scottsdale Parada Del Sol activities and to extend our deepest thing to the Parada Del sole volunteers for carrying forward this tradition. I want to invite Wendy Springborn, Parada Del Sol Chairman, and Dave Alford. I didn't see Dave, to accept this proclamation, and make a few comments. Thank you.

[Time: 00:10:20]

Parada del Sol Parade Chairman Wendy Springborn: I will make this quick because I know how council meetings can go sometimes. Again, my name is Wendy Springborn. I'm the president of the Scottsdale Parada Del Sol historic parade and Dave Alford functions with the Rodeo. I want to thank council for your continued support of the Parada Del Sol event. I represent a small group of volunteers that -- who have full-time jobs but for love of Scottsdale and for love of Parada Del Sol, we continue this tradition and we are just -- we can't say enough good things about it. The committee, wave the committee, anybody who is a part of it. We have a representation from all the different aspects of the Parada events.

But we are also excited, the parade has been reinvigorated. We are so excited about the new route that we started last year. We are really pulling people downtown, but part of that reinvigoration is in a partnership that we have entered into with entertainment solutions incorporated, and they are our partners, Ken Koziol and his staff. They volunteered thousands of hours tort success of this event as well and we wouldn't be able to do it without them. We are just a small group of -- small group of people trying to make this thing happen.

We are more excited about getting a jump start on 2017. I know 2016 hasn't happened yet but to be able to have a yearlong opportunity to plan this event, it will be outstanding. We want to add

partnerships and sponsorships to the event to make it even bigger, increase the outreach that we can do to invite people into the process and we need volunteers. So anybody that is interested in helping us out over the time, it's great as well.

But part of our theme this year is Stars of Scottsdale. And we are so fortunate to have as our grand parade marshal, Mr. Paul Messinger will be leading the parade. We are extremely happy and proud to have Paul as our Grand Prix marshal and star of Scottsdale. Parade marshal and charity is stars. And also as part of our themes of stars of Scottsdale we will recognize many families who have been part of what has become Scottsdale. And the -- you can find the names on our website, but they will be recognized in the parade as well.

Let's see, just as a reminder, Hashknife, they deliver the mail this Friday, the 29th. It's at the statue on the canal. So anybody that wants to see them coming in, it's pretty exciting, and they are bringing real mail and it's all stamped "pony express." It's a pretty neat process. Parade is February 13th and then trails and festival is from 2 St. to 5 in downtown Scottsdale. And then the Rodeo is February 25th through the 28th and on the 28th is the Scottsdale Champions Challenge. So it's a special event and a special Rodeo that we have an opportunity to be a part of. So, again thank you so much for your continued support of this program and event, and on behalf of all the volunteers, thank you.

Mayor Lane: Thank you, Wendy. Thank you, Wendy and really, truly, you understate it when you say it's been reinvigorated. I have think you have done a wonderful job and all the committee and all the hard work is very much appreciated in maintain that kind of history and that kind of an event of the caliber that we got. So thank you again for all that you are doing.

PUBLIC COMMENT

[Time: 00:14:50]

Mayor Lane: Our next order of business is the public comment. This is reserved for citizen comments regarding non-agendized items where there will be no official council action taken on any of these items. Speakers are limited to three minutes and we have a maximum of five potential speakers. Today we have two and there will be an opportunity at the end of the meeting to do some public comment if, in fact, it's called for. But I do have two requests to speak. It is a three-minutes each. We'll start out with Joanne Handley. And Rustyn Sherer will be the next and the other one.

Joanne Handley: Joanne Hanley, I'm a native of Scottsdale. I lived here a few years. I live at 6813 East Monterey Way and I'm here to say thanks to everybody who is putting this Parada together. The committee has put an awful lot of time and effort into it and if it wasn't for them, this would be gone and I tell you what, because it's become such a tradition, I would be heart broken.

But I wanted to give a little bit of the history of this, is that when it started at the very beginning, it was in '51. It was called the sunshine festival and the cavaliers and some other people decided to have a little parade and they went down round, across second and back up to Indian school and because

there wasn't very many businesses along there, we didn't impact anything, but it was really fun to see these few little horses and a couple of wagons and all. And it grew over the years and then they started going from Indian school. They went down to, oh, on the south side of Oak and then they had a great big party at Los Arcos. They came back and stopped at Indian school and now they have changed it again and gone back to the original down Scottsdale road across and back up brown.

I'm not sure with -- we kind of impact the people, but still in all, having this Parada as a part of the history of Scottsdale and I just wanted to say thank you to everybody, thank you for the council for going along with it and helping all the way and really thank you to this committee and I hope they can stay together and continue to do this for many years because I will be mighty unhappy if they don't have it any more but I just want to say thank you to everyone and do enjoy the Parada what we have it.

[Time: 00:17:32]

Mayor Lane: Thank you, Joanne. We don't want to do anything to make Joanna unhappy. Next is Rustyn Sherer.

Rustyn Sherer: Good evening mayor and council. For the record my name is Rustyn Sherer and I'm the community affairs manager for the east valley for Arizona Public Service. My official office is 400 North 5th Street and that's at the Arizona Center downtown. I think more accurately, my office is at 2009 Chevy Malibu. I'm in it quite often. I'm not here on A.P.S. business. I'm here as a member, a proud member of Scottsdale Leadership class 30. I want to recognize my classmates who are here. They are videoing now but please raise your hands. They are taking time to be here to support the comments that I have this evening.

So many of you are familiar with Scottsdale Leadership, and as you know, one of the requirements of the program is to participate in a community service project. We have 40 members in our class this year. We have four teams of ten and so we have four class projects that you will be hopefully hearing about. Our class project, the one that we have selected for our ten team members is benefiting STARS and I know that of you are very familiar with this organization. One in particular, so we're very excited about what we are planning to do.

And so our purpose tonight is twofold, just to describe our project a little bit and then, two, to extend on behalf of myself and our classmates a personal invitation for all of you to attend.

So I think we have a flyer in front of you this evening. What we are proposing to do is an art show to benefit STARS, anything that is raised will be donated back to the organization. We are having our event on March 24th from 5 to 9. I think on our flyer it says 7 to 9:00, but I believe we will be there a little bit earlier. It will be at Art One which is 4130 North Marshall Way, they donated space and we are hoping to do two things. One, sell some wonderful pieces of art, and, two, raise awareness in the community with respect to this organization and what it does. We are very excited about the mission of STARS. I also want to recognize Taylor who is here. He's the painting program director. You can always recognize him because he has pain on his hands. We thank him for his support of what we are trying to do. And I want to personally invite all of you to attend. I hope that you will be

there and talk about our event in conversations if you can. Thank you for the time and the opportunity.

Mayor Lane: Thank you, Mr. Sherer.

MINUTES

[Time: 00:20:27]

Mayor Lane: That's the extent of our public comment at this time, so move on to our next order of business and that is we have a need to approve the minutes of the special meeting minutes of January 5th, 2016, and the executive session minutes of January 5th, 2016. Do I have a motion?

Councilwoman Klapp: I move to approve the minutes.

Councilwoman Milhaven: Second.

Mayor Lane: The motion has been moved and seconded. Those in favor, please indicate aye, though opposed with a nay. And register your vote. Aye. Councilwoman Littlefield, I didn't hear your vote on that, but just for official record?

Councilwoman Littlefield: Aye.

Mayor Lane: Okay. Thank you. It's unanimous in acceptance. Thank you.

CONSENT AGENDA

[Time: 00:21:21]

Mayor Lane: The next order of business is our consent items 1 through 12. I have no requests to speak on any of the items on consent. Are there any questions or comments from the council?

Seeing none --

Councilwoman Milhaven: Mayor, I move approval of consent items 1 through 12.

Councilwoman Klapp: Second.

Mayor Lane: Motion has been made and seconded. I probably should for the record, because I'm not sure that it has been removed or not from the official record, but item 17 has been pulled at the request of staff. So it would be 1 through 12 as you indicated. I'm sorry. That's on the regular agenda in any case. We are good. Motion has been made and seconded. We are then ready to vote. All those in favor please indicate by aye. And opposed nay.

Councilwoman Littlefield: Aye.

Mayor Lane: It's unanimous to accept consent items 1 through 12, 7-0. Thank you very much. If you happen to be here for consent items, you may stay with us or you can leave. Quietly.

ITEM 13 – FLEMING HOME HISTORIC PROPERTY (13-HP-2015)

[Time: 00:22:25]

Mayor Lane: The next order of business would be our regular agenda items and now I will make the comment that item 17 has been pulled at the request of staff. So it is not on our regular agenda items but we will start with item 13, which is the Fleming home historic property. It's 13-HP-2015 and our presenter is Jesus Murillo.

Senior Planner Jesus Murillo: Good evening Mayor Lane and members of the council, again, my name is Jesus Murillo, I'm a planner here with the city and today I'm presenting in front of you a request by an owner to appeal the decision that was made by the Historic Preservation Commission on 13-HP-2015. This case is known as the Fleming residence was heard on December 3rd of last year and the applicant would like to appeal and have the council reconsider what was presented to the commission.

The -- when the case was presented, there were four requests that were asked of the owner, two of those requests were approved and two of those requests were denied. It's the two that are denied that is the reason the owner is here today. The ordinance does give authority to the council to consider this case independently of the other decision. The ordinance also discusses that the council should look at the information that was provided to the Historic Preservation Commission and also consider the historic preservation guidelines that were approved for this particular development. So if it pleases the council, I would like to begin the presentation that was presented to the preservation commission.

Mayor Lane: Please do.

Senior Planner Jesus Murillo: The site is located on the northwest corner of McDowell and 68th Street, more specifically on East Monte Vista and it is zoned R-17HP. That's a single family residential and the HP is the historic preservation overlay. In 2005, cases provided the historic district for the village grove development, and it included all six subdivision plats nor that community. This is a closer look at the site. These are four of the requests made by the applicant. It would increase the square footage or the footprint that you see currently of the site. One other request did ask for increase in livable space as an enclosure of the carport.

This is the -- what the structure looked like before the applicant made one of the changes, and so the -- the two approved requests by the historic preservation with the vote of 4-1, was to change the tile that you see here, to be replaced. The applicant requested that it be a little darker than normally found in the community. The commission approved that and the commission also approved the

enclosure of the carport to create a garage.

One of the requests that was denied by the Historic Preservation Commission with a vote of 5-0 was that the applicant had already moved the door from the yellow spot that you see there, to the orange. And so if denied by the commission, the applicant would have to close the enclosure and return the door back. Because the council does have the ability to view this independently, staff does ask that if -- requests that in the council does consider leaving the door where it is, that maybe a stipulation be added that one of the doors match what is in character with the historic preservation guidelines of the village grove district.

The second of the requests that was denied was the applicant had requested to remove the windows that you see here and replace them with other windows. As you can see, the windows currently do match what is in character with the guidelines, and the applicant was requesting to replace these windows. Here.

Through the process, staff has received three residents' communications. One of them has been in support, and then two of them have been in opposition.

Again, just to conclude, the Historic Preservation Commission did approve the replacement of the shingles and the enclosure of the carport but voted to deny replacement of the windows and the relocation of the door and those bullet points that you see there are just some of the possible conclusions that the council could come up with tonight. That concludes staff's presentation. Staff and Steve Venker who is our Historic Preservation Commission liaison is here to answer any questions and I believe the applicant is here, the owner is here to give his presentation as well.

Mayor Lane: Thank you, Jesus. Would the owner like to speak toward it or --

Senior Planner Jesus Murillo: Yes.

[Time: 00:27:25]

Owner Scott Fleming: Good evening, mayor and councilmembers. My name is Scott Fleming. And just to, I guess, go before all of this happened, what I do for a living is I buy properties and I fix them up and sell them. And prior to buying to this property, I do what I always do, I evaluate the neighborhood through the MLS. I check to see what has been done. I check to see where I can take a property, where I can get value, and there was a home on oak street that -- oak street that did very well, and so that was kind of a comp for me. I used it as a guide how to do what I think I can do to maximize my effort.

And in the process, I do what everyone does. I -- you know, when I buy the property, I look at the listing on the MLS and I look for things that alert me to challenges that I would have. And I also get a title report. And both of these documents, the MLS listing and the title report, nothing was said that alerted me to the fact that this was in an historic preservation neighborhood or whatever you want to call it. Had I known that, I can tell you without question I would have never purchased this home

because it has become extremely difficult to do what I have been doing, as I have been doing this for 20 years.

This is the first time I have ever purchased a home in an historic neighborhood. And when I looked at the house, when I actually got there physically and I drove around the neighborhood, there was nothing to me that indicated that this neighborhood as a whole was unique. You drive up and down the streets and you can see homes that have stucco. Homes that have had all of these alterations done, none of which is comply or fall within the guidelines of historic neighborhood. There are -- honestly, the only thing that I want to do is maintain the door, the location of the door. Today, I went through the neighborhood and there are 22 homes on the streets within the neighborhood that have a door similar to mine, where it is located front facing, as opposed to side facing. Sorry.

The other thing that I want to point out is that I received a permit to do the work on the inside of the home. The permit or the plan showed the entire house being reconfigured, reconfigured to where the door now is, is a hallway and to where the door was is a closet to a bedroom I spent a considerable amount of money and under the permission of the building department. I have a permit to do this work and so I did it. And to go backwards would be ridiculous. I would stick a door in a closet, which would then go through a bedroom into the hallway.

So, again, I would not have purchased this home had I known this information up front. I think that the city needs to do a better job or the historic preservation committee needs to do a better job to alert people that they are buying a home that has these critical impediments. I mean, they really restrict what a person can do to their home. So that's all I have to say.

Mayor Lane: Well, thank you, Scott. Does the council at this point in time, excuse me, have any questions of the owner? Yes, we do have one question of you, Councilwoman Klapp.

[Time: 00:31:18]

Councilwoman Klapp: The issue both door and windows. I heard you say you primarily want to keep the door. Are you suggesting that you might be willing to change the windows?

Owner Scott Fleming: I'm willing at this point to even concede. I love the windows. They look great! The only problem is they are 60 years old and they just -- the summertime, it's going to be a bear.

Councilwoman Klapp: And my other question related to windows is, you gave us the number of houses that have doors similar to your house.

Owner Scott Fleming: Right.

Councilwoman Klapp: Have you looked at the windows?

Owner Scott Fleming: Oh, yeah.

Councilwoman Klapp: And how many have windows like yours?

Owner Scott Fleming: They are all over the spectrum, I'm not kidding you. I drive around, and I talked to my attorney and he's like, there's clearly selective enforcement going on, because you can -- like, directly across the street, and there's a home that has updated double pane windows with no grids. And I have asked Jesus this. I'm like, how -- how is this possible? There really isn't a good answer. But yeah, there are all sorts of windows. There are windows that have no grids. There are windows that have grids within the panes of glass.

There are some people who spent the money and did a simulated divided grid. That's probably the one way to go that keeps the look that they are trying to preserve, but, you know, I can't even get a manufacturer to do the diamond grids because they are all like, well, we can do a square on an angle. It's just such a unique way to do it. And, again, I think they are charming, and I have done so much to the house. It looks fantastic, inside and out.

And I think that that's something that I would rather have somebody else take care of if they want to fight that fight, then they can go ahead and do it. But at this point, my main focus here tonight is to maintain the location of the door.

Councilwoman Klapp: Thank you.

[Time: 00:33:25]

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

Councilman Phillips: Thank you, Mayor. You know, as far as I would think the historic preservation district area goes, that should have been full disclosure when you bought the place. So I don't know if you bought it from a Realtor who you sold it to, but they are the ones that should have told you that and it should have been in your disclosure.

Owner Scott Fleming: Yeah.

Councilman Phillips: I can't imagine that it wasn't.

Owner Scott Fleming: It wasn't.

Councilman Phillips: The fact that the city gave you a permit and you have already remodeled pretty much throws out the question to moved door back because you would have to remodel the whole house again.

Owner Scott Fleming: Right.

Councilman Phillips: Probably going from you to Mr. Venker is what's going on here? It sounds like

I don't know, are things grandfathered in here? I mean, if you have historic preservation and you have a house with stucco, it doesn't make sense. I will ask when did it come up? It sounds like you have already done the remodel, you are done and then somebody came on and knocked on your door and said you can't do this.

Owner Scott Fleming: Yes.

Councilman Phillips: Because it a different city department, historic preservation.

Owner Scott Fleming: There were multiple people. There are two Steves, Steve Venker and another Steve. And I talked to another. The other thing I wanted to say is I know he mentioned that there were two people that wrote, in but I can't tell you how many people in the neighborhood have come up and have knocked on the door while I have been there and even my direct neighbors they absolutely love the home. They love what I'm doing and I have seen the homes that I think the historic preservation committee is concerned about. You drive down the road and you see them. They stick out like a sore thumb. But I guarantee that you drive down Monte Vista and you would never know that this house doesn't fit in the neighborhood.

Councilman Phillips: Okay. Can we have a city side of things?

Planning, Neighborhood and Transportation Manager Steve Venker: Mayor Lane and Councilman Phillips, with regard to this neighborhood, there are a few houses in the neighborhood who are not contributing to the district. They may be the ones with the stucco exterior. There's one in there that is a two-story house and those were completed before the historic overlay was put on the properties.

With regard to Mr. Fleming's property, that's been on our radar for about two years. We had a previous owner doing work without permits and a neighbor near this Fleming property contacted me when they noticed additional work being done without permits and that's when I contacted Mr. Fleming about the work and asked him to stop and make sure that he had permits and I encouraged him -- I discouraged him from doing any work on the exterior. And then we had the case come before the Historic Preservation Commission.

As far as enforcement, we do the best we can to keep track of what's happening in the neighborhood, but any property owner understands that they have to make decisions about their own property and what they want to do and when we hear about work being done in the historic districts, we do try to contact those property owners immediately and advise them of what they should be doing, according to the district preservation plans.

Councilman Phillips: Okay. So it's the city's stance that the construction was started and the city approached them and said you are not supposed to be doing this without a permit and so Mr. Fleming went and got the permit.

Planning, Neighborhood and Transportation Manager Steve Venker: Yes, sir.

Councilman Phillips: After the fact. At that point, do you know if the city told him this is an historic district and there are certain things you need to be doing and you need to come to us.

Planning, Neighborhood and Transportation manager Steve Venker: Yes, sir, I had that conversation with Mr. Fleming myself.

Councilman Phillips: Was that after the fact that this was already done?

Planning, Neighborhood and Transportation Manager Steve Venker: It was as soon as I heard from the neighbor that work was being done on the property. And I don't think he -- at that point, he hadn't finished the work.

[Time: 00:37:33]

Councilman Phillips: Okay. Well, I can see what's going on here, but I would, willing, at this point, to agree to leaving the door, if you will make that door match the windows, and that would be my opinion.

Owner Steve Fleming: I'm sorry, I don't understand. Make the door match the windows?

Councilman Phillips: Yes, Murillo brought that up at the beginning that he said it would be acceptable, as long as the door had like a pattern to match the windows. Is that correct, Mr. Murillo?

Senior Planner Jesus Murillo: Mayor Lane and Councilman Phillips, that is correct.

Councilman Phillips: Okay.

Owner Scott Fleming: You know, I have the original door. The funny thing is, is that the original door doesn't look like any of the doors that were on the list.

Councilman Phillips: I think this is a good compromise considering your construction without a permit.

Owner Scott Fleming: I agree. I agree.

Councilman Phillips: Thank you.

Owner Scott Fleming: Thank you.

[Time: 00:38:23]

Mayor Lane: Thank you, councilman. Vice Mayor Smith?

Vice Mayor Smith: Thank you, Mayor. Steve, I just want to -- I'm not sure I quite understood your answer. The applicant says he proceeded with the work having a permit that indicated everything he was going to do and with the interior reconfiguration and whatever. Are you saying there was no permit?

Planning, Neighborhood and Transportation Manager Steve Venker: Mayor Lane, Vice Mayor Smith, when I first contacted Mr. Fleming, my understanding was that there were no permits issued for the work on the property, and I contacted our inspection services to verify that, and then that's when I spoke with Mr. Fleming about the process that he needed to go through to get approval for the exterior work on the building.

Vice Mayor Smith: So the short answer is there was no permit when the work was begun?

Planning, Neighborhood and Transportation manager Steve Venker: Correct.

Vice Mayor Smith: So I guess I would ask the applicant do you disagree with that or --

Owner Scott Fleming: No, that's true.

Vice Mayor Smith: Well, I think from my point of view, the fact that it wasn't in the MLS list or wasn't in the deed recording or, in fact, other properties don't appear to comply, none of that, in my opinion, is compelling. That's just a matter of not knowing that the area is an historic district. What I would expect to happen at a minimum is when somebody gets ready to do work on a property, they come to the city, at the ask for a permit, and presumably in the city process, there is some kind of a red flag that goes up that says beware, beware, this is an historic district. If the permit had been issued by the city, ignoring that, I would probably be inclined to be lenient in the requirement, but if it was not, if the work was begun before there was a permit, I'm inclined to stick with the historic district designation and support the Historic Preservation Commission finding. Thank you.

[Time: 00:40:42]

Mayor Lane: Thank you, Vice Mayor. Councilwoman Milhaven.

Councilwoman Milhaven: This is a little bit of what did you know and when did you know it? So the gentleman received a permit that approved the redesign of the interior of the space, and I would presume that that would include the door in a new location?

Planning, Neighborhood and Transportation Manager Steve Venker: Mayor Lane, Councilmember Milhaven, his plans did show the door in a new location, and I advised him not to proceed with that work until he had gotten approval from the Historic Preservation Commission.

Councilwoman Milhaven: So the permit -- so the permit allowed him to reconfigure the space but leave the door in a space that made no sense.

Planning, Neighborhood and Transportation Manager Steve Venker: That was the direction we gave him to leave the door untouched until the historic preservation decision was given.

Councilwoman Milhaven: It doesn't make sense. If he's giving you a floor plan that says the door is going to go into a closet, why would we approve him to reconfigure the space with a door that goes in the closet but tell him you can't move the door. That makes no sense to me.

Planning, Neighborhood and Transportation Manager Steve Venker: Mayor Lane, and Councilmember Milhaven, there are numerous examples of a door being relocated or a door in a different position on these particular houses. It would have been more appropriate for Mr. Fleming to postpone his -- as I understand it, he was doing demolition work when I first spoke to him. It would have been worth his while to postpone his interior construction work until he got the decision from the Historic Preservation Commission about the door location.

Councilwoman Milhaven: But we gave him a permit for the interior construction work?

Planning, Neighborhood and Transportation Manager Steve Venker: Yes, we did.

Councilwoman Milhaven: The applicant said there are numerous homes in this area whose doors are parallel to the street, rather than perpendicular. Would you agree with that assertion?

Planning, Neighborhood and Transportation Manager Steve Venker: Mayor Lane, Councilwoman Milhaven, there are several within the neighborhood that have that configuration of that location for the door. Mr. Murillo has some specific information if you would like more details on that.

Senior Planner Jesus Murillo: Mayor Lane, Councilwoman Milhaven, out of the 72 homes around the -- that you see there that we drove past, 14 of them have the doors relocated to be parallel with the street.

Councilwoman Milhaven: Okay. I would like to make a motion to approve an exception to leave the door as is.

Councilwoman Klapp: Second.

Mayor Lane: The motion has been made and seconded to leave the door as it is, and to approve or accept that configuration. It has been seconded. Would the second like to speak to it?

Councilwoman Klapp: Yes, but my question is: You are not addressing the windows, just the door?

[Off microphone comment]

Councilwoman Klapp: I would be okay with leaving the windows as they are, but I'm okay with this motion. We'll see what rest of the council thinks. You followed the same questioning I would. We gave a building permit for changing the interior which showed a relocation of the door. Then,

you know, I guess later on it sounds like you advised him to stop until the Historic Preservation Commission could act but he had a permit. So it would seem to me that based on at least the door question, the door to me is pretty obviously acceptable and should be allowed to -- to remain where it is. And so I will second that motion. I'm inclined to think we ought to let the windows remain as they are, but let's just address the door question right now.

[Time: 00:44:33]

Mayor Lane: Thank you, Councilwoman. I'm sort of inclined to accept it as it is as well. But I think one of the problems we have -- I'm talking about with windows as well, one of the problems we have here is the great amount of variations that have already been imposed upon this community even with the historical preservation. So you have literally -- and I have not driven the neighborhood. So I don't know, but just from what I understand, of 17, 14 changes and that are frankly, at this point in time, a door replacement, that's -- we are now standing to deny.

But I suppose I still have this stickler or this concern that somebody could buy a house -- and I'm not questioning anybody's motivations or thoughts on this, but to buy a house and that we don't have some relatively rigorous way to communicate to them that there are things that have to be accepted and particularly, when we are talking -- and I know this is a matter of who knew what when but nevertheless, as far as that the interior design was all created as to accommodate this door -- the repositioning of the door. It just seems a little odd that if we had the conversation, but that a permit would be issued at that point in time, rather than halted, calling for a decision. Unless the door was already there.

Planning, Neighborhood and Transportation Manager Steve Venker: Mayor Lane, my understanding is the door as it's positioned now at the house, was not there originally:

Mayor Lane: I'm sorry, Steve, not just originally. Was it there when he came and did get the permit?

Planning, Neighborhood and Transportation Manager Steve Venker: No, sir, not that I know of. He hadn't cut the opening.

Owner Scott Fleming: There was no front door because at that point, I had taken out the front door and I had the mason fill it in. And so I had no front door.

Mayor Lane: Just what would have been in the carport before you enclosed it?

Owner Scott Fleming: Yes, just the carport, right. I mean, I had the front door and it was leaned up against the location of where the front door was.

Mayor Lane: Well, there's two things, I suppose. One is whether or not there's an effective way for us to communicate, make sure we are ahead of this before we get to this point, number one for anybody who is looking to revisualize a neighborhood. Certainly we want to encourage this kind of

thing for any community in any neighborhood and it's difficult for me to think that we would be standing in somebody's way to do that. Some difficulties when we instituted some of these historical communicates because of, frankly, the lack of consistency of product that existed even at that point in time.

It sounds like there's been some variations with or without permits going on in the neighborhood since then. I would even ask for a friendly amendment to consider the windows as well.

Councilwoman Milhaven: The windows have not yet been changed, right?

Owner Scott Fleming: Nope.

Councilwoman Milhaven: Why don't we take them one at a time.

Owner Scott Fleming: You can have a lien. You know, a lot of times when I buy properties there are I.R.S. liens and it shows up instantly on the title report. And so it's a good red flag because then I make a decision because when there is an I.R.S. lien, then I can hold on to that property. I have to hold on to it for four months before it goes away. So that's something I always see when I buy properties and I bought multiple properties with I.R.S. liens.

Mayor Lane: I'm sorry?

Owner Scott Fleming: You were suggesting that there be a way to convey that any of these homes in this neighborhood are in an historic neighborhood and I'm thinking well, maybe the city can create some type of a lien or something like that.

Mayor Lane: All right. So let me just ask this and maybe there is just a bit of what's where and when it got there.

Owner Scott Fleming: Oh, okay.

Mayor Lane: The picture that we have with the presentation shows the front door in place.

Owner Scott Fleming: Right.

Mayor Lane: And it looks like they are continuing to work on the carport. I don't know if that's completed.

Owner Scott Fleming: It's all done.

Mayor Lane: But the windows have not been changed.

Owner Scott Fleming: Correct.

Mayor Lane: Well, then I will withdraw my friendly amendment. And go with the original motion.
Mr. Nichols. Oh, well, I'm sorry. Just using Mr. Nichols' button, but Mr. Grant.

[Time: 00:49:04]

Planning and Development Services Director Randy Grant: Mayor Lane, councilmembers, just to remind you that the historic preservation designation was something that the neighborhood asked to be applied to them for the protection of the values that they felt the architecture and the character of that area contained. So although it was 2004 and there certainly were remodels that were done before that, we will never get them back. The intent the historic preservation is to maintain the character that currently exists albeit that there may be some inconsistencies in the neighborhood. I just wanted to make sure that we communicated that this was not something that we went out and imposed on the neighborhood.

Mayor Lane: I appreciate that comment but one of the things that came up at the time really was exactly to what extent of participation in that vote was really required. And it was a much looser situation than it currently is and that even the majority didn't have to necessarily sign on to it. So it was a bit of a more difficult process, when you think about the justification of it. And the other question that came up at the time was whether or not whether the people who had already changed were held in place on their change or they made a change and they had to go back to the original design. It's not as -- it's -- it's not as clear as just a black and white issue. So -- but thank you, though, for that comment.

But Councilwoman Korte.

[Time: 00:50:38]

Councilmember Korte: Thank you, mayor. So Mr. Grant, Mr. Venker, the historic preservation district was designated in 2004.

Planning, Neighborhood and Transportation Manager Steve Venker: Actually 2005 was the decision by the council.

Councilmember Korte: 2005. And what was the process of that designation? Mr. Grant said that the neighbor -- the neighborhood requested it. Was there a vote? Was there a majority? How many households were required to create that designation?

Planning, Neighborhood and Transportation Manager Steve Venker: Mayor Lane, Councilwoman Korte, I don't have the specifics of that process and the public outreach. My recollection it was the majority of the property owners in the district boundary requested the designation. I don't think it was anything that -- what the city had done was done an inventory of subdivisions that might be eligible for designation and made that public and then we began to have communication with some of those neighborhoods about the possible designation of historic districts.

Councilmember Korte: So what is the process today? So ten years later, a neighborhood requests some type of historic designation, what is the percentage of households that must agree to that?

Planning, Neighborhood and Transportation Manager Steve Venker: Mayor Lane, Councilmember Korte, at this point in time, we are requiring 100% participation and 100% agreeing to participate in the district designation.

Councilmember Korte: But back in 2005, we don't know what we did.

Planning, Neighborhood and Transportation Manager Steve Venker: I don't have the specifics on that, I'm sorry.

Councilmember Korte: So this isn't the first historic preservation district that's been designated. How are districts identified on deeds or liens? There's got to be some type of process where potential buyer of a property is notified, that this is in an historic reservation.

Planning and Design Services Director Randy Grant: Mayor Lane, Councilmember Korte, I haven't seen the actual title report, but I know that the zoning designation of H.P. is contained in the information that is provided as part of the title search. R17-HP is what's reflected on the county records.

Councilmember Korte: So the R17-HP is historic preservation. And that would be on a title report for the buyer?

Planning and Design Services Director Randy Grant: I believe it would be on the title information that was provided as a part of the disclosure documents.

Councilmember Korte: Okay.

Owner Scott Fleming: I have it. I looked through it two times today.

Councilmember Korte: Well, I'm not going to be supporting the motion. I'm just -- I think I'm just disappointed that this would get to the council in the first place, that somewhere along the way there could have been some type of mediation or arbitration to take care of this.

[Time: 00:53:56]

Mayor Lane: Thank you, Councilwoman. Vice Mayor Smith?

Vice Mayor Smith: I'm going to return to a question that I posed before and it's to you, Steve. You said you went to visit the property and met with the owner and urged him to -- to what? Stop until he had gone to the preservation commission?

Planning, Neighborhood and Transportation Manager Steve Venker: Mayor Lane, Vice Mayor Smith, I

spoke with Mr. Fleming by telephone a couple of times to advise him that he should stop work on the property until he had gotten his approval from the Historic Preservation Commission. That's correct.

Vice Mayor Smith: Did the work on the property begin before this permit that we are talking about or was there a permit before the first hammer hit?

Planning, Neighborhood and Transportation Manager: As far as I know, there was no permit issued for the work that Mr. Fleming took on the property before I spoke to him and after I spoke to him is when we had inspection services staff go to the property and do an inspection and advise him what he needed to do as far as obtaining a permit.

Vice Mayor Smith: Well, here's my thinking and I'm not going to be supporting the motion. First of all, Mr. Fleming, if you are in this business of remodeling a home or homes, plural, I find it incomprehensible that you would begin construction without a permit. I don't -- I don't comprehend how that would seem normal to you.

I'm not at all persuaded that some other properties in the neighborhood happen to have front facing doors or whatever. For all I know, they were done that way before it became an historic district ten years ago. But I have great respect for what the neighbors have agreed among themselves to impose upon themselves and that is an historic district, which -- which they think will enhance their values or improve their livability or for whatever reason but I respect their vote. I respect their rights and I have no compulsion to grant a variance for work that was done without a permit by a professional in the business -- if it were an individual homeowner who could argue he didn't know better, I suppose I would feel differently but I will not be supporting the motion.

[Time: 00:56:27]

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

Councilman Phillips: Thank you, mayor. And again, Mr. Venker, so you advised him to go to the Historic Preservation Commission. It sounds like they don't have any teeth because you would think they would be able to -- he wouldn't be able to get a permit until they looked over the plans. I mean, if you go up to Troon, you can't get a permit unless the homeowners association looks over all of your plans and makes sure you have the right color and everything. So if the historic preservation doesn't have any teeth, it's almost like, what good are they, because this is what happens.

Planning, Neighborhood and Transportation Manager Steve Venker: Mayor Lane, Councilman Phillips, the -- I do believe that Historic Preservation Commission does have the proper authority to advise property owners in matters like this. Typically the permits that were encouraged to issue would be a demolition permit for work inside before the exterior -- the decision had been made about the exterior of the building. I'm not sure why it transpired that Mr. Fleming was able to get the permit for all the work and not just the demolition.

Councilman Phillips: Okay. So you are saying first permit he got was a demolition permit and then

the rest of the permit to finish the job should have been dependent on historic preservation's decision on how no go about it. And for some reason that was bypassed?

Planning, Neighborhood and Transportation Manager Steve Venker: Yes.

Councilman Phillips: Okay. It looks like in the future the city will have to make sure that that doesn't happen. So like Councilwoman Korte happens so it doesn't come to us every single time because it looks like it's an easy thing to do. Well, I will just go ahead and do it and then when they say no, I will go to the council and get an appeal. Yeah, this has got to be worked through somehow and I'm not trying to say, you know, if -- you know, if we have to come back to council and give them some priority to say you don't get the permit until it goes through their board and they approve the plans, but that might be what we have to do if they have an historic district and everybody in that district is -- wants it that way. They should have to do that.

This committee, is it -- does the council, do we appoint the people on this commission?

Planning, Neighborhood and Transportation Manager Steve Venker: Mayor Lane, Councilman Phillips, yes, do you. There are seven citizens on the commission and recent appointments occurred, I think, in October of last year.

Councilman Phillips: Okay. So, you know when permits come up, and HP is in there, we need to make sure it goes through them before the permit gets approved. If it takes a general council decision vote to make that enforceable, then I think that's what we have to do. You know, I understand what Mr. Fleming did here and what's going on and I don't want to say no and force you to -- I don't know, either bankrupt or walk away from the home or have to remodel the whole thing all over again, because now it's not going to work. I would say make the doors match the windows. I think that's more than fine for everybody. And it seems like that that's an acceptable thing for the city and acceptable for the applicant. So that would be my thing. So I guess we have a vote on the table, we will go with that and then go from there.

[Time: 01:00:07]

Mayor Lane: Thank you, Councilman. Councilwoman Littlefield, do you have any comments -- you would like to make?

Councilwoman Littlefield: Yes, Mayor. It sounds like we have a major problem if his house did not have any house on the title research or anything like that, that it was historic or when he did the real estate purchase of it. I'm wondering if the other houses in this district have that same problem and if that is so, then that may be something that the historic preservation group needs to look at and make sure that that gets on to the title search, that that's a notation that all of these houses have on it. Thank you.

Mayor Lane: Thank you, Councilwoman. I think I'm still -- I'm in the same position I was before. The only thing I that I guess I would want to add is just a little bit of clarification, in 2004, 2005, when

this came up, the very time when prop 207 and the property rights issue and valuations took place. That's when what number of people actually to vote to take a neighborhood into this category. That's why it's now at 100% because otherwise they could sue for the infringement upon their property rights. So it's -- it's a complicated area. When we try to enforce these areas, as well.

And the other thing I want to make clear is that we have actually reconsidered votes and frankly even denials on the part of the Historic Preservation Commission and their decisions and most recently it was with a pink pony and that development in order to facilitate the use of that property and the revitalization of that area. So we could just as easily be dealing with this.

There's only one added component here that I think is maybe a little bit of a thorn in the side and that is that work began before permits were issued. If there's a penalty in that, then that's probably what we are trying to assess. Otherwise, independent of that, I think we are looking at whether or not, whether to allow this variation from the property.

Yes, Mr. Washburn.

[Time: 01:02:29]

City Attorney Bruce Washburn: Thank you, Mayor. For clarification, Mr. Fleming was kind enough to let me take a look at the title report. There's no reference -- some title reports have it, but some don't. There is a reference to the policy that will be issued and the title report subject to the exceptions that are in the policy and I'm assuming the policy says that they don't make any guarantees with respect to zoning because zoning really isn't a title issue. It's an entitlement issue and I'm not trying to be cute with words. But the zoning controls what you can do with the property. It doesn't control who owns it, restrictions on ownership so it's oftentimes not in the title report.

And I don't know with the disclosure that he got from the seller if they have the zoning disclosed in there, but a review of the zoning should disclose that it's R-17-HP, because according to Mr. Grant, that's what it is on the county records. So somebody knowledgeable about the zoning, they would know it's an historic preservation zone.

Mayor Lane: Thank you, Mr. Washburn. I think we do have a motion on the table and it's been seconded. Seeing to further comment on this, Mr. Fleming, you can take a seat if you would like. All those in favor of the motion as been stated please indicate with an aye, those opposed with a nay.

Councilwoman Littlefield: Aye.

Mayor Lane: So noted that councilwoman Littlefield did indicate aye, right?

Councilwoman Littlefield: Yes.

Mayor Lane: The motion does pass 4-3 with Councilmember Korte and Vice Mayor Smith and Councilman Phillips opposing. So it's been accepted for the variation with the door.

So our next item is 14, is to define the operating budget parameters for proposed fiscal year 2016/17, and we have Mr. Biesemeyer at the podium and I'm sorry, Mr. Washburn, do you have --

City Attorney Bruce Washburn: Yes, on the last one, I just want to make sure that I understand, because the -- so the council is upholding the decision of the Historic Preservation Commission with the exception of it is accepting the request to allow the door in its current position?

Mayor Lane: Correct.

City Attorney Bruce Washburn: But everything else has been upheld?

Mayor Lane: Yes.

City Attorney Bruce Washburn: All right. Thank you.

ITEM 14 – DEFINE OPERATING BUDGET PARAMETERS FOR PROPOSED FISCAL YEAR 2016/17

[Time: 01:04:53]

Mayor Lane: To Mr. Biesemeyer, please.

Acting City Manager Brian Biesemeyer: Mayor and council, we want to get your input on the operating budget and the parameters that affect the budget in preparing the operating budget. The major questions we will ask you involve the property tax, the sales tax, the property tax, salary adjustments and C.I.P. contribution.

As you know, sales tax represents the largest portion of our revenues. And is one of the sections -- one of the revenues that council actually has the ability to influence. And currently we are projecting \$110 million or 42% of our revenues coming from sales tax or actually transaction privilege tax. More specifically, the different areas for the sales tax and how the adopted and forecast have turned out for FY '15/16 or forecast come out for '15/16 and then specifically the five-year forecast going forward. You will note -- let me see if I can get this. You will note that we are forecast to be about 4 million above what we adopted as our budget -- let's see if I can keep this going here and then as we go down for what's proposed for F.Y. '16/17, you can see that there is -- there continues to be a forecasted increase even above the 114 to 117.6, but roughly it gives you a 7.6 million forecast increase.

Specifically, what we have looked at through these sales tax increases, one area of concern has been the auto sales and even with the projected leaving of several auto dealerships for the new auto mall outside the city limits we still see a slight increase or project a slight increase for next year. Then you note that that amount stays relatively flat for the remaining part of the five years.

Mayor Lane: I'm sorry, Mr. Biesemeyer, if I might, on the auto sales then we have already calculated

the loss of --

Acting City Manager Brian Biesemeyer: That is estimated in there, yes, mayor.

Mayor Lane: Okay is that based upon known times that these would be removed -- from this upcoming fiscal year?

Acting City Manager Brian Biesemeyer: It's based on the estimates of when those dealers project to be moving.

Mayor Lane: All right. Very good.

[Time: 01:07:43]

Acting City Manager Brian Biesemeyer: I'm showing our sales tax, what we have -- how our forecasts have done against actuals. The columns are the actuals. On the left as you can see for the last five years, and the little dot is where our forecast was. So you can see we are fairly accurate and generally a little conservative with our forecast. And then as you go forecast, you can see from '16/17, those are all forecast.

Property taxes, again this is another area that council has influence on. Currently, it's 26 million is our estimated for property taxes. This is similar to the last spreadsheet shown with some exceptions here. On the left is the '15/16 and 26 million and off to the right here, for '16/17, you can see 26.3 is our forecast amount, and that goes up slightly as we go through the five-year period.

There are some optional increases that council can approve, and that would be a 2% increase on prior years and 2% on the current year. For our current year, it would be, if council approved the 2% increase, it would be half a million dollars. So then the -- with -- and then there's also tort recovery which council has previously approved and if they did it again, our estimate would be about \$1 million for a total of 27.8. Now, we do have secondary property taxes which are used for debt service. Property taxes and they are -- the property tax reserve, we have is currently 11.7 million, and that is above what was actually needed as a reserve.

So one option that we show here would be the drawing down of that reserve over a period of time if council decided to take -- either way, if they did or did not, but it would be one way of offsetting any increase in the primary tax, could be offset by a reduction or taking of the reserve in the secondary tax.

Mayor Lane: Mr. Biesemeyer, if I might, the reduction in the reserve, is that based upon a policy change that we may be contemplating or is it on the actual fact of a declining level of debt in this category of things?

Acting City Manager Brian Biesemeyer: That's based on a policy.

Mayor Lane: Okay is there any decline in the level of debt and thus a decline in the -- even by any

policy, the extent of reserves?

Acting City Manager Brian Biesemeyer: I will defer that to the treasurer.

Mayor Lane: Which I think is being deferred further up.

Finance Director Lee Guillory: Mayor Lane, and members of the council, over the five-year forecast period, the annual debt service payments for the G.O. bonds currently are about \$34 million for the next three years and then they drop to 32 million and down to 30 million. So they are slowly decreasing as we are just paying off bonds.

Mayor Lane: But in what we have demonstrated here on this chart here, that really has little or no effect because there's very little decline in the debt service in this time frame, I'm talking about the projected time frame?

Finance Director Lee Guillory: Right, they go from \$34 million down to \$30 million over the five years.

Mayor Lane: Oh, over the five years they actually do go down to the \$30 million. So that's nothing to sneeze at. If we have a change of policy and the changing requirement for reserve, whatever percentage might be determined, we would have some additional savings on what's indicated here?

Finance Director Lee Guillory: That is correct. That would be a further decrease.

Mayor Lane: And may I ask, is it already built into these numbers or --

Finance Director Lee Guillory: Actually, the line that says G.O. debt service is the pure debt service without any reduction related to the reserves. So you will see it this going from \$34 million down to \$30 million. The second line in that category shows the use of the reserve of about half a million dollars a year.

Mayor Lane: Being reduced further by \$600,000 through that period?

Finance Director Lee Guillory: That's correct.

Mayor Lane: Is that based upon a policy change of percentage of reserve that we would have or is that on of the basis of the reduction and the debt service?

Finance Director Lee Guillory: The use of the debt service reserve would be a policy change.

Mayor Lane: Okay. So the \$600,000 is on the basis of a policy change as well as the \$30.5 million worth of debt service.

Finance Director Lee Guillory: The \$30.5 million is the actual debt service, that has nothing to do

with the policy.

Mayor Lane: I understand. But it does have to do with what extent of reserve we have?

Finance Director Lee Guillory: It drives --

Mayor Lane: The reserve requirement downward.

Finance Director Lee Guillory: That is correct.

Mayor Lane: Okay. And so if we change the policy -- and I'm just throwing a number out. If we change the policy from 10% to 9%. I'm not sure if that's in the consideration here or not, then we had a reduction in the extent of debt service. Is that what is reflected in the \$600,000? I don't know if that's -- is that confusing or whatever, but I'm just trying to determine whether the \$600,000 is a component of the change in policy, what extent of reserve we have, as well as the decline in the actual debt service that we are trying to reserve for.

Finance Director Lee Guillory: Okay. There is no formal policy on what the G.O. debt service balance should be. So this would be a new policy, if you wanted to implement something that said over the next few years we are going to draw the reserve balance down to a certain dollar amount.

Mayor Lane: I see. Okay. All right. Well, let me ask one other question then. When we were talking about the other side of the equation, those increases on the primary or the -- yeah, on the primary, if you will. The 2%, we do have an offset here as Mr. Biesemeyer is talking about on one hand of reduction of somewhere in the area of 600,000, 500, \$600,000, which roughly equates to that 2% as you calculated here too, but the other side of that is there is some justification here in view of the fact that our debt service may be on the decline on one hand and we have further need for capital improvement projects, C.I.P. funds, in order to maybe take the place of some of the -- of some of what is no longer being financed in G.O. bonds, that we could take that 2% increase and dedicate it to C.I.P.?

City Treasurer Jeff Nichols: Mr. Mayor, members of the council, we could certainly do that. That, again, would be a change in policy. One thing I would like to point out here is our bond counsel has advised us that we are supposed to keep a minimum balance within the debt service fund and that equates to right now, with \$35 million in debt, to approximately \$3 million. So if you want to look at it, the reason this was being forwarded the way it is recommended, it's because the 2% increase we were looking to offset that with the excess that we know we currently have in the debt service fund balance. That fund balance is built up over time, with we refund debt when we come to you and we tell you that we have good refinancing or refunding opportunities and we have already levied the taxes, and then those are reduced subsequently to that, then this builds up a little bit. We are just saying at this point in time, use it as a buffer if you will, to the 2% increase on the primary side.

Mayor Lane: And that's exactly what I'm saying, but on furtherance of that, I'm just -- maybe this is just a simple justification of it. For whatever reason we have a reduction in reserve requirements and/or the extent of debt service, that is going to be charged to the secondary part of our property

tax, there is some justification on a capital side to say that the 2% on the primary that we may increase it, if we dedicated it, not to just go to general fund but dedicated to capital improvement projects.

In order take care of some of the concerns we have with matching funds, on M.A.G. prop 400 funds and other issues that are facing us?

Acting City Manager Brian Biesemeyer: That's correct.

Mayor Lane: So I guess one of the things that I would like to at least have us consider is in that -- in that consideration of increasing it, that it not be a general fund increase, but that it be C.I.P. -- money that would be dedicated to C.I.P.

Acting City Manager Brian Biesemeyer: Understood, mayor. I mean, certainly that's a discussion -- we've got some more issues here I can show you.

Mayor Lane: No, no, but we are when we are talking about the forecast -- I'm sorry, Mr. Biesemeyer when we are talking about the forecast here, we are looking at what are we thinking about some what are we contemplating on the increases on any of these and so I'm just saying, hey, if we do consider this, as a body, at a point in time, that that may be a consideration of how we take care of the issue.

Acting City Manager Brian Biesemeyer: Yes, sir.

Mayor Lane: Yes, I'm sorry, Councilwoman Milhaven.

[Time: 01:18:10]

Councilwoman Milhaven: And I may be restating things to make sure I'm clear about what you said. So at the current time, on advice of bond counsel, we believe it's prudent to keep a preserve that's equal to not less than 10% of our total bond outstanding?

City Treasurer Jeff Nichols: Mr. Mayor, councilwoman, actually, it's equal to 1/12th. So it just happened to work out to 10% right now.

Councilwoman Milhaven: So that would be essentially what our policy is, we would not want to be less than 1/12th.

City Treasurer Jeff Nichols: It's not enumerated in policy right now but we could make that change to make that policy.

Councilwoman Milhaven: Okay. But that's prudent?

City Treasurer Jeff Nichols: Yes, ma'am.

Councilwoman Milhaven: Okay. And right now we are over reserved if that was the standard?

City Treasurer Jeff Nichols: Yes, ma'am.

Councilwoman Milhaven: So if we were to release that reserve and bring it down to 1/12th, what you are saying is that would reduce the amount we are charging for secondary property tax to our citizens? So it would reduce the citizens' tax bill by that amount?

City Treasurer Jeff Nichols: That's correct.

Councilwoman Milhaven: And if we took the 2% on the primary, it would increase the tax -- when you said buffer, I wasn't quite getting what you meant by buffer. If you took the 2% on the primary, the net impact to our citizens is zero?

City Treasurer Jeff Nichols: That's correct.

Councilwoman Milhaven: Thank you.

Mayor Lane: Thank you, Councilwoman. Mr. Biesemeyer, if you want to continue.

[Time: 01:19:39]

Acting City Manager Brian Biesemeyer: Yes, please. So some things to consider that are impacting on the revenue, we already talked about the auto mall. There's also the residential rental tax, which the state legislature is considering, and then the department of revenue collection process on sales tax, there's just the risk out there. I'm not sure quite how to enumerate that, but there's the risk of efficiency of their collections and what we get back.

Then going on contributions to the C.I.P., this slide is slightly different than what you have seen in the past because we haven't gone back so far, but you can see in the cloud, up on to the upper right side, that peak contributions to C.I.P. were, you know, in the 47 million range, where now we are talking about in the 2 to 3 million range of our contributions through 25% construction sales tax, plus what we have left in unreserved fund balance that are committed to the C.I.P.

Mayor Lane: Mr. Biesemeyer, if I might and Mr. Nichols maybe the question would go that direction. With regard to the new auto mall outside the city limits, it sounds like we already considered that in some of the denigration in our forecast.

Acting City Manager Brian Biesemeyer: We have. We have. I was just mentioning that again.

Mayor Lane: So that's already in there again but the residential rental tax, obviously, may be something that's coming upon us. We had some estimated figures and I think initially it was at \$6.2 million potential impact, the number I have seen coming, I think out of your office, going up to as high as 12 million over the next four to five, four years or so. The D.R. collection process too is something we have quantified and is in the current budget because we paid it this year. And so we

have a reasonable quantification of what that is, just on the basis of the distribution this year. But I presume that's already in our forecast this year as a reduction?

Acting City Manager Brian Biesemeyer: That's correct. There are risks in some of the ways that are being implemented that I don't think we can forecast well and that may go to the negative to us. And the same thing goes to the auto mall. We forecast, but, again, that's a forecast. It's -- so it is -- there is a risk involved there.

Mayor Lane: Yes, as far as that is concerned but part of it in the forecast of our revenues has already been impacted.

Acting City Manager Brian Biesemeyer: It has been impacted.

Mayor Lane: The only thing that I don't believe is in our forecast but maybe it is. Maybe I should ask that question, the 6.2 million that was -- that treasurer's office brought forward, is that maybe already in our forecast?

City Treasurer Jeff Nichols: I'm sorry, Mr. Mayor, could you repeat the question?

Mayor Lane: If I'm correct on the amounts and I may be off a bit. It's somewhere in the \$6 million range. Has any of that already been in -- and that bill has not been passed. That bill is out there. The rest of this stuff is in process or already has been passed. That bill has not been. Have we put that into the forecast anticipating of its passage? Okay.

City Treasurer Jeff Nichols: No, sir.

Mayor Lane: So it's the only one of these three that's entirely outside any forecasted numbers. Okay.

City Treasurer Jeff Nichols: Yes, sir.

Mayor Lane: Thank you. And I guess is my number of \$6 million, is that consistent with what you have? What you are showing.

City Treasurer Jeff Nichols: Total Mr. Mayor, I'm looking at \$7.4 million. I'm sorry. By 2021, \$16.6 million. By 2021, but in the next year or so -- I'm sorry, Mr. Mayor. Hold on.

Mayor Lane: Glasses help.

City Treasurer Jeff Nichols: What I'm looks at in total is the loss detail about \$7.4 million in total of the total loss to the general fund would be about \$4.5 million. A little bit over \$5 million in total if you factor the public safety 1/10th of 1% with the 1% general fund.

Mayor Lane: Is there any consideration for the loss that we would probably see in our shared tax

revenues as well because of that?

City Treasurer Jeff Nichols: No, sir.

Mayor Lane: So there may be a bit more even on that.

City Treasurer Jeff Nichols: It could be slightly higher.

Mayor Lane: Okay. Thank you. Mr. Biesemeyer.

[Time: 01:24:16]

Acting City Manager Brian Biesemeyer: Again, just looking at the 25% construction sales tax, and the allocation to the C.I.P. and what the projections are for that in the next five years. Then some key cost drivers that we are going to encounter, during the next FY '16/17, we have an extra pay period which we system will be \$6.2 million, a one-time cost that we will be facing. We have some estimates of healthcare going up about \$1.8 million. We are still in the process of that. I'm confident that will go down but that's the far side risk that we are seeing on the health care. And then we are going to present to council next week fire compensation and some changes to that for council to consider and that too would be a cost driver.

Mayor Lane: Realizing it's properly not in the same realm of millions, but what was total cost of the pension advisory board's decision to change A.S.R.S. to the P.S.R.S. for the trainees? For the police department trainees.

Acting City Manager Brian Biesemeyer: For the police department trainees, I will defer to the budget office. I think it was about \$160,000.

City Treasurer Jeff Nichols: Mr. Mayor, and council, it was approximately \$160,000 but they have not made that decision yet. They have tabled it, with our recommendation that we come to you with that issue for funding prior to them making that move if they wished to do so.

Mayor Lane: Very good. Thank you. Thank you.

Acting City Manager Brian Biesemeyer: Yes, mayor and that will be as we develop the budget in -- again, as a supplemental or a package deal that increases our baseline budget. So you will see that later on as we move forward. Not in this presentation.

Mayor Lane: Councilwoman Klapp has a question as well.

[Time: 01:26:17]

Councilwoman Klapp: This is related to the 27th pay period and it's just a question for the treasurer. When that pay period occurs and we have to pay that 27th pay, are the whole -- because we pay on a

two-week payment basis, are both of those weeks in this fiscal year? I'm trying to ask that question, do we accrue both weeks or does one week accrue to one year and one week accrue to the other year? Just depends on how it falls, I guess, is the question.

City Treasurer Jeff Nichols: Mr. Mayor, Councilwoman Klapp, they both accrue to this fiscal year.

Councilwoman Klapp: They are both in this fiscal year. Okay. Thank you.

City Treasurer Jeff Nichols: You're welcome.

Mayor Lane: Thank you, Councilwoman. Mr. Biesemeyer.

Acting City Manager Brian Biesemeyer: Okay. Proceeding on with some questions for you is: What's council's prerogative with any change to the local sales tax? So I will take these one at a time for your discussion.

Mayor Lane: Vice Mayor Smith?

Vice Mayor Smith: Thank you, Mr. Mayor. Go back to your slide, if you will of the sales tax coming in to the general fund. And it's my observation that -- where your slide indicates here, we picked up \$4 million going from the adopted budget to what we now think will be this year, 110 up to 114. We pick up another 3.6 in your estimate going to '16/17, and more to the point from this year to the far right-hand side of the sheet when you system the sales tax will be 132.4, that is a growth over what you forecast for this year of \$18.4 million. And my question is, it won't seem unfamiliar, but when this council discussed relief on the tax that we impose on the purchase of groceries for home food consumption, with we discussed it last February, the consensus of council was that we would keep this in the budget queue. They felt last year it was too early to do this, too many uncertainties, whatever. And I didn't hear you give any discussion of what -- how this is figured into the budget thinking. So maybe you are prepared to tell me something.

Acting City Manager Brian Biesemeyer: We did not figure in the change in the food tax in that, but that obviously is a question and I have, if you can get on the Elmo, we have a slide that -- let me see if I can get that adjusted there. I'm not doing well. And this is the revenue impact on a three-year phase out of the food tax.

Vice Mayor Smith: Then you said it's a question. I didn't hear you pose it as a question, until I posed it as a question, but we will take it as a question, nevertheless. When you have the first two lines the general fund and the public portion. The aggregate when they are fully phased out would be \$7.8 million, right?

Acting City Manager Brian Biesemeyer: Correct.

Vice Mayor Smith: That is considerably higher than I thought the research was indicating that the groceries were going to amount to. In fact, the category of taxation here that you have for groceries,

convenience stores, all manner of stuff that they sell, cigarettes, booze, everything else is only \$8 million. So I'm not sure why when you phase it all out, it's \$8 million worth of groceries. Maybe the city treasurer can answer that question.

Acting City Manager Brian Biesemeyer: I will defer to him.

City Treasurer Jeff Nichols: Mr. Mayor, Vice Mayor Smith, there are other categories of stores that sell food for home consumption within the other categories that you are looking at. So all of the sales tax on food is not strictly from that one category.

Vice Mayor Smith: I will accept that. I have no way of knowing that this will be different. Is there a question for us to debate here tonight, or are you just answering this to amuse me or is this legitimately something you want feedback on?

Acting City Manager Brian Biesemeyer: It's a question that's asked every year about sales tax and it was brought up last year to discuss sales tax as part of the budget process. So therefore, yes, sir, I'm asking if council wishes to change our sales tax.

Vice Mayor Smith: Well, then I will chime in and others can chime in as well. But in my judgment, as I -- as we said last year, and pretty -- and everyone who talked last year, not everybody said everything, but everyone on the council who talked last year admitted and said that this is the most regressive tax that we have in the city. Everyone acknowledged that -- that no one pays the state sales tax on food. Everyone acknowledged that more than 50% of the residents of Arizona have the good fortune of living in cities that don't impose a tax, but Scottsdale, arguably, the state's most affluent community continues to impose the most regressive tax that we can possibly imagine on the lowest and fixed income citizens of our society. I find it abhorrent and I find it irresponsible that we don't get ourselves on a glide path, I don't care whether it's three years, four years or whatever it is, but get ourselves on a glide path of eliminating this tax and if you go back to the previous slide that you had from the packet, the 1.1 sales tax increase, I would make the point again that over the scope of this planning horizon, even with flat revenues from auto sales anticipating every bad thing that you can anticipate about auto sales, the growth from the most current forecast at 114 million, to the forecast in 2021 is growth of \$18.4 million, and I would point out to anybody that is listening that this is just the growth and income from our local 1.1 local sales tax.

We also have growth in tax receipts from the state from their state sales tax we have growth expected from the state for their sharing of income revenue. We have potentially growth -- not potentially, we will have growth in the property tax, just from the natural addition of property. Lord only knows how big the budget is going to grow and we cannot bring ourselves to give relief in any manner on any sliding scale to our neediest citizens. It will certainly be my recommendation that we do so. Thank you, mayor.

[Time: 01:34:04]

Mayor Lane: Thank you, Vice Mayor. And to that point, an effort -- I mean, I think the defining how

you would propose to get, there I think is something that we probably should be discussing now as to whether or not this council is looking to do that. And one of the things we talked about a little while ago and that is the impact of a pending bill that's out there right now, that I do understand has some real force behind it, and if I -- even now if I recall the range of numbers of between 17 and \$16 million over a period of time, on the -- just the rental tax issue for the period of time that we collect that, I think that -- the advent of that, and particularly as it is right now, just at six, because that's what we are working with, and if it hasn't been taken out, part of our projections of growth involves a great deal or a significant -- not because of a significant increase in rate, but a significant increase in rental tax that will be part of our growth slide where we just talked about before, and that the Vice Mayor was talking about. In order to accomplish what the Vice Mayor is suggesting, and I certainly am an advocate of it too. How do you do it? How do you get it done. It's a question that comes up as to the taxes that we want to look at.

The first one on the list, and I'm going back to that, is question number one, and that's what prompted this in the first place and that's local sales tax change, yes or no. If we have a prospect of losing six, and if I read that, the slide off of the Elmo correctly, about 12 million in total on the tax on food consumed at home. We're talking roughly \$18 million. I think what this council will need to decide and I think the Vice Mayor with his suggestion that we are -- and it's abhorrent that we are not considering something on this, that a suggestion as to how this happens given our crisis with the C.I.P., is determining what we have to do to consider the elimination of the \$7 million or so, whatever that is, plus this \$12 million. We are essentially talking about \$12 million. What tax would we have to increase and how much in order to cover that \$12 million? I think that's the only way we can look at it. It's not coming from anywhere else that I can see.

We have some vital issues that we have to address if we take advantage of the prop 400 monies that will go away from us. These are our monies, monies we contributed to and this is a sensitive issue for me and I think for all of us, for us to lose our regional transportation sales tax that this community has paid into at a modest reallocation back to us, for us to miss it, because we don't have matching funds from our transportation funds is I had abhorrent as well.

So I think one thing that I would ask is what exactly -- and I don't know if we would do it right now, what would sales tax have to change in order to make up for that loss? If we are going to get serious about, number one -- I don't know if I want to say it's expected but certainly, it's out there, and it's imposing and it would -- it would hit us pretty hard as well as trying to do the much concern about the food tax for food that's consumed at home. If we said it was \$20 million. How much would we actually have to change our sales tax in order to accommodate that?

City Treasurer Jeff Nichols: Mr. Mayor, and members of council, first of all, I would like to remind you that while do you have the ability to take away the sales tax on food, you do not have the ability to unilaterally increase sales tax because our current rate is above 1%. So with that being said, if you increase the sales tax approximately --

Mayor Lane: Well, let me say, I wasn't suggesting that -- we do know that in the city of Scottsdale this would go to the ballot and it takes time. If we talk about how we can plan -- and frankly, I don't

know when this bill might go into effect. It's certainly something we would have to plan for if we are going to do it.

City Treasurer Jeff Nichols: I'm trying to think of how to phrase it. One half of a -- so a five basis point or .05% increase in the sales tax, you are estimating would produce \$5.4 million. That's all funds, though. That's not just the 1% and the -- the 1/10th of 1% for the public safety. So it would raise about \$5 million.

Mayor Lane: Well, okay. So then to cover -- and I know this is rough numbers. 20 is four times that. So what would be the percentage increase in layman's terms as to what would have to change in the rate? What would have to be proposed to the taxpayers to change the rate?

City Treasurer Jeff Nichols: If do you it as a percentage .0075.

Mayor Lane: .0075.

City Treasurer Jeff Nichols: Less than .1 of 1%. That's correct.

Mayor Lane: Okay. Well, I think we have got at least some quantification on that, and if, in fact, a motion is to be made, some kind of idea of how to accomplish is something that I think we are responsible for. Councilwoman Klapp.

[Time: 01:39:58]

Councilwoman Klapp: I want to throw some support to the Vice Mayor on this issue and say that I think last year when this was discussed, I supported the concept last year but there were so many uncertainties as to what would happen with revenues that we decided to punt to this year. So this year, we still have uncertainties but in my mind, the risks are a little less, because we know a little more than this time last year. It would be helpful, in my mind, because there's so many moving parts to this, that if we seriously wanted to even consider this on maybe a phased in basis, and not making a motion of this, I'm just suggesting that this might be a more in-depth topic around this, with more data and how this might look and how it might work, as was suggested, it could be phased in over three years or five years.

I do support the concept that that this is an unfair tax. Groceries that are consumed at home. I guess we can always say in hindsight, would it have been great when we had almost \$50 million, that the city would have done away with the food tax back then when they could have and should have. But now we are faced with still continuing sales tax on these groceries and many cities don't do it. And I don't believe we should be doing it in Scottsdale. So I would like to see a way for us to talk about this.

But if you are asking me if local sales taxes should change, based on our conversation about groceries, I think we should find a way to eliminate the groceries on food -- on foods -- the tax on groceries consumed at home and find a way to do that. And that will require us to take a hard look at what

that does to the entire budget but maybe it has to be phased out over four or five years. I have no idea at this point. I would like to see some suggestions come back on how it might be done.

[Time: 01:42:23]

Mayor Lane: Thank you, Councilwoman. Vice Mayor, Smith?

Vice Mayor Smith: Thank you, Mayor. And thank you for the support. I think in terms of -- we had a lot of conversation about other competing needs, like where the money is going to come from. As I was suggesting the money would come out of the growth of future revenues. I'm not talking about a cut in current services or anything like that. It's just let's plan on not spending every dime that comes in.

And second, I don't want to get confused on the sales tax on food, versus the sales tax on rentals. Even though this bill, when it was in the legislature last year, it did not pass. It is in the legislature introduced again this year and this is in my latest understanding from our own staff, it has not even been assigned to a committee yet, much less is it a threatened loss of revenue. The state would phase it in over four years. We are talking about phasing in this tax over a number of years as well.

And finally, I'm sympathetic to the issue that we don't want to let money be lost to the city, the prop 400 money, the matching money that's available for some of our capital investments. But I got to say, I would be embarrassed to say to the people of the city, that we will tax our poorest citizens, our neediest citizens with the most regressive tax that we can imagine in order to get these monies. We have got to face up to the fact that it is time to make this change.

Mayor Lane: Thank you, Vice Mayor. Councilwoman Milhaven.

Councilwoman Milhaven: If we want to weigh in on having a broader discussion. We are having a broad discussion. We have more uncertainty than last year when we discussed this. We are challenged to find out we will pay for capital projects.

You know, the conversation around what will we need the citizens to increase their tax to offset, reducing this, I am not enthusiastic about going to the citizens to ask them to increase the sales tax otherwise. And so in my opinion, I have no interest in looking at changing the sales tax for the current budget year.

[Time: 01:45:11]

Mayor Lane: Thank you, Councilwoman. And let me also say too for the record, number one, I do believe that this would be a great tax to get rid of and certainly, there are always priorities within the city that we have to consider. My only reason in bringing up how do you go about it, phasing in a sales tax is a complicated and confusing thing for our taxpayers as well as a change of forms and all type of things. Maybe I'm more impatient about it to say we need to stop talking about it and realize how serious it is, and -- and to Vice Mayor's position, which I strongly support, and that is, that somehow we control spending in order to accommodate this.

One way we have to do that is by saying, hey, what's the alternative to controlling spending and that is somehow you are going to have to make this up, if it's ever going to happen. I would like to see it happen, but I also -- you know, it's also an important point to give up \$20 million in funds for our transportation system and to improve it, money that's due to us is a tough one. We should be able to handle actually both of them. But we are have to -- we will have to make some tough decisions.

I'm certainly not sitting here advocating for a tax increase. I'm just saying how do you quantify how we do this. How do we go about doing this? How does it get done? And if that's what the alternative is, then we better find a way to set aside some of that growth in tax revenues for this obligation. But we have to be of one mind to do that. So, but thank you, Councilwoman Milhaven, I certainly appreciate your position.

I see you are back on --

Councilwoman Milhaven: Thank you for mentioning the cost. I wanted to acknowledge too, you know, the Vice Mayor is right we will see increases in revenue over time, but that's only half the equation. We will see increases if we do nothing more than we are already doing today, inflation will increase our costs anyway. We've got a policy that says employees will get 3% increases. We are given police 5% and we will talk about fire. So, I know, just looking at what we have seen already today for the coming budget year, we are seeing sales tax and property tax increases that are going to total \$9 million, but we have already been shown a slide that says we have \$8 million in additional health care expense, and I forget what the other one was, or additional expenses of \$8 million.

And so, yeah, we will have additional revenues but our costs are going to go up just with inflation. And so if we are flat, we will have to cut services to keep them flat. So there's two parts of this equation. Thank you.

Mayor Lane: Well, we do have that question online. So the question at hand local sales tax, yes or no. Councilwoman Klapp?

[Time: 01:48:10]

Councilwoman Klapp: Just a comment. There's another side in my mind, that doesn't take place immediately, but with the loss of the auto dealers to another location and we factored in those costs into the budget, but when they leave, we also should be thinking a little bit more about what might replace them. And that there would be increases in revenue as to whatever goes into the locations that are phasing out. I don't think it's all gloom and doom at this point. I think that's the way it's been painted. Gosh, things are really bad because we will lose some auto dealers.

And in many mind, those properties may be repurposed, reduced into other uses that could potentially generate tax. We don't know what that is, but it's something that could happen. So whenever we are looking at all of the dire circumstances that could be taking place over the next three, four years, we ought to be also talking with our economic development people, et cetera, about what are the

opportunities and what is -- what is potentially going to happen when those properties go empty? And because they are in prime locations.

And so I don't think it's just a matter of we are going to lose, lose, lose. And that we've got to, you know, take a look at all 69 impacts of that on our budget. We also have to be building in some things that we believe are coming along that maybe we don't know today, but could be happening in year two and year three, that could be improvements for the city, because, you know, every year, we go through these conversations about -- I don't think anything has changed about the capital improvement. We had no knowledge whether the bonds would be approved at all. It would go to the ballot but we didn't know that.

We are at the same place we were a year ago as far as monies available for capital improvements. We just got an answer from the voters as far as what they want us to do. But that doesn't mean the situation is necessarily any worse. There's the same concern about the capital improvement money. We will be impacted by the department of revenue. I agree with Vice Mayor Smith that the bill for the rental tax could very well not even get out of committee this time, and if it would, as last year when they were discussing it, if it would pass the plan was that it probably would be phased in as he mentioned over four or five years and probably wouldn't start for several years. So that would not necessarily impact our budget in year -- next year and the year after.

So yes, there are always things that will occur that will impact our budget. But there can be some things that we as a city can take a look at that perhaps can be left costly than they are today and I'm sure you are doing that within the budget. Those are considerations for how we offset the impact of trying to find a way to phase out regressive sales tax.

And, of course, I don't agree with raising the sales tax. I want to see it tweaked a little bit so that we have a little lower tax for the -- for the groceries that are the consumed at home. So that's my feeling is that I don't see it all as there are so many negatives that we can't even talk about it. I think it's necessary to talk about it now.

Mayor Lane: Thank you, Councilwoman. If I might, because I'm trying to get an answer to that question, yes or no on the increase in sales tax or the sales tax change. A reduction or an increase. Do you want to change sales tax? Just to give direction. This is really just the direction. This is not an action item.

Acting City Manager Brian Biesemeyer: And if you want me to come back, we can come back. To set the budget, we can plan -- we need the parameters.

[Time: 01:52:38]

Councilwoman Milhaven: I move that we not discuss changes to the local sales tax in this budget year. Thank you.

Councilmember Korte: Second.

Mayor Lane: Okay. Motion has been made not to discuss it -- not to -- to not give any guidance on this question at this time, essentially. The motion is on the table. Councilman Phillips.

Vice Mayor Smith: I'm sorry. Go ahead.

Councilman Phillips: Thank you, mayor. And this was before the motion, but I would be going along with that motion and the reason is because last week, we had a budget study session, and the council talked about the doom and gloom and how we didn't have any money, and I wanted to see a C.I.P. policy of putting more money into that and it was a big joke and ha, ha, there's no way to do that and then somebody made the comment where are you going to find the money to do that. Well, now today we are talking about, oh, let's take away the onerous food sales tax. Well, where are you going to find the money for that? What's the difference? So unless somebody can show us where we are going to cover that loss, I wouldn't be for it.

And just food for thought, if we put to the voters about eliminating the food sales tax. Can we eliminate the food sales tax in lieu of and then we would have to come up with another way to cover it, and let the voters decide if that's what they want to do.

City Treasurer Jeff Nichols: I'm sorry, is that a question to me?

Councilman Phillips: Is that something that we could do? Is that something we can let the voters decide.

Acting City Manager Brian Biesemeyer: I will defer to the treasurer.

City Treasurer Jeff Nichols: Mr. Mayor, Councilman Phillips, it's my understanding and the city attorney can correct me if I'm wrong that we can't pair questions on a ballot. So you can't ask the people do you want to decrease the sales tax or eliminate the sales tax on food and increase it on these other categories. That's my understanding.

City Attorney Bruce Washburn: That's correct. It's yes or no questions.

Councilman Phillips: That's a very good point. But the problem would be that you can't ask that as a ballot question to eliminate because everybody would say yes and then they would find out later but we raised it somewhere else. Maybe you would have to have two questions then. You know, we would have to figure out a way to do it that way but let the voters decide. That's what I'm saying.

Acting City Manager Brian Biesemeyer: Okay.

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

[Time: 01:55:15]

Vice Mayor Smith: Thank you, Mayor. One is a question of clarification to the city treasurer. We are -- we talked about \$20 million that was thrown out. It was my understanding, using the food tax, using the numbers that were displayed on the screen a moment ago, the food tax impact -- we are only talking about the general fund. So the food tax impact on the general fund on the 1.1 sales tax rate, it would be 7.5 merchandise or 7.8, or I forget what it was.

City Treasurer Jeff Nichols: Mr. Mayor, Vice Mayor Smith.

Vice Mayor Smith: So it would be 7.8. What is the comparable number on the general fund if the legislature did what they are talking about doing, eliminating the tax on residential real estate? I thought that was the 6.4 or the 6.8 or whatever you said.

Mayor Lane: Rental, though. Residential rental.

Vice Mayor Smith: Yes, residential rental.

City Treasurer Jeff Nichols: The trouble we are having, the way the bill is written in the legislature, it stays out of the tax. For the food sales tax --

Vice Mayor Smith: Pretend it's all phased out in one year.

City Treasurer Jeff Nichols: \$5 million for the general fund.

Vice Mayor Smith: Okay so it's five for one and seven for the other and 12 in total?

City Treasurer Jeff Nichols: Mr. Mayor, Vice Mayor Smith, closer to 13, but we're quibbling at that point in time.

Vice Mayor Smith: We don't want to quibble.

City Treasurer Jeff Nichols: No, we don't want to quibble.

Vice Mayor Smith: Many both of these happen, we are not talking about a \$20 million number. We are talking about at the 1% level, doing too right now, if we did and nobody is suggesting that, we would be talking 13.

City Treasurer Jeff Nichols: Yes, sir.

Vice Mayor Smith: I will give you the extra million. That was my only question for you as the city treasurer.

My question for the motion maker when you said do you not want to consider this in this budget, do you mean you don't want to consider it in any of the out years? You don't want to see reference to this in the budget?

Councilwoman Milhaven: As far as I'm concerned if you want to talk about next year.

Vice Mayor Smith: But the budget covers five years.

Councilwoman Milhaven: I would not like to see this year's budget show any sales in sales tax.

Vice Mayor Smith: For any year through 2021?

Councilwoman Milhaven: And if we want to do something different next year, we can do that then.

Mayor Lane: Thank you, Vice Mayor. Councilmember Korte.

[Time: 01:58:13]

Councilmember Korte: Thank you, Mayor. I would like to speak to my second. So let me try to simplify this. The reality is in the last three years, our citizens essentially stated that they are not interested in paying for infrastructure in addition -- by using additional property taxes. And as stewards of this city, we need to figure out a way to reinvest in our infrastructure, and that's everything from parks and senior centers and libraries, to roadways and public safety and all of those things that make Scottsdale Scottsdale.

That's why I'm in support of the current motion that discussion around the reduction and the phasing out of the food tax is not good timing and I would be glad to talk about it next year, but I think that we have a responsibility, since we have been told twice by our citizenry, they don't want to pay extra for any infrastructure to we need to figure out a way to point and parcel out dollars to reinvest in our -- in what makes Scottsdale Scottsdale. And that's the amenities that we so cherish in this community.

Mayor Lane: Thank you, Councilwoman. Obviously we have a motion on the table, really not to discuss this issue. I think we are doing a pretty good job, but as to whether we are going to change the local sales tax. There are a lot of things that are on the table as far as what we have to consider in developing a revenue stream, which it's for C.I.P., whether it's a set aside to try to get ourselves staged and ready to remove the sales tax on food consumed at home. And one of the recommendations that the Vice Mayor made and I frankly have been on and with them on this particular approach to it, and that is not to be spending every dollar that we have and one way to do that is to force a set aside of something to make sure that it's off the budget. That is essentially the only way that I can see, other than changing some of the revenue stream, of setting something in place that will allow us to at least some point in time in the future, be able to address this issue without impacting current level of services.

But that's not the motion on the table. The motion that's on the table is not to discuss the local sales tax change, yes or no at this point in time. So the guidance from us, if this motion were to pass is just exactly that. We have done a lot of talking about it, but at this point, we are not -- at least if the majority votes this way, we are not ready to say yes or no on this particular topic.

I favor giving you an idea because I think it's critical to move forward about the budgeting process and I think the revenue stream and what we anticipate in the forecasted revenues is critical to determining spending levels, whether they are set aside reserves or otherwise. And so I think we are just floating this out there a bit longer.

So I'm not in favor of the motion and I -- I would, frankly, like to give an alternative motion in that we make a decision whether or not we want to suggest a local sales tax change at this point in time.

Well, if I wanted to add something to it, I would say I want to look at the food tax on how we can prepare ourselves to ultimately remove it without increasing the sales tax increase.

Councilwoman Klapp: I would second that motion.

Mayor Lane: The motion has been made and seconded. Is that understood? That's an alternative motion.

Councilwoman Milhaven: I made the motion and the answer is no and he made the motion and the answer is yes?

Mayor Lane: Essentially that's right. But there's an additional caveat, I think we need to take a look at our budgeting process, given the forecasts that we currently have as to how do we get ready? How do we prepare ourselves to move away from that tax, the tax on food consumed in the home. So that's the additional item and maybe that's -- maybe not even legitimate to answer that question, but I would like to see that. In any case, I think that's what was seconded. So alternative motion is that.

And Vice Mayor Smith, would you like to speak to the alternative motion?

[Time: 02:03:36]

Vice Mayor Smith: I think there's room for one more alternative motion. And I don't really mean this all tongue and cheek. I'm really quite serious about it. I'm hearing people say that we have a desperate need to fund the capital in the city and I certainly agree with that.

So I will make a motion that I will take the line that we call grocery taxation, whatever you compute it to be, 6.7, and dedicate that number to the C.I.P. And then we'll take our grocery tax collections and put them into funding for the C.I.P. until such time as we find other monies for the C.I.P., but at least the citizens will feel like they bought something with their grocery tax.

Mayor Lane: If I might, the answer to question number one would be no, but to take that line item that you are referring to, the 6.7 million and move it into C.I.P.?

Vice Mayor Smith: That's right. I mean, it's not necessarily that line item. I'm just saying the tax

that's collected on groceries for food consumed at home will henceforth be put into C.I.P.

Mayor Lane: Okay. It's a motion.

Councilwoman Littlefield: I have a question.

Mayor Lane: Yes, Councilwoman.

Councilwoman Littlefield: Would that be in addition to the monies, 25% of the transportation tax that we already put in?

Mayor Lane: Yes.

Councilwoman Littlefield: Thank you.

Councilman Phillips: Okay. So I'm taking this as an amended motion to the amended motion. And it's okay with the city attorney that this is part of the discussion?

City Attorney Bruce Washburn: If you are asking do I --

Mayor Lane: We don't have a second.

City Attorney Bruce Washburn: Are you asking do I think it's within the agendized language, yes, I do. I think it constitutes a local sales tax. Can there be three motions at the same time, three originals and two alternates. A total of three and then we're done.

Councilman Phillips: I wasn't going to. I think someone already seconded it. I would have seconded it.

Mayor Lane: No there, was no second.

Councilman Phillips: I will second that.

Mayor Lane: And I presume that was speaking towards that second. Councilwoman Milhaven.

[Time: 02:06:14]

Councilwoman Milhaven: If, in fact, we approve this motion, we need to find \$7 million to cut out of the general fund. So be thinking about what services or staff you think you can cut out of the budget.

Mayor Lane: Yes, very good point. Okay. So we have an alternative motion to the alternative motion and that was what we will vote on first, Vice Mayor would you like to speak to it again?

Vice Mayor Smith: Well, only to say I'm willing to change the motion to the phased approach that we

were otherwise looking for sales tax, in other words, you know, do it over three years.

Mayor Lane: Well, then it's really not that far removed from the first alternative motion and that was to have a set aside. We haven't determined what the set aside might be.

Vice Mayor Smith: And maybe the set aside is nothing more than clarify that it be redirected to the C.I.P. It's a question whether the motioner or the seconder will do a phased in approach.

Mayor Lane: Other than the idea of phased in, that's a clarification on the first alternative motion.
Mr. Nichols.

City Treasurer Jeff Nichols: It is me this time, Mr. Mayor. I just want to get clarification, because with we are looking at this five-year plan and the city manager's budget, I would assume that you would want all years of five-year plan to have a positive balance in the end, revenues less expenses. In the direction you are giving to staff is to phase this out as a contribution to C.I.P., and remain positive for the five years going out, um, that may be easier for us to figure out where to do it within the five-year plan.

Vice Mayor Smith: My direction is how much money is to groceries. Whatever it is, one-third of that number this coming budget year would come to the C.I.P. Next year, two-thirds. Following year, the full amount and the same for years thereafter. Whether that results in a positive or a negative bottom line for the budget depends on how you balance all the other numbers in there and the growth in the other categories. That's your challenge.

City Treasurer Jeff Nichols: Mr. Mayor, Vice Mayor Smith, that's much clearer in my mind.

[Time: 02:08:55]

Mayor Lane: Vice Mayor, I will just say -- I can withdraw my motion, because -- and if second is okay with it too, because I do believe what you are -- you are just further describing how that set aside, where it would go and maybe not even how many years, but I will say this, rather than trying to phase in a tax increase, this has a much easier path for us to adjust to it and we can set the timetable. We are not changing the tax returns or the tax rates every other year. Not going through the process of, frankly, you know, going through the entire model city tax code structure in getting that accomplished.

So I'm -- I'm in agreement of a process of not changing the sales tax at this point in time, but looking for a way to phase in internally, as the Vice Mayor indicates. So I will withdraw my alternative motion.

Councilwoman Klapp: And I will withdraw my second because even though I said we could have a conversation about this at length later, I think we have gotten to the crux of what we need to do. So I'm fine with it. I will support alternative motion. The second alternative.

Mayor Lane: Yeah. Okay. Are you -- did you pop up a new or did we just not get rid of you the

last time?

City Treasurer Jeff Nichols: It is anew, sir. Mr. Mayor, Vice Mayor Smith, what I would like to know is this just applicable to the general fund portion of the sales tax or would you like it to apply to the preservation sales tax and the transportation sales tax as well?

[Time: 02:10:30]

Vice Mayor Smith: Good question, Mr. Nichols. As far as I'm concerned, I guess I would sweep -- maybe that's the right word, I would sweep the tax that otherwise goes to the other two categories as well. The -- obviously the transportation fund needs capital but, you know, if we are generating a capital pool, it can go for their benefit, as well as any other capital. And the preserve people, they are not currently forecasting a need for all of their money anyway.

And let me say, you know, when I introduced this motion, I said it was not entirely tongue and cheek. I'm almost embarrassed to suggest that we will use the revenues from our neediest citizens on the most regressive tax we can think of to fund our capital program. But if there's enthusiasm for that, then -- then I would proceed and obviously vote for the motion I made, but I'm certainly hopeful that will lead to a determination at some early date to find some alternative way of funding the C.I.P. and take the burden off of the food tax. The short answer, I would sweep all the funds.

Mayor Lane: Thank you, Vice Mayor. Councilwoman Korte.

Councilmember Korte: To the sweep of the transportation and the preservation fund, Mr. Washburn, those were voter approved taxes. Can they be swept? Swept? Sweeped? Swept. Goodness gracious!

City Attorney Bruce Washburn: Perhaps Mr. Nichols would like to address that question.

City Treasurer Jeff Nichols: When Vice Mayor Smith refers to sweep, they are not going outside the fund from an accounting standpoint, the transportation sales tax will be maintained within the transportation fund. The preservation sales tax is within the preservation fund. So they are not going somewhere else. They will still go to the same funds they just won't be available for anything other than capital. So if you think about it from a preservation standpoint, they would still be available to purchase land. They would still be available to make improvements within the Preserve. Same thing with the transportation funds.

Councilmember Korte: So that maintains the voter approved taxation and the intent of those taxes?

City Treasurer Jeff Nichols: And with that I will throw it back to the city attorney.

City Attorney Bruce Washburn: In order to be absolutely sure the answer to that question, I would have to go back and look at the ballot language, but in general, I believe that that's correct. The preserve tax is authorized for purchasing land and building improvements and so those are clearly

capital expenditures. I would have no look at the transportation one to be sure about that. But I suspect that the answer is the same for that too, that we could do that.

Councilmember Korte: Thanks.

Mayor Lane: We have the one alternative motion as we have the similarities. Would the motion maker please restate the motion?

Vice Mayor Smith: You've got to be kidding!

Councilwoman Klapp: If you don't know what it is --

Mayor Lane: That's right.

Vice Mayor Smith: Well, the motion is to reduce the general fund receipts or accomplish a transfer out of general fund into C.I.P. in each of the budget years equal to the forecast receipts of sales tax on groceries purchased for the consumption at home. Whatever you forecast that number to be, I suggest that be transferred out to C.I.P.

Mayor Lane: Keep it simple.

Vice Mayor Smith: Yeah. I think I will withdraw, if I may, and all of this is subject to the second agreeing, but I may withdraw the idea of sweeping the monies from transportation or preserve, because I think that's unduly complicating matters. If you leave them in the fund anyway, they are not accomplishing anything. So let's keep it simple. General fund, sales tax receipts on groceries purchased for the purpose of consumption at home, whatever you forecast that amount to be in the budget years, now show it as a transfer out to C.I.P.

Councilman Phillips: Wow, and I hate to say that but --

Mayor Lane: Was that sufficient?

Councilmember Korte: I am clear. Thank you.

Mayor Lane: Yes, go ahead Councilman.

[Time: 02:15:58]

Councilman Phillips: In speaking on the second, I like the sweep because especially in the transportation, it earmarks that money only for capital projects. So I don't see anything wrong with that.

City Treasurer Jeff Nichols: Mr. Mayor.

City Clerk Carolyn Jagger: Just a clarification on the motion that it will be a phased approach over three years.

Vice Mayor Smith: That's right and phased over three years. Thank you very much, city clerk.

Mayor Lane: And we are answering question one in that there is no local sales tax change that we are suggesting now. Okay.

Vice Mayor Smith: And I think to your question over in transportation, the point that they collect in sales tax on all categories is split 50/50, capital and operating. So even if we leave it there, it -- I think it will be okay. It will be used on capital, in other words.

Councilman Phillips: So we are splitting hairs.

Mayor Lane: So it will be used just as defined. That's the simplest way to put it.

And the set aside, the intent is to adjust the budgeting so that we are at a point in time ready to assume a sales tax change, a decrease for those.

Councilman Phillips: All right, I will keep the second.

Councilwoman Milhaven: I would like to say that this is an academic conversation, what services and expenses will need to be cut in order to affect this transfer. Thank you. So I have very serious concerns about what the impact to the city services will be if we agree to this, thank you.

Mayor Lane: Thank you, councilwoman. That's a good point to be made. I think we are ready to vote on this motion. All those in favor aye, those opposed with a nay.

Councilwoman Littlefield: Aye.

Mayor Lane: I'm sorry. I got that. So it passes 5-2 with Councilwoman Milhaven opposing and Councilwoman Korte opposing. All right. That was just number one so --

[Time: 02:18:27]

Acting City Manager Brian Biesemeyer: Brian, you need to go back to the presentation. So the next one is property tax, for current '15/16 or for previous fiscal years and in that also is -- and I apologize for not being here is also on the debt -- on the secondary taxes, is there any desire to change the secondary to -- to either or, but to change the secondary on the debt side to reduce our debt reserve?

Mayor Lane: Okay. So we are talking about 2a on the property tax, 2% allowance for 2016/17 --

Acting City Manager Brian Biesemeyer: Correct.

Mayor Lane: And what we might do with years that we can draw upon if we cared to, one through five, the last five fiscal years. Any conversation from council or any desire to consider changes in this area? Vice Mayor Smith.

Vice Mayor Smith: I have a question for the city treasurer or the director of finance. In any particular year when we look at this increase, for example, half a million dollars this year, the question is: Can you tell me how much of this increase would be imposed on residential homeowners and how much would be imposed on businesses and frankly, any other category you can think of that's relevant?

Finance Director Lee Guillory: Mayor Lane and Vice Mayor Smith, and the councilmembers, the current allocation is about 60% residential and about 40% other, which would include the commercial class of the total assessed valuation. The assessed values are changing ever so slightly every year as the commercial class is seven openings, a decrease in their assessment ratio. So the switch will continue to trend more towards residential and even less to the commercial and vacant land categories.

Vice Mayor Smith: The second question, if two-thirds of this is residential, the second question is perhaps more difficult, but can you estimate how much of the residential portion is I will call it owner occupied as opposed to -- or more specifically, citizen occupied as opposed to snowbirds and rental units and whatnot?

Finance Director Lee Guillory: I didn't bring those numbers with me, excuse me, other than to say that there is more of a trend towards the nonresidential snowbird type ownership, versus the residential. So there is more of a trend towards that class in total residential picking up more and more.

Vice Mayor Smith: Would it be reasonable to say then that perhaps half of this amount that we talk about each year, the half million dollars only half of it is actually going to hit a citizen homeowner?

Finance Director Lee Guillory: That's the assumption that could be made. Again, I didn't bring any backup for that.

Vice Mayor Smith: Can you tell me what the impact of this is in terms of its individual impact on an average homeowner in the city on an annual basis?

Finance Director Lee Guillory: I did bring some of those numbers. Are you talking about half million dollars?

Vice Mayor Smith: A half million dollars change, except a large share of that is paid by business. So I'm just curious as to the part that's paid by citizen homeowners, what do you think is the annual benefit if we pass on, or detriment if we impose it?

Finance Director Lee Guillory: Every increase of a half a million dollars in the total levy would impact

the average homeowner of a \$370,000 home by about \$6.80 a year. That would be the increase if you increased the levy a half a million dollars.

Vice Mayor Smith: Okay. We are giving guidance here. The guidance on the 2016/17 is that we include the 2% allowance. And I make the comments on the food and rental properties or whatever, I don't want our city to become a city that's known for taxing its poorest residents while giving business and large property owners a break. The number that you cited is a pretty de minimis number. And the least wealthy and the least well off citizens probably do live in the average priced home that you are talking about. So for them, it's only a \$5 impact or \$4 or \$3 or whatever. If we impose this on businesses and snowbirds and wealthy property owners and to give relief here and be resistant to giving relief on what we know is a regressive tax on food, it doesn't make sense to me.

So my direction is that we impose the half a million and I will go ahead and answer the second question. I would go back, now that we think we are on the far side of the recession, I would go back and recoup the inflationary increases that we took a pass on these past five years. Giving businesses and wealthy snowbirds a break.

The only thing I don't have guidance on is whether you do all of this and try to hold the taxes flat. By using up reserve balances, I pose if you feel that they are genuinely not needed, then maybe there's a question of why we don't bring them all down to the minimum number that we need, period, rather than chewing them up a little bit at a time. Those are my thoughts. Thank you, Mayor.

Mayor Lane: If I heard that, it may or may not be a motion but in other words, yes and yes on the property tax, the 2% allowance. And -- well, I'm just trying to clarify it. There was a lot said but nevertheless, yes and yes.

Vice Mayor Smith: I said the minimum amount I could.

Councilwoman Milhaven: Wow!

Mayor Lane: Okay.

Vice Mayor Smith: Yes.

Mayor Lane: Forgive me, if we're not impressed.

[Time: 02:26:45]

Vice Mayor Smith: I will make it a motion, yes, yes, I would impose the 2% and include the \$7 million and whether he wants to do that by reducing the debt reserve fund by a like amount.

Councilmember Korte: I will second it.

Mayor Lane: All right. Would the second like to speak toward it?

Councilmember Korte: No.

Mayor Lane: I knew would you trick me like that. Councilman Phillips you are on the screen.

Councilman Phillips: Thank you, Mayor. Well, we have to remember too that it's not just the wealthy that own homes. The poor own homes too, and, in fact, during our downturn, and before we had the bond election and I looked this up. I don't have it with me, is that over half of those that lost their homes, it was due to delinquent tax liens. So the people couldn't pay their taxes. Now, our county tax has gone way up and staff has mentioned, the Haas Hopkins would gave us that letter said we passed that proposition and now the wealthy property owners aren't paying their taxes and it will be put on homeowners instead. So our property taxes will go up. Our property taxes will go up, it will go up plenty. So I have no desire to be part of that scheme and be another government entity raising our taxes. So mine would be no and no on this.

Mayor Lane: Thank you, Councilman. Any other comments? Councilwoman Littlefield?

Councilwoman Littlefield: Yes, I agree with Councilman Phillips, and I would also like to add with the increases in Maricopa County coming in on the property taxes with the new hospital and a couple of other things that they voted on last time, our taxes are already going to be going up pretty high on property taxes. So I will not be supporting this motion. Thank you.

[Time: 02:27:57]

Mayor Lane: Thank you, Councilwoman Littlefield. Councilwoman Korte.

Councilmember Korte: Well, I will go back to the reality check that our citizens, again, have turned down two bond initiatives to fund capital improvement projects. And there have been some in this room and elsewhere that opposed those bond packages saying that we can find those monies many where else and clearly looking at our projected income and we haven't looked at expenses but we know that we have got some big expenses coming between the additional week of \$6 million and additional costs for our health insurance, that finding money for the C.I. P. just will not come out of the sky and we have to make some hard decisions to fund our C.I.P. needs.

Mayor Lane: Thank you, Councilmember. Councilman Phillips?

Councilman Phillips: Thank you, mayor. Well, you know, it's also been said, you know, that the voters have said they don't want to improve their infrastructure. What the voters really said was they don't want to raise their property tax to do so. So now what I'm hearing is, well, if they didn't want to raise their property tax, we will do it for them. I don't think that's right at all.

You know, our property taxes are already going up for many other sources and there's other ways to raise money and that is through revenue, through tourism, through redevelopment, through more

business coming in. You know there's other ways to do it besides raising taxes. So I'm not going to be, again, going for this.

Mayor Lane: Thank you, Councilman. I'm just going to say that I think this is a substantial increase when we talk about incorporating the last five years, it's another 10% is essentially what we are talking about on top of this. This is strong, and the other side of this is -- and even though Councilwoman Milhaven made a very good point about the fact that we just set aside several million dollars with regard to the food tax, we are trying to create a set aside so we could eventually eliminate the food tax on food consumed at home. So we have got some adjustments to make.

Earlier in that past conversation, on item 1, and that was the fact that we were going to be looking at how we were going to restrict or somehow stop our spending, or slow our spending in view of our growth. I see this as an attempt now no go ahead and reverse the taxing situation and add this all back into it. Even though I at one point in time made at least a suggestion on the C.I.P. that we end up with a potential of dedicating a portion of this. We have just dedicated several million dollars to the C.I.P., with the last action we have taken, or at least, the last guidance we have given.

I should probably start referring to as actions we have taken. Because that's not set in stone. So I won't be supporting this because I'm -- I'm afraid this is excessive and it will impact people. And where we are going, I mean, I suppose this may be some place in between, but this is just too much to bite off in one fell swoop. Vice Mayor Smith.

[Time: 02:31:40]

Vice Mayor Smith: I'm not sure I can make an alternative to my own motion, but --

Mayor Lane: No, you can't. You can change your motion.

Vice Mayor Smith: That's what I will do because I think people are expressing concern about C.I.P. They have all along. While I will still make the motion that we capture a half a million dollars for this year, and capture \$2.7 million from the previous years that we have taken a pass, I will also couple that with a motion that such captured monies be also dedicated to C.I.P.

And my reason for doing that is -- well, twofold, number one to see if I can get a little more support up here but number two, what we did in the previous motion when we talked about sales tax, we said we were going to tax our poorest citizens for food and continue doing so and put those proceeds into the capital program and by the way, business does not buy food. So it is entirely a tax on our citizens and for the most part visitors don't buy food and take it back to their motel and cook it. It's totally a tax on citizens. This tax is a tax on business. It is a tax on snowbirds. And, yes, to a very small extent three, four, \$5 a year it's a tax on citizens.

So I want -- if we are going to try to fine monies to put into the capital program, I say we sweep this money and that way business will be making a very, very small but at least some dollar contribution to the capital program. That's my amend motion. We reinstitute these two taxes and sweep the

dollar amount from the general fund into C.I.P.

Mayor Lane: Does the second accept that? Okay. So the second has accepted that modification to the original motion.

Councilmember Korte: Thank you, Mayor. Jeff or Lee, how what is the impact to -- so what is the impact to the average homeowner given fiscal year, plus the previous five years? Can you -- I mean, I think I calculated it but I wanted to make sure before I blurt anything else out besides swept.

Finance Director Lee Guillory: Mayor Lane and Councilwoman Korte, it's about 30 some odd dollars a year or, again, about \$370,000 home.

Councilmember Korte: That's what I calculated it to be, and so that really calculates out to less than \$3 a month.

Finance Director Lee Guillory: That would be correct as well.

Councilmember Korte: On an average \$370,000 home?

Finance Director Lee Guillory: Yes.

Councilmember Korte: Thank you.

Mayor Lane: Thank you, Councilwoman. You know, I'm certainly inclined -- I certainly prefer this approach but one of the things in the guidance we are giving here, and I know the motion is on the table and has been seconded in its form and I'm not even offering an alternative at this point in time. I'm concerned about what extent do we need to push money into the C.I.P. Now I'm concerned as to whether or not what we potentially have pulled out of the general fund, what -- you know, giving staff some ability to figure out where this may need to be used, I know we are coming back with a further review of our C.I.P. allocations and our considerations for that area, and I know that staff has been asked to come back with a list of priorities and how we might attend to them, inclusive of matching funds to make sure that we have that.

I would only say thinking along this line, and with the motion that's on the table, I think it's fine, but I would like to certainly try to bring it within the realm of certain uses that may be necessary by the staff in order to make up either the shortfall because we are pulling this money aside, to put in the C.I.P. and that's coming out of the general fund and now we dedicate all of this to the C.I.P., is that where we need it all right now, I mean, as we are limited resources.

So the only qualifier I would make to the motion that's on the table is subject to need as to, you know, whether that's the direction it needs to go. And if it's not needed to go that direction, we reassess whether or not we have a tax increase. But as it is, I'm not in favor of this extent of increase and understanding the minimal amount but thrown in with everything else that goes on to the tax bill for a homeowner will become just another element that makes it a little tougher for folks on all levels.

Vice Mayor Smith: Mayor, I would just clarify that I don't think -- well, maybe staff should clarify. I don't think these numbers are in the budget right now anyway. The only question was should we put them in. We haven't put this increase of half a million dollars for five years.

Mayor Lane: That's not the point I was making we just in the last motion associated with one, we took some -- and I know we fell back to 1% for the general fund. We took some \$6 million out of the general fund to put it in the C.I.P. on a set aside basis. Councilwoman Milhaven made an accurate point, and that is we haven't yet really assessed what the impact of that is and how we will handle it.

I would like to give staff a little bit more in the way of guidance, some of things we might consider doing and this would be one of them. We also did on number one, but now how is that going to be brought together some what are we going cut for the \$6 million that we have just pulled out of general fund or we have given guidance to do on the number one question and now with this one, what are we talking about, somewhere in the area of \$3.2 million? Is that the -- 2.7, plus the -- Yeah. Yeah.

Vice Mayor Smith: They always have the choice of -- I mean, I was leaving it up to them whether we would just reduce the reserves by a like amount so it would have no impact.

Mayor Lane: Well, in its present form, I have got some difficulty with it. I guess I'm just trying to say I would like to see some latitude because there are some things that have to be muscled through. The concern coming to the table after the C.I.P. meeting was exactly how were we going to meet some definitive obligations we had and definitive projects that we had on this. I would love to defer, at least some of this and maybe this goes counter to what I was suggesting earlier, until we get through the C.I.P. -- or next meeting on the C. I.P., which I understand has been agendized.

Acting City Manager Brian Biesemeyer: Yes, is it March 1st? Yes, March 1st we will back to talk about the C.I.P.

Mayor Lane: I know the Vice Mayor is making it more attractive. And I appreciate that, bust I think we feed to have a little bit of latitude. So I'm not with this particular motion. Councilwoman Milhaven.

[Time: 02:39:28]

Councilwoman Milhaven: I would like to make the motion it defer this conversation until after we have looked at the expenses and capital plan.

Mayor Lane: Alternative motion? Yeah, I will second that.

Councilwoman Littlefield: Second that.

Mayor Lane: Oh, okay. All right. I will give you -- certainly, you need to make any comment you would like anyway, Councilwoman Littlefield, do you have a comment on the second or otherwise?

Councilwoman Littlefield: Yeah, I think this is an awful lot all at once, dumping it in and I would like to get a better overall view of where we stand and what we need and where we need to go from here and I don't think that I want to just say we are going to do 6 years worth of 2% allowance property tax increases all at once. I think that's a little bit much. I'm willing to look at it, but I would like to hear some of these other conversations about the C.I.P. and things like that.

Mayor Lane: Okay. Very good. I think that's entirely consistent with the second, of the intent of the second. We do have an alternative motion on the table, any further -- I'm sorry, Councilwoman Korte.

Councilmember Korte: Call for the question on the alternative motion.

Mayor Lane: That's where we were going.

Councilmember Korte: I'm just making sure.

Mayor Lane: Okay. So all of those in favor please indicate by aye, those opposed with a nay. Aye.

Councilwoman Littlefield: Aye.

Mayor Lane: Okay the motion passes 5-2 with Vice Mayor Smith and Councilmember Phillips opposing. That got us through two.

[Time: 02:41:03]

Acting City Manager Brian Biesemeyer: So Brian we need to go back. There we go.

Mayor Lane: Property tax, tort recovery, is something that we have done as a matter of standard as far as that is concerned and it's in the secondary.

Acting City Manager Brian Biesemeyer: It's in the primary.

Mayor Lane: No, it's 5-2. Can we clear this screen? So any comments from the council on property tax tort recovery yes or no?

Councilwoman Milhaven: I'm trying to weigh in.

Mayor Lane: Oh, all right. There you go.

Councilwoman Milhaven: Mayor, I would like to make a motion that we include the property tax tort recovery.

Mayor Lane: I will second that. Any further comment on that? If not, I think we are then -- think

ready now ready to vote. All those in favor please indicate by aye. Those opposed with a nay.

Councilwoman Littlefield: Aye.

Mayor Lane: The motion passes 6-1 with Councilman Phillips opposing. All right. So --

Acting City Manager Brian Biesemeyer: We've got two more questions.

Mayor Lane: Salary adjustments. Yes.

[Time: 02:42:15]

Councilwoman Milhaven: I would like to make a motion to include 3% pay for performance with the police 5% step program.

Councilmember Korte: Second.

Mayor Lane: Would the second like to speak toward it in.

Councilmember Korte: No.

Mayor Lane: Just for clarification purposes are we talking about eight or are we talking about five.

Councilwoman Milhaven: No, it's 3% for all employees except for police and 5% step for police.

Mayor Lane: Okay.

Councilwoman Milhaven: And then whatever else we decide about fire next week.

Mayor Lane: So the motion has been made and seconded. Vice Mayor Smith?

Vice Mayor Smith: Thank you, mayor. I think just so we can look like we know what we are voting on, would somebody elaborate as to what the cost of this might be?

Acting City Manager Brian Biesemeyer: Yes, I believe that is on the general fund that is 3.1 million and I'm -- I will defer to our budget director on that.

Budget Director Judy Doyle: Mayor and members of the council, the up 3% pay for performance program for all employees except the police officers is about \$3.1 million in the general fund and the 5% step program is \$1.4 million in the general fund.

Acting City Manager Brian Biesemeyer: So roughly 4.4 million general fund overall.

Vice Mayor Smith: So to continue my line of questioning, the 5% step program is almost half of the

total pay that we are getting for the entire city?

Acting City Manager Brian Biesemeyer: Roughly a third.

Vice Mayor Smith: 1.4 out of 3.1.

Budget Director Judy Doyle: Mayor and members of the council, in the general fund, yes that is correct. There is an additional, about \$1.1 million in the 3% in our other funds.

Vice Mayor Smith: Right. We were just talking about the general fund here. Has there been any determination? I know the 5% step program you are describing it as though it was a given. It was supposed to be performance based. Has the police chief or the city manager made any assumption about whether all of this will be awarded? I mean, does everybody think they are going to perform in a superior way and earn the whole 5% or is there some judgment here one way or the other?

Acting City Manager Brian Biesemeyer: Mayor Lane and Vice Mayor Smith. No, it will still be judged on meeting standards. It's a meet. It's not quite pay for performance. It's 5% with the meets. So they meet standards. That's what the 5% is. It's not all. It's not a given and so they will not all get that. They have to meet performance standards to make that.

Vice Mayor Smith: But they will -- the police who are getting the 5% will also get the 3%.

Acting City Manager Brian Biesemeyer: No, sir, they will not.

Vice Mayor Smith: They don't get any performance-based increase?

Acting City Manager Brian Biesemeyer: No, the 5% is the performance based part. It's not a separate three and a two. It's five as a total. And so they have to meet performance standards to get the 5.

Vice Mayor Smith: Okay. So it's 3% and maybe I'm asking Ms. Doyle this. 3% for everybody but these people and up to 5% for them? Is that correct?

Budget Director Judy Doyle: Mayor and members of the council, yes that is correct. I will indicate that that 3% is up to 3%. So if there's an employee near the max, they would not be eligible for the full increase.

Vice Mayor Smith: And that was true of the 5% as well, I think, somebody who is at the top of the scale, there's no award of that? Okay. Thank you.

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

Councilman Phillips: Thank you, Mayor. And I guess we have to vote on this all at once and it can't be two separate votes as far as direction goes pay for performance and the step for police?

Acting City Manager Brian Biesemeyer: Mayor Lane, Councilman Phillips, could you pull them apart. We're just looking for your guidance on this.

Councilman Phillips: I would be for the 5% step program and not the 3% pay performance. So I'm looking at two different things here.

Acting City Manager Brian Biesemeyer: I would say from a staff perspective, you are creating two different dimensions of staff inside the city. It's a difficult one to manage. If you reward one set and not another set, you already have a differential, a 3 and a 5. So I can tell you from the staff perspective and the pure management standpoint that gives me two classes of employees and it's difficult.

Councilman Phillips: Employees that work under you and under the treasurer and all of that, as compared to police?

Acting City Manager Brian Biesemeyer: Yes, the water department, the public works department, the other service departments out there, yes, would be -- so what I'm saying just -- giving you an input from the staff side on that, is that it's difficult because you now have created this distinguishing between two separate classes of employees within the city. So I'm just telling you from the staff perspective, it's difficult to manage. Your decision, you make it. We go forward.

Councilman Phillips: I think Mr. Nichols has a comment.

City Treasurer Jeff Nichols: Mr. Mayor, Councilman Phillips, members of council, I want to make it perfectly clear that not everyone in the P.D. falls in that 5% performance program. Those are only sworn police officers such as the gentlemen standing up here. Probably one behind me too. So I better watch my back. But bottom line is there's a lot of people, the detectives, lieutenants, commanders, the management staff, targets within the police department that fall under the 3% plan. So you would be cutting them out as well if that's your direction.

Councilman Phillips: Yeah, I'm sorry. But I think the sworn police that are out there protecting us should be making more and I don't think everybody else should get a raise just so they can get one.

City Treasurer Jeff Nichols: I just wanted to point it out. I didn't want an unintended consequence.

Councilman Phillips: I appreciate what you are saying.

Mayor Lane: I think we have already determined that there is a separate class of employees by this distinction as it is. So that's -- that's already built into the factor, but there is something that I think we discussed at the time and I don't know exactly how this gets weighed out because this is one of those sort of subjective areas of consideration and that was -- they were all -- all of this is subject to availability of funds. And, you know, that's why I that the question asking the quantification, with all the direction we have given on some of this and frankly we have a net reduction in general funds that

are available by virtue of the set aside we talked about or at least they were considering. I don't know where they might be but at the same time, it gets down to the forecast for the revenues and any other increases that might be coming through. We haven't even broached the subject.

But as far as the question, this is more or less what we have committed to, but I still believe it's subject to availability of funds. Is that not correct?

Acting City Manager Brian Biesemeyer: Mayor, that's correct. It's subject to the availability of funds. But I would -- I would say -- I guess I would ask for the challenge from the staff perspective to -- you have given me direction. Let me put the budget together and make it work. Within that, is it still the intent to do salary adjustments and we will come back to you with that as part of the budget.

Mayor Lane: Understanding this is more or less the policy that we put in place but it's still subject to making it work in the budget. So as far as that goes, I think salary adjustments, you know, we are committed to it, and to just turn it off on one side or the other, I wouldn't be in favor of that. We are committed to it with that caveat.

Acting City Manager Brian Biesemeyer: Understood.

[Time: 02:50:58]

Mayor Lane: Councilwoman Korte.

Councilmember Korte: Thank you, mayor and I wanted to remind all that we are committed to this with the caveat. We went through several years of conversation and trying to provide a program for our staff that -- that valued our staff, that -- that -- I'm sorry. I think I'm getting tired. That valued our staff, that gave them some type of confidence that -- that they were going to be compensated fairly and -- and yes, given with -- as mater said, given that we have the funds. So with that, I'm going to call for the question.

Councilwoman Milhaven: Second.

Mayor Lane: Well, actually, it's just really the question. Salary adjustments. So what's the -- the motion is to -- the salary adjustments yes.

Councilmember Korte: Yes.

Mayor Lane: The motion has been made and seconded. Seeing to further comment. I think we are --

Vice Mayor Smith: Can somebody -- are we voting on the 3 and 5%.

Mayor Lane: Subject to availability of funds. The salary adjustments that have been put into place. You know, that were considered as more or less policy last year. That's the understanding and I have

to say that I believe it has to be. But in any case, if that's the -- if it's not subject to availability.

Councilwoman Milhaven: I think I would like to speak to that, if I may. Our employees are assets that need to be invested in, and if we are going to have people who work for us, we need to pay them a competitive wage. We need to look at the marketplace and make sure that we are consistent with other cities. I understand that if we have the money, when we were in financial crisis and seeing our revenues reduced and we had no choice but to say we need to reduce staff and hold salaries steady and cut the salaries back. We have increasing revenues. For us to say that we are not going to pay increases with increasing revenues, what we are saying is we don't value our employees and the level of service they provide is not important to us.

I think there are certain things that are -- that need to be fundamental and foundational and taking care of our employees has to be the first thing we do. Because without our employees, without taking care of our employees, there's no one to take care of our citizens.

And so if we find ourselves with a deficit in the budget, then I think we begin to look at what services we are going to cut. Maybe we change the number of employees and we not fill positions as they become open but I'm absolutely -- we need to pay our employees a competitive wage and invest in them. My motion is to vote yes on the question three.

Mayor Lane: And you seconded that motion?

Councilmember Korte: And I call the question.

[Time: 02:54:19]

Mayor Lane: Well, I will have to say, because it has changed, the motion has changed, at least in my estimation. One of the things that was discussed when we decided for the step program was that the first people that would be -- the raises that would be cut would be the staff, the pay for performance and that was an accepted deal and we just heard Councilman Phillips say that he wanted to eliminate that raise. I'm not saying I'm not supporting that either, but it was one of the contingencies, one of the considerations when this was put forward, that first and foremost, the sworn officers. The likelihood of the 5% step program is the only way that it would be impacted is if -- it impacted them.

But as far as the city operations are concerned, I think we have to be realistic that we have to consider it and frankly in a downturn. This is not a contractual issue. This is a policy that we are trying to uphold.

So on that basis, the question is out there. Any further comment on it?

Vice Mayor Smith: I guess I'm not -- if we are about to vote, what are we voting on?

Mayor Lane: Number three, for the programmed 3% payment and the 5% police step program. Not subject to availability.

Councilwoman Milhaven: I'm not advocating that the budget be out of whack. I'm saying that we give them the increases, and if the budget is short, we have to find it someplace else.

Acting City Manager Brian Biesemeyer: Mayor and council, that would be the intent here. You give me this, and we work with the budget and we come back to you. You get another shot at this but this gives me the understanding of where to put that budget together and come back to you with it. Obviously if I'm short, I'm going to bring that back up to you. So that will be as part of the final budget process.

But what I want to know is, going in, if council still wants us to do the salary adjustments and we will try to fit those in, given other parameters.

Mayor Lane: Then I think we just leave it at that, the salary adjustments 3% and 5% step. So it's a given.

Acting City Manager Brian Biesemeyer: Okay.

Mayor Lane: Councilwoman Klapp?

Councilwoman Klapp: I think we are splitting hairs here, as far as I'm concerned. I agree with all that was said. We have a -- we have employees who have expectations of being rewarded for their performance and we agree so this last year. So the adjustments are ones that we need to give guidance on and I'm fully in support of them and it's up to you to bring a budget back to us that shows us how we are going to pay for them and this is just an early conversation, if we find down the road that there are problems, there's some other areas of the budget that have to be adjusted to pay for them but that's a given.

Mayor Lane: Okay. The motion is on the table and we are ready then to vote. All those in favor, please indicate by aye. Those opposed with a nay.

Councilwoman Littlefield: Aye.

Mayor Lane: Okay. It's unanimous. 7-0.

[Time: 02:57:50]

Acting City Manager Brian Biesemeyer: And the last question, mayor, I think you may have already answered, but I will leave it back up to you. This was more in line with the construction sales tax, and if there was think C.I.P. contribution change there, but I also understand that there's more conversation, particularly with the C.I.P. coming. So in this one, I think I've got the guidance that I need, but if you wish to give me more.

Mayor Lane: I would move that we defer this until after the C.I.P. discussion.

Councilwoman Milhaven: Second.

Mayor Lane: The motion has been moved and seconded. All of those in favor, please indicate aye. And those opposed with a nay.

Councilwoman Littlefield: .

Mayor Lane: Unanimous too. And on record.

Acting City Manager Brian Biesemeyer: That concludes my briefing.

Mayor Lane: Well -- and your use of the word "brief."

Acting City Manager Brian Biesemeyer: Sorry, thank you.

Mayor Lane: Thank you. Okay.

ITEM 15 – RETIREE HEALTHCARE CASH TRANSFERS

[Time: 02:58:51]

Mayor Lane: Mr. Nichols, moving into place on the healthcare cash transfers.

City Treasurer Jeff Nichols: Yes, mayor and council, I'm coming before you tonight to talk about retiree health care cash transfers. These are programs, one that is no longer in existence, another one that still is. But to give you some background, prior to July 1st, 2014, the city offered medical mans to two sets of retirees, accidental disabled retirees and nondisabled retirees. So under accidental disabled retirees, sworn police officers and firefighters we had job-related physical or mental that totally or permanently prevent them from doing the job of a police officer or firefighter. The authorization of the cash subsidy transfer of \$323,000, approximately from the general fund from the operating unreserved fund balance to the public safety retiree health care fund, that's what we are asking for.

In effect, what's happened is the cost of these programs are being subsidized by the city above and beyond what the employee and the city is required -- the city's contributions. So the cost experiences that we're seeing are in excess of the employee contribution and the city contribution under the healthcare plan. And so we are asking for a transfer of cash from the unreserved fund balance into the health care fund.

Mayor Lane: Mr. Nichols?

City Treasurer Jeff Nichols: Yes, sir.

Mayor Lane: On that, has there been some change in policy, government regulation or otherwise that's lent to this?

City Treasurer Jeff Nichols: No, sir. But we feel with the -- we met with the loss trust fund board last night. We try and attempt with the history, working through Hayes consulting to sit the rates at an appropriate level to cover all the costs and this demographic and this group that's within this plan, we are just not doing that. We are asking the city to increase the contribution into the healthcare fund to cover the overage from these participants.

Mayor Lane: Did we have any -- I realize these are specific to these plans and these benefits but did we have a significant increase in costs or any increase in costs with regard to what was dubbed at one point in time Cadillac plan, which I understood at a point in time we were subject to, but there's been a great deal of discussion as to deferring that or canceling it or otherwise. I'm talking about on the compliance line.

City Treasurer Jeff Nichols: Right, Mr. Mayor, it's my understanding, and I can get back with you on, that but I don't believe that those go into effect until either later this year or in 2017. The tax on that.

Mayor Lane: Well, and that may have been a deferral because there was something that supposed to go into effect in January of 2015.

City Treasurer Jeff Nichols: We do pay a premium -- not a premium. We make a payment to the federal government for the pleasure of having our own healthcare plan. We do make a payment into the feds for that, the ability to do that.

Mayor Lane: And it's not nature or the quality of the plan, just simply because we do it?

City Treasurer Jeff Nichols: That's correct.

Mayor Lane: Do you have any idea what that amounts to.

City Treasurer Jeff Nichols: I want to say it's about \$600,000 off the top of my head. But I will get back to you.

The nondisabled retirees in 2014/15, we made them no longer eligible to participate in the city's medical plan. When they were eligible, we had set the premiums at a level that we expected to cover the full cost. As you can imagine, the people who had alternatives available to them, found those alternatives at a reduced cost, and the people that really didn't have alternatives to them stayed with our plan, even in spite of the increases and so we are not recovering the total amount, even though the fees were set for them to pay the employee portion and the city portion as well, for them to be nonsubsidized rate.

Mayor Lane: So that was also the nature of the population ended up becoming more exclusive to a

group that really had no alternatives.

City Treasurer Jeff Nichols: Mr. Mayor, that's correct. And so what we have experienced in that is the actual costs were about \$450,000 higher in '13/14 than we expected. We cut off the pipeline, but then we had run out claims to the tune of about 400 and I believe \$5,000. That may be a misprint but the bottom line is we have a deficit of \$905,000 with the possible of continued run out claims through the end of this fiscal year. So what we are asking for on the nondisabled retiree side is a transfer from these various funding sources, general transportation, I won't read them all and we calculated that according to the participants in that plan, and what fund they were in when they were worked here at the city and we're asking for the authority to bring over what's necessary from an accounting standpoint to close out this fund and close it permanently.

So what we are asking you to do is adopt resolution 10336 authorizing number one, a subsidy cash transfer in the amount of 323,106 from the general fund operating unreserved fund balance to the public safety disabled retiree health care fund and number two, a one-time cash transfer of up to \$950,000 from the various funds I showed you on a previous slide to cover -- from the unreserved fund balances to cover the allocated proportion of citywide health care usage to the nondisabled retiree health care fund to absorb the accumulated deficit and close out the funds permanently. With that, I would take any questions.

Mayor Lane: I have no further questions and I have none indicated. What is the action that we need to do adopt a resolution?

Do I have a motion to adopt resolution 10336, authorizing number one, the 2015/16 subsidy cash transfer of \$323,166 from the general fund operating unreserved fund balance to the public safety disability retiree healthcare fund and two, with take these as one because they are both within the same resolution, fiscal year 2015/16 and one-time cash transfer of up to \$950,000 from various funds operating unreserved fund balances allocated proportionally by citywide historical health care usage as determined to the nondisabled retire fee healthcare fund to absorb.

Councilmember Korte: So moved.

Councilwoman Milhaven: Second.

Mayor Lane: It has been moved and seconded. Does anybody have any further comment on it then? Okay. Then I think we are then ready to vote. All those in favor please indicate by aye. Aye and register your vote. Councilwoman Littlefield.

Councilwoman Littlefield: Aye.

Mayor Lane: It's unanimous to adopt the resolution.

City Treasurer Jeff Nichols: Thank you.

ITEM 16 – MONTHLY FINANCIAL UPDATE

[Time: 03:07:04]

Mayor Lane: Already. The next order of business, staying in place, the monthly financial update. Mr. Nichols.

City Treasurer Jeff Nichols: It's like magic how that comes up, Brian. Mayor, members of council, monthly financial update as of December 31st, 2015, you probably know that I didn't put you all through the pain of the November update and I don't feel a need to do that since the November figures are embedded within the December figures. There's no reason to go backwards, I didn't think.

So starting off with general fund operating sources, you see year-to-date, fiscal year-to-date, positive variance of \$3.8 million. I will speak a little bit about the 1% general purpose sales tax a little bit later. One thing I would like to point out under the other licenses permits and fees, you see a 15% positive variance, almost \$600,000. That's due to several of WestWorld's rental facilities and concession fee payments being received much earlier than budgeted. Just a timing difference but we are also seeing very strong revenues and recreation fees.

The other thing we are seeing is some additional fees, non-budgeted for noncompliance related to the ambulance contract. So the ambulance is -- the ambulance carriers are making a business decision not to remain compliant with what is required and instead choosing to pay the fees. I don't know that there's much we can do about that.

Another area you notice the large discrepancy, negative 65% down under interest earnings. I just wanted to point out that this -- we are required to record potential gains or losses that are you from change in the fair value of the assets and -- and what you would call a mark-to-market. We have not sold those assets. We have the no realized any loss but from an accounting standpoint, we report them.

Digging down into the general fund operating sources the 1% sales tax category, one area I will focus your attention to 17% increase. A favorable variance in miscellaneous goods and services, nearly \$600,000, being told this is due to increasing taxable sales from computer hardware/software wholesalers and we're seeing an uptick in the golf course subcategory. So a good thing related to our visiting -- visitors contributing to the city.

The other area I would like to point out is under the construction business about two-thirds of the way down the page, a \$900,000 variable variance or 20% due to several large one-time audit payments in the sale of a commercial building that we recorded in that category. The reason I want to point this out is -- is because we do have a pretty significant audit effort to keep people honest, and I'm not certain that when the Arizona department of revenue takes over, that that function that they have the same level of effort, that being said, we may not be suggesting total decrease in our effort at that point in time because we would still be allowed with if request the A.D.O.R. to perform an audit. I

would see no reason why they wouldn't let us do that. It's something we do have concerns about moving forward.

You look month over month, the -- or the year over year change in the 1% general purpose tax category, a negative 1.2%, not good for the month of December. I would say, pointing back to the first slide, if you remember year-to-date, we are still a positive 5% in this category. While we are don't like to see the little red ticks at the bottom of this chart, we are glad that they are falling off on the left-hand side of the chart as we move forward. So hopefully we don't experience too many more of those.

Looking at general fund operating uses by category, overall \$1.9 million positive variance. You see a small negative variance of \$100,000 in overtime. I want to point this out because it may be a problem that we'll have to address in the future and this is over time in the fire department. It's being driven by a couple of things. We have a couple of staff currently in training. We also have seven firefighters that are on light duty and seven others that are out on various leaves. And so as we move forward, I know the fire chief is doing his best to manage these situations it's just becoming increasingly more difficult for him to do so.

I'm sorry. Next slide, if you look general operating uses by division. Mostly positive variances. I won't speak to those but I want to point to the one negative variance that you see and that was due to an election. We held a bond election in November that was not budgeted and so we will be coming from counsel asking for money to true up to take care of a hole in the city clerk's budget.

But overall, big picture, we are still doing very well. Change in fund balance, positive change of \$1.8 million, which is \$5.7 million more than we had budgeted which was a negative \$4 million. So with, that I would take any questions that council may have.

Mayor Lane: All right. Thank you very much, Mr. Nichols. That was a very comprehensive and a good report. So thank you for that detail. I don't have any questions and I don't see any questions here from council. So I think there is not any particular action. This is certainly for just our information.

City Treasurer Jeff Nichols: Yes, sir.

ADJOURNMENT

[Time: 03:13:00]

Mayor Lane: Thank you. Well, as much as I'm sure that everybody is a little concerned about this, we have come to the end. And we have no public comment and we have no petitions and we don't have mayor and council items. I will ask for a move to adjourn.

Councilwoman Klapp: Move to adjourn.

Mayor Lane: You will second that. All in favor. We are adjourned.