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CALL TO ORDER

[Time: 00:00:01]

Mayor Lane: Good evening, everyone. Nice to have you here. I would like to call to order the January 13th, 2015, City Council Meeting. This is a Regular Meeting.

ROLL CALL

[Time: 00:00:14]

Mayor Lane: I will start with the roll call.

City Clerk Carolyn Jagger: Mayor Jim Lane.

Mayor Lane: Present.

City Clerk Carolyn Jagger: Vice Mayor Guy Phillips.

Vice Mayor Phillips: Here.

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.

Carolyn Jagger: Linda Milhaven.

Councilwoman Milhaven: Here.

City Clerk Carolyn Jagger: David Smith.

Councilman Smith: Here.

City Clerk Carolyn Jagger: City Manager Fritz Behring.

City Manager Fritz Behring: Here.

City Clerk Carolyn Jagger: City Attorney Bruce Washburn.

City Attorney Bruce Washburn: Here.

City Clerk Carolyn Jagger: City Treasurer 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: 00:00:37]

Mayor Lane: Thank you. We do have cards if you would like to speak on any item or public comment. They are the white cards that the City Clerk is holding up over her head. At the present time, just to my right. And there are cards that are yellow in variety if would you like to give us any kind of written comments on any of the agenda items we will read during the proceedings or during the course of the evening. We have two Scottsdale police officers here, Tom Cleary and Jason Glenn almost directly in front of me. If you have need of their assistance, they are here for you. The areas behind the Council dais are reserved for Council and staff members only. We do have facilities over here to my left under this exit sign for your convenience.

PLEDGE OF ALLEGIANCE

[Time: 00:01:20]

Mayor Lane: Today we have the great pleasure of having Brownie Troop 194 and their leader Priscilla Sanders is here to lead us in the pledge. If you would come to the microphone and stand if you will, please.

Brownie Troop 194: 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, ladies. Now, if you want to turn that microphone around, just -- it will just pivot around. You are in the right position right now. And determine who is going to go first and then just introduce yourself and tell us where you go to school and maybe what your favorite subject is.

Brownie Troop 194: My name is Zaria and I go to Yavapai. My favorite subject is art. My name is Ava, and I go to Hohokam Elementary and my favorite subject is math. My name is Alex. I go to Hohokam and my favorite subject is social studies.

Mayor Lane: Thank you very much.

INVOCATION

[Time: 00:02:53]

Mayor Lane: In place of an invocation, I would ask that we have a moment of silence to recognize the radical Muslim terrorist attack that took place in France this last week. And may those victims rest in peace and may we find a way to quell this type of violence across the world. So if we could just take a moment, with that thought. Thank you.

MAYOR'S REPORT

[Time: 00:03:28]

Mayor Lane: I suppose concerning ourselves with another form of violence that has befallen us, the last meeting, last week, I did mention the fact that this was going to be a support rally for our Scottsdale police officer, and that rally is -- will take place at 10 a.m. to 12 p.m. at police headquarters located on the corner of Indian school and granite reef road. That's this Saturday, January 17th. I would ask that you would please come out and show your support for our officers. We had the unfortunate consequence of seeing some signage that is calling for some pretty drastic action against our police officer and law enforcement in general. We certainly don't want this to take hold in our great community. So I would ask for your support and I know they would very much appreciate it.

On a happier note, I would like to tell you last night, I had the pleasure of attending the preview reception for the Scottsdale Museum of the West, which is branded as the western spirit which will be opening Thursday, January 15th and this is located on the corner of 1st Street and Marshall in the heart of Scottsdale's historic downtown. It was 50 years in the making. In 1964, a committee was first formed for the Scottsdale town enrichment program, the S.T.E.P. program. And it included the development. It was looking for the development of an airport, a junior college, a civic center and last but not least, a museum of the west. Just a mere 50 years ago. We made history in the meantime, but it will be portrayed there as well. The Western Museum today is our community's vision of building a world-renowned museum, to honor our western heritage and it's now become a reality. I think everyone was thrilled with it. If you weren't there with us last night, there was quite a crowd, I would encourage you to go.

There's a couple of pictures of some of the things that are there, from the museum itself, and you will see that there's a guy down there in the lower left-hand corner that's posed with an interactive display that they have, that anyone can pet that horse and they can take a picture and pet that horse and look like you are out on will range there a bit. So it's -- this museum, of course, was made possible through the use of for capital infrastructure for tourism, through the bed tax funds. It was an innovation that we put on the ballot and voted positively as a reallocation of some of the bed tax to make sure that these capital projects that are tourism-related that provide venues for tourism, were actually funded by tourism. So it's been a great enhancement for us, and we're actually, among other things, a very persistent group over 50 years staying on this and they have been vital in putting this together and frankly, the operation of it, as it goes forward. That, along with the ability to fund it and build it, you know was made available in some of the worst economic times but nonetheless, it was here for us and it's here for our tourists and residents and it's a facility, I think that everybody will be very proud of. It's a magnificent facility. So as I say, I urge you to find it. It's very interactive and very beautiful display of art. I would like to thank everyone who was involved with that, from 1964 on. And so it's a great credit to our community and the persistence of that group.

I might also mention that this is the last meeting as Vice Mayor for what will soon become again Councilman Phillips. So I want to just take this opportunity to thank Vice Mayor for his service as Vice Mayor, for the last eight months and thank you very much, Vice Mayor for that. And beginning with our meeting on the 3rd of February, our new Vice Mayor will be, who is now Councilwoman Milhaven, will be the Vice Mayor at that point in time. So we are looking forward to that as well.

PUBLIC COMMENT

[Time: 00:07:43]

Mayor Lane: The next order of business, we have some public comment. It's a time reserved for citizens comments that are non-agendized items and with no official action or conversation to take place on these items. As it is right now, we have one speaker that would like to speak to us on the public comment period of time. These speakers are limited to three minutes with a maximum of five speakers. Obviously, we are not bumping up against that. But there's another opportunity at then

of the meeting for public -- at the end of the meeting for public comment if there's a need. The only card I have right now from public comment is from Dottie Pratt, and Jerry Burgess, if you would like to come forward, please. Thank you.

[Time: 00:08:21]

Dottie Pratt: I will be talking very fast. This is regarding the unacceptable route changes of the Parada Del Sol. It takes you on to 2nd Street and Brown Avenue, this is a shorter route with turns that makes it difficult for wagons and floats making wide turns onto a two-lane street on Brown Avenue. It takes you down the hub of activity for people who are shopping and eating, et cetera. There's not enough people to line the street where people are an average of nine deep on either side of Scottsdale Road in old up to. There's a serious safety issue regarding not enough the Parada participants but to enter with small children. Not only that, we are a walking group with at least 40 people who will be walking alongside our wagon and our horses with riders, in front of our horse-drawn wagon and we are concerned for our own safety. With such a narrow street and little room to walk let alone have wagons and horses we could be injured seriously if the horses were spooked and this could pose a stampede. There's a health issue. There will be animal feces covering Brown Avenue all the way to Indian School. People will be stepping in this filth and tracking it into restaurants and shops. There will be food carts and the fecal matter will be airborne. When the Parada was all along the Scottsdale Road, it was not tracked into Old Town Scottsdale where there's a heavy retail shops.

We move to restore the route to the successful one of being completely on Scottsdale Road and ending at Indian School like it has for decades. Scottsdale Road is the pride of Scottsdale. There needs to be no detours into areas not practical and logical, for those who need the extra spaces with their wagons and horses, et cetera. It doesn't make any sense. There's even one injury as a result of this change, it will mar the entire event for the future, let alone a death. Thank you.

Mayor Lane: Thank you, Ms. Pratt. As I said, that's the only public testimony for public comment, to I will move on from there.

CONSENT AGENDA

[Time: 00:10:51]

Mayor Lane: Our next order of business is our Consent Items 1 through 23. If there are any requests or comments. I have three requests to speak on item 17, which we will get to. But Mr. Smith, did you have a motion or a request I should say?

Councilman Smith: Mr. Mayor, yes, it's not a motion, but a request to pull item number 3 and item number 17.

Mayor Lane: All right. So Items 3 and 17 then will be removed from our consent items. And we will continue with the rest and I will ask Councilwoman Littlefield if there's another comment on the consent items or a motion.

Councilwoman Littlefield: Thank you, mayor. I would like to pull item number 11, please.

Mayor Lane: All right, Item 11 is pulled. I assume you mean move it to the Regular Agenda then.

Councilwoman Littlefield: Yes.

Mayor Lane: Okay. Just for point of clarification, Councilman Smith, Item 3 is just to be pulled for separate vote. Is there a request for a presentation on 3?

Councilman Smith: Number 3 is just a separate vote, and the other is a presentation and separate vote, please.

Mayor Lane: Okay. Very good. Alright since 17 has been moved to the Regular Agenda, I will hold these cards for that. We are now then ready for -- if there are any further comments on the Consent Items 1 through 23, less item 3, 17, and 11. And if not, I would accept a motion to approve the remaining items.

Vice Mayor Phillips: So moved.

Councilwoman Klapp: Second.

Mayor Lane: The motion has been made and seconded. No further comments are indicated. I think we are then ready to vote on those items on the consent agenda, absent items 3, 11 and 17. All of those -- well, I think we are ready then to vote. All those in favor indicate with an aye and those opposed with a nay. It's unanimously accepted as indicated on the big screen. Thank you if you are here for those items on consent, on those category of things. You are welcome to stay with us or leave if you would to do so quietly.

REGULAR AGENDA

ITEM 3 – HARKINS CAMELVIEW AT FASHION SQUARE LIQUOR LICENSE

[Time: 00:13:45]

Mayor Lane: So we will start with the Regular Agenda items now, as indicated with -- with just a separate vote then on Item 3, we'll handle it this way, but just for the record, Item 3, that is now to be subject to a separate vote is the Harkins Camelview at Fashion Square license 134-II-2014 and the request is to consider forwarding a recommendation of approval to the Arizona Department of Liquor Licenses and Control for a person and location transfer of a series 6 state liquor license for a new location and owner. Of course, this would be to that Harkins Camelview at Fashion Square, their new location. And so it is moved to approve?

Councilwoman Milhaven: Yes.

Councilwoman Littlefield: Second.

Mayor Lane: And seconded? Okay. Seeing that there's no further comments or questions on that. Oh, I'm sorry. Councilman Smith?

Councilman Smith: Mr. Mayor, just to explain why I pulled the item and I will be opposing it. The Camelview Harkins Theater is requesting a class 6 bar license, and I actually understand that the actions we take on the Consent Agenda is for bar license awards is largely ignored by the State. They grant the bar license to whoever they choose, but, in good conscious I cannot recommend with a positive vote to putting a class 6 bar license into what's otherwise a family entertainment venue. The owners have said in their application they are not going to be carding patrons which means that children and others about wander in and out, I'm not sure what that means. We have two other theaters in town. Both of them find it possible and presumably prosperous to operate with a class 12 license, which is a restaurant serving liquor. I wish these folks had come forward asking for that. They didn't and that's why I will oppose it.

Mayor Lane: Thank you, Councilman. Okay. We do have a motion and a second on this item. Seeing that there's no further comment, I think we are then ready to vote. All those in favor, please indicate by aye, and those opposed with a nay. Aye. The motion passes 6-1, with Councilman Smith opposing.

ITEM 11 – DIRT ROAD PAVING CONSTRUCTION BID AWARD

[Time: 00:16:12]

Mayor Lane: Moving on to the next couple that has been moved to the Regular Agenda and that's Item 11. And Item 11 is a dirt road paving construction bid award, and this is a request to adopt Resolution 9975 authorizing Construction Bid Award 14PB040 to Sunland Inc. Asphalt and Sealcoating, the lowest responsive bidder at the unit price of \$954,000 for paving the following three dirt roads, Via Dona, Hayden Road and Pinnacle Vista Drive between certain locations. So I'm not sure whether or not there's a request for an explanation of this, but I would ask Mr. Worth, if there is something about this that you would like to address.

Public Works Executive Director Dan Worth: Mayor, members of Council, certainly. This project is a proposal to take a mile and a half of currently unpaved road Via Dona between Scottsdale Road and Hayden and Hayden Road south to Via Dona and Dynamite. It's using federal funds, mitigation air quality funds. These are more heavily traveled dirt roads. Paving them will reduce dust in the area and it will also significantly reduce our maintenance costs for the road. The dust we use now is very expensive annual process.

The concerns that have been brought to my attention, from a couple of citizens in the area, are about speed on those roadways. They feel it's a problem now and it will become more of a problem if we pave it. And actually, when the two communications that I have seen came to us, they came with

some viable suggestions. Basically, the suggestion was as we addressed the drainage on those roads we do it in a way that it serves as a speed deterrent. It makes sense for this. And we can certainly do that in this case as we go to construction. We can put some valley gutters or similar structures across the road. We have to carry the water flows across the way anyway. This is a way of doing it. It would be something that could achieve the same desired results as speed tables or other traffic calming at a very minimal cost and we can do it within the existing budget. It's a good idea and we certainly would be able to act on it.

Mayor Lane: Thank you, Mr. Worth. Councilwoman Littlefield, since you requested it. If you have any additional comments or questions?

[Time: 00:18:46]

Councilwoman Littlefield: No, thank you very much, Mr. Worth. One of my concerns was speed calming on this. I too received a number of emails from concerned citizens that it will create a problem. They also mentioned the fact that they believe that the horses are traveling on this road a great deal because the horse trails are not maintained well enough to let the horses on there. So that too would be a good reason to use that speed calming devices to make sure that there aren't any major accidents with horses and cars and stuff like that. Thank you very much.

Mayor Lane: Thank you, councilwoman, thank you Mr. Worth. Unless there's any further comments on Item 11, I think we are then ready for a motion, if you would -- if there is one.

Councilwoman Littlefield: I would like to make a motion to accept the construction bid on Item 11 for the dirt road paving.

Councilwoman Milhaven: Second.

Mayor Lane: The motion has been made and seconded. Okay. I think we are then ready to vote. All those in favor, please indicate by aye, those opposed with a nay. A unanimous decision to accept 11 as indicated in the motion.

ITEM 17 – SCOTTSDALE ARABIAN HORSE SHOW WESTWORLD EVENT AGREEMENT

[Time: 00:20:08]

Mayor Lane: The next item is an item that was pulled from consent and that's Item 17, and Item 17 specifically is the Scottsdale Arabian Horse Show WestWorld event agreement and this is a to adopt Resolution 9895, authorizing Contract 2015-012-COS with the Arabian Horse Association of Arizona to produce the Scottsdale Arabian Horse Show in February and two additional horse shows in of course and November at the WestWorld facility for the next 20 years. This was pulled by Councilman Smith. Would you like to speak toward it? Would you like to hear a presentation first?

Councilman Smith: Let's hear a presentation first.

Mayor Lane: I'm assuming, Mr. Katsenes, are you prepared for some presentation of this that might answer some questions.

[Time: 00:20:55]

Tourism and Events Director Paul Katsenes: Yes, sir, mayor, council, I am. So let me begin. A bit of background might be helpful. This event has been at WestWorld for 60 years. This is the largest Arabian horse show in the world. It has Scottsdale in its name and it has been thriving. We have an existing contract now that runs from 2007 to 2017. That was a negotiated contract in 2007, negotiated for services, negotiated for pricing and that continues on to 2017.

As we are all aware, WestWorld changed and has been expanded and with that expansion, these shows are produced in brand new ways. They are more efficient. They are more effective and we have the chance no become even larger with this show at WestWorld. So this contract, this 2007 contract is more than a bit out of date. So what you have in front of you tonight is a proposal for a new contract. This new contract is for 20 years, but let me continue speaking for just a moment on the 2007 contract, because that required production in the old ways, before the expansion, the event producers when they did big shows, in essence had to spend enormous amount of money, happily so, but in this case, since our expansion and efficiencies, those costs can be reduced. The tent that used to be used, tent number one is the North Hall and tent number two is the South Hall. What used to be brought in, temporary lighting and curbing of tents and public address systems to supplement of our own, hundreds of thousands of dollars of expenses are now saved and that was, in fact, the goal of the expansion of WestWorld.

In this case, the Arabian Horse Show says you have substantially reduced some of our expenses of event production and so back when we were contemplating planning and designing WestWorld, they were the first ones to say, if you do that expansion, we will participate over and above our rental for set service. And so they submitted to \$240,000 of debt service. That's not in the existing 2007 contract.

So let me speak to the new contract briefly. This new contract will be a 20-year contract. It includes the February show, which is the largest Arabian horse show in the world. It includes two other shows, an October show that runs from October 1st to October 4th. That's a brand new show in this contract. It includes a November show from November 4th to 8th, and the October show has 140 horses. The November show has 224 horses. By no means do they compare to the 2400 horses in the February show, but they reach a niche for growing the sport, if you will, growing the breed, and growing the presence of the Arabian association. At WestWorld in Scottsdale. And so for 21 days, those three shows, plus two one-day events to be determined, for 21 days, we now have the possibility in this new contract to have those shows run for 20 years.

Number two, I think critically important to all of you when we had this discussion and you were in place on the council, is the debt service consideration of \$240,000 a year. This new contract has that commitment for 20 years, annually for 20 years.

Third point in this new contract is there is a new base use fee. It, like the last contract, is a negotiated fee. It sits at \$226,756. It escalates each year by 1.5%. So we have growth built into that price. In addition, we have growth of the event will generate additional invoice able reimbursements to the city. So if you added that base use fee, the debt service fee of \$240,000, and what we current estimate of additional services and supports, custodial, the non-glamorous kinds of things but the things that make a difference for our community and this show and the way we present ourselves and shows present themselves, custodial show office, V.I.P. and stands, rest rooms, you will excuse the expression, manure cleanup, all of those three things, debt service, and these use fees and the additional support items to \$516,000 in this 2015 contract, or divided by the 21 show days of a daily \$24,584 to the city of revenue. Compared to the old contract in year 2013, of \$363,930 for 22 show days. That average per day was \$16,500. So we are comparing \$24,500 in the new contract to 16,500 in the old contract. We think that's an improvement in the contract.

In your contract, you also noticed, I'm sure that there was a credit to the event producer for stall. It turns out that very large shows like this one and other horse shows, the Sun Country and other equestrian shows require horse stalls in order to efficiently produce their events. Horse stalls both inside our facilities and horse stalls outside of our facilities. And so when we started planning the show, the 2015 show with the Arabian Association, they said, we need "X" number of stalls and you don't have them. What are you going to do? As a commitment to them, we said, well, we will go out and rent them. And they said, well, now wait a minute. Let's think about that. If you rent them, there is a cost for that one time. If you had more stalls, could you use them? And we said, yes. And they said, if you had more stalls could you use them and rent them out to other horse shows and create new revenue? And we said, yes. And they said, well, why don't you let us buy those stalls now for our show and have them in place, and then you can pay us back over time and you can rent them for those other shows. And we said, let us think about that for a few minutes and let us check a longer period of time to check and make sure with our law department and our procurement that we can do that. And it turned out that we could. And so you see that in the contract. And that contract then carries a \$17,600 annual credit back to the association for 10 years. And that's how we got those new stalls.

So the 20-year contract, in closing, the 20-year contract, that if you approve tonight will run through December 31st, 2033. And it will bring certainty that this show will not move from Scottsdale. It will bring certainty, number two, that we will have a stream of debt service annually of \$240,000 coming to the City and it will have certainty, number three, that that base use fee will increase each year, even if the shows stay the same, same number of days, even if they stay the same number of shows, the fee to the city will increase by 1.5% annually. And we will have certainty that Scottsdale will remain in the name of that largest Arabian horse show in the world. We have in the contract access to 100 square feet of vendor space for the City. We can use that for Scottsdale Convention and Visitor's Bureau purposes, economic development purposes, or WestWorld marketing purposes to add more show days. And we will have one full page in their event program. So we think this new contract is a substantial improvement over the old contract. Brian Dygert of WestWorld is here.

Mayor Lane: Thank you, Paul. We have a couple of requests to speak on the subject. So

Councilman, I will go ahead and have the public testimony before your questions or comments. And we'll start with Janice McCrea White.

[Time: 00:30:37]

Janice McCrea White: Thank you, Mayor and Councilmembers. I'm Janice McCrea White, I'm the immediate past president of the association, and a 30-year board member. I would like to thank the council for their continued support over the years on all the improvements at WestWorld, the support of the Arabian Horse Show by the whole city this is our 60th Annual Diamond Jubilee year. I think we would really like to mark this with a continued support of approval of the new 20-year contract. So we'll have many, many more years with this fine partnership. I urge your support of this. We have visitors from around the world. We had horses last year from 12 different countries, virtually every state in the United States. We had visitors from around the world from many, many different countries and now with the Internet, we have visitors looking at the event online, live. At one point in time last year, we had people from 89 countries looking at this event. We had over 300,000 attendees from the Valley last year that physically showed up out there. It's a wonderful partnership and we have worked for two years on this contract, and I think the WestWorld staff and the City staff, we have spent many long hours on this and I urge your support of this contract. Thank you.

Mayor Lane: Thank you, Ms. White. Next would be Susan Shea.

[Time: 00:32:25]

Susan Shea: Good evening, I'm Susan Shea. One of the board of directors for the Arabian Horse Association of Arizona and I'm also the youth director. I think it's my 16th year with the youth this year. And we love WestWorld. We love our show. We would like to make sure that we can continue to have all the support of the city. I believe that we have on the youth side, youth from all over the United States. Now we have South African and we have a lot of Brazilians that are also riding at the horse show. So we are an international for the youth and believe, as I'm sure that all of you do believe, that the youth is a major part of all of us in the world that we live in today. And to make sure that they have a facility like WestWorld to be able to come and show their horses from all over and show that here in Scottsdale, Arizona, that we do believe in youth and the growth of youth, and that's what I would say if you could please help us and go forward with this contract, it would be very important for all of us here. Thank you very much.

Mayor Lane: Thank you, Ms. Shea. Next and final is Teryl O'Shea.

[Time: 00:34:01]

Teryl O'Shea: Good evening. I would like to thank you for having the foresight to approve -- to approve the improvements at WestWorld. It's made our event world -- I mean we have always put on a great event, but the facility now lives up to the event that we put on. We are not working out of tents. We are not putting in the infrastructure that Paul was talking about, the days to set up and the days to tear down, so thank you. It's made my life and our lives a lot easier. We were proud

because we got this contract negotiated and it took us less time than we thought it would. And our goal was to get it to you by the end of last year, but a lot of hard work went into it by Brian Dygert, thank you, Paul Katsenes, Kelly Ward and a lot of our board of directors. We are pretty confident that this is a good contract for the city and for us and we ask that you please support it. Thank you.

Mayor Lane: Thank you, Ms. O'Shea. That completes the public testimony on it at this point in time. So I would go to Councilman Smith.

[Time: 00:35:27]

Councilman Smith: Thank you, Mr. Mayor. And I thank all of you for the presentation. The reason I pulled this item and wanted to have a public discussion, there's been a great deal of public interest in this project from its day of inception to when it was approved. And there have been a lot of bumps along the road but I think citizens and probably the seven of us up here are keenly interested in every development related to that. Not to revisit history, but some of those bumps in the road have been particularly troublesome. The project was substantially overrun as you all know and eventually \$50 million or so of taxpayer money was spent on this facility. And some of the commitments that were made at the outset didn't materialize. We were told that part of the funding might come from the sale of the big tent. Not going to sell the big tent. We were told that some of the funding might come from the Bureau of Reclamation and I think the Bureau of Reclamation has said that they are not interested in that. So it's been a lot of disappointment, trying to get to this point.

We have a grand facility. But unfortunately, we paid handsomely for that grand facility. And now one of the last details to attend to is the commitment that was made from the three show sponsors that they would participate with us on debt service, that they would help to pay for this because it was going to be as even one of the speakers said, such a better facility for them to show off their show. That's true of them and Barrett-Jackson and the other sponsors as well. So now we are presented with now first contract to achieve this result, to achieve this partnership, to really solidify that this is what we are going to do as partners going forward.

And I will say I have the greatest respect for the Arabian Horse Association. I mean, I think it's a tremendous asset to the City. It's a tremendous venue for tourism. I couldn't be more pleased that we have it, and I think I should also applaud the members of the board of the association for being fairly strategic contract negotiators because in my opinion, you totally outwitted our team, and I will tell you why. We are presented with a contract that Mr. Katsenes described as being an outstanding contract because it's going to in its first year generate revenues for the City of \$516,000. And that's an astonishing and large number and probably an astonishing and large number for the association as well: But it should be a large number.

Why do I say that? Because two years ago, the Association spent for their event in the old facility, \$342,000 and the following year, they spent \$363,000. So it's been an event that spends about \$350,000 a year for show time in the facility. And that was the old facility, before we spruced it up with \$50 million of taxpayer money. So one would expect in simple math that you might see a continuation of -- at least a continuation of this spending, \$350,000 for shows, the same number of

days, 21 days. Plus one would expect that the commitment to fund part of the debt service, the commitment that Mr. Katsenes referred to at \$242,000, we ought to be seeing that too. And so when you say, well, I thought to be seeing \$350,000 or 240 for show support and maybe I would even get something for the fact that it is such an extraordinarily modern and attractive facility. I mean, it should be. We spent \$50 million to make it so. In fact, if you count debt service and show time payments and whatever, I'm getting less money than I got before. If you take Mr. Katsenes' \$516,000 and subtract the \$240,000 for debt service. I thought that was something different. I know in the contract we call it facility use fee or some euphemism like that. It wasn't that. It was described as partnership debt service, when we did this public/private partnership. So take this 516 and subtract \$240,000 for debt service and that leaves us 246,000 that is the payment for show time. That's less than we got off the facility before we did a dime's worth of work on it. That's the first problem I have with this.

The second problem I have, it's a lot more minor, but philosophically, I think it's important as well. And that as this grand scheme of getting credit for stalls or whatever the explanation was. Plain and simple, the team at WestWorld decided they wanted some stalls. They wanted to spend \$175,000 for them and they couldn't get any money out of the capital budget and why couldn't they? Because we don't have any money in the capital budget. We had extraordinary needs in this city for capital programs enormous needs for citizens and residents and the programs that they want and value. But we didn't ask the citizens. We decided to put to go a sweetheart deal to buy \$175,000 worth of horse stalls on top of \$50 million and you will hear later tonight, another \$1 million of capital being spent at WestWorld.

At some point, folks, somebody has to say no and this contract, which seems remiss in so many respects is perhaps the first time for us to say no, and send everyone back to the drawing board and try to come up with a contract that honors the \$240,000 commitment for debt service, that gives us at least the same show time revenue that we had before we spent 50 million. And deletes the unauthorized capital project that's embedded in this contract. And while you are at, it you may put a bigger escalator in there than 1.5%, where 1.5% was anything close to a C.I.P. or a Consumer Price Index. Those are the reasons why as it now stands I will not be supporting this contract. Thank you.

[Time: 00:42:58]

Mayor Lane: Thank you, Councilman. I have to say that there has been so much more that has gone into this and the explanation that Paul sort of summarized in brief, that I find it sort of difficult to try to address some of Councilman Smith's objections. There is one component, I suppose that I might have some mild concern about and that's the escalator or the percentage of increase that might be seen year over year for 20 years. I'm not sure where that takes us at the end of that cycle.

There was one thing that was understood and I have been through this entire procedure, and that was an unprecedented move we had three major event producers come to the table and say that -- and you were the first, the Arabian Horse Show Association, the first, come forward and say, because of the savings and incidentally, these weren't monies that were delivered to the City of Scottsdale because they were enhancements you put to make the tents work for you. It was not a revenue

stream for us. It was strictly a matter of something you had to pay. So it's not part of our recovery on the property, if you will. So with consideration for that -- however much that was, I know it was in excess of \$100,000. You probably have the number off the tip of your tongue. Nonetheless, consideration for that and front end payments, in an unprecedented move to have event producers actual history pay in for the debt service, on any level, with any understanding of this, is something that I think is probably unique in municipal projects. More often than not, it's exactly the reverse. Somehow somebody is handing you a check to come here and use the facility. That's one element of this.

It was completely understood from the front end with each of the participants on the debt service payment. That's front end money. So the present value of that money over the 20 years of debt service is also an additional factor that I think goes to the credit of this agreement on the overall, not just this contract, but certainly what's been agreed to this point in time. So I'm not of the same school of thinking that has just been expressed. I think this is a very, very strong move and I certainly appreciate not only the history, but the value that you bring to the property on an ongoing basis and how it may potentially expand and I applaud you for that and I thank you for your cooperation. Frankly, through some very tough times, of working what everybody talks about, as some kind of an overrun on the budget when we all know that the transition from an equestrian center exclusively with a modest north hall was changed to a major north hall that was not called out for the equestrian usage and the transition to a multiuse facility is what contributed an additional \$16 million to that project. And we mitigated as best as we possibly could.

Nevertheless, we constantly talk about that but nobody talks about how we got there and how it occurred. And making it a multiuse facility really did encompass a full additional array of year-round prospects for usage and most notably our -- one of our principal event producers in that facility of Barrett-Jackson and the likes of similar lands of events. So this has not been an uncalculated runaway crazy effort. I have certainly a degree of respect in your individual abilities to negotiate this. I understand that. And I do think that we have a good team on this side that evaluates it from every end and we have to consider.

Now, I don't know that we get into some -- maybe peripheral deals as far as the stalls or the stables are concerned. It's not a monumental issue for me and one of the things that I know that has been tossed around in the WestWorld Subcommittee is the idea of what we would have to do, to encourage summertime usage for some of the very, very large not so much professional associations such as yourselves but amateur events with stalls and the -- what would be required of that. Now we haven't addressed that problem from the dais here or any level yet, but -- and this isn't a question of Paul Katsenes, but I'm presuming, certainly, that a real assessment of how those stalls could be used beyond your own use and frankly, become another source of revenue over and above paying for them. And running longer after the ten years as well.

So I would have to say, number one, I'm glad to see we have got a contract. Do I think everything about it is absolutely perfect? No, I don't. But I know it takes two sides to work these things. We would like to move forward with a great event producer who has been with us for a lot of years and brings a lot of great prestige upon the City of Scottsdale and the equestrian side of things. So I would

just say that I feel very strongly with the contract. Again, perfectly happy, maybe not. That's not the kind of world we live in. It's got to work for both sides. So thank you, but Vice Mayor Phillips.

[00:48:45]

Vice Mayor Phillips: I was wondering if Mr. Katsenes or Mr. Dygert would like to respond to Councilman Smith's comments.

Tourism and Events Director Paul Katsenes: I'm not sure I can. You know, I think our intro suggested that we are where we are and how we got there and the thought behind it. And so I respect Councilman Smith tremendously. I respect his opinion and I was hearing that and so I think the contract speaks for itself.

[Time: 00:49:27]

Vice Mayor Phillips: Okay. Thank you. My opinion is I know this contract has been a long time coming. Both sides have worked a long time. It's been an issue that's gone through the paper and all kinds of other things that really didn't need to be along the way. I think you ended up with a good contract. I appreciate all of your hard work and effort. I look forward to it for years. I think that's amazing. I will make the motion to approve number 17, Scottsdale Arabian Horse Show WestWorld event agreement.

Councilwoman Klapp: Second.

Mayor Lane: Would the second like to speak to it? Councilwoman Klapp.

[Time: 00:50:01]

Councilwoman Klapp: Yes, I was next up any way. I will put my faith in the staff, and their ability to come up with an agreement that works for the City as well as I believe that the Arabian Horse Association, it's incumbent on them to negotiate a good contract to themselves. I believe the contract is acceptable to me. I appreciate the 60-year partnership of the Arabian Horse Show Association with Scottsdale. Changes and the renovations at WestWorld are so great for the City and such a great draw for tourism in Scottsdale. You were some of the people who first drew tourists to Scottsdale. So for us to reject this at this point, because someone believes that the contract wasn't associated as well as it should have been, I don't agree with that. I think that we rely on our staff people to do this and I think they did a great job with your cooperation as well. So I hope that over time we can fill some of these off days which we hoped for when we started this process of building a new facility, the days that have not been filled in the past. The facility has changed greatly, as was mentioned. This is not just an equestrian facility. This is a multiuse facility. I'm happy that you agreed from the very beginning to provide debt service, as well as a couple of other organizations. I think that speaks well for your organization. So I have no reason to not accept this agreement and I wish you well. Thank you.

Mayor Lane: Thank you, Councilwoman. Councilwoman Milhaven.

[Time: 00:51:48]

Councilwoman Milhaven: Thank you Mayor. I just have a couple of clarifying questions. We heard Councilman Smith talk about the 300 odd payment that we were previously receiving and then the Mayor mentioned that that was to offset hard costs. I want to confirm with the staff that that 300 was for hard costs that are no longer going to be incurred as a result of the expansion. So it's not apples to apples, is that correct? Is it correct we paid 300, is the number that the Councilman Smith talks about? Is that accurate to say that the previous payment was 300 some odd thousand?

Tourism and Events Director Paul Katsenes: The answer is yes. I'm getting that correction.

Councilwoman Milhaven: And that was to offset actual costs that will no longer be incurred. He's comparing the 300,000 to the 226 and saying we are getting less but what I'm understanding is that our costs are less. They are not covering less of their costs. There's just less cost is what I'm trying to get to.

Tourism and Events Director Paul Katsenes: There is less cost in their production. Some are billed to the City and collected and some they pay direct to vendors that provide them. They are reduced costs in both categories because of this facility.

Councilwoman Milhaven: Right. So we are not spending any more as a result of them paying any less is my point.

Tourism and Events Director Paul Katsenes: No.

Councilwoman Milhaven: Thank you. You talked about repayment for the stalls. The stalls would be paid for by additional rentals by other events, not by the City's C.I.P.; that correct?

Tourism and Events Director Paul Katsenes: That's correct.

Councilwoman Milhaven: So it's not taking money from other projects but create a revenue stream to pay for themselves?

Tourism and Events Director Paul Katsenes: That's correct.

[Time: 00:53:36]

Councilwoman Milhaven: And the escalator, the 1.5% escalator did jump out at me. Most folks look at long-term inflation, averaging about 4% but who knows what the future holds because the recent past was so unpredictable, but maybe you could explain why you think 1.5% makes sense.

Tourism and Events Director Paul Katsenes: I will ask Mr. Dygert.

WestWorld General Manager Brian Dygert: We discussed that at length and the answer and the reason we did is because then we felt that that was the best now and that it would be applied annually, as trying to figure out anything else, it would be more complex as to every other year, every third year. We did talk at length about trying to use the C.P.I. index and we have some other contracts that look backwards at the C.P.I., between us and the Arabian organization, we thought that that was the most appropriate annual application that we could come up with right now.

Councilwoman Milhaven: What's the drawback? Because that is where I was going. You look backwards and you say what was the C.P.I. for the prior years and sometimes it was less than 1.5. What did you see as the drawback of using the prior year's C. P.I.?

WestWorld General Manager Brian Dygert: We actually didn't look at it at what this year or last year was. We have one other contract that looked at the C.P.I. five years prior. And that's exactly my position on behalf of City was I didn't think that that was going to serve the City or the client to try to look backwards three, four or five years and then move accordingly. So that was the conversation and that was the mutual decision made.

Councilwoman Milhaven: Well, I guess I would have to respectfully disagree because over the course of 20 years, it's more than likely that inflation will exceed an average of 1.5%, which would mean over time, the City is carrying a greater share of the cost than the producer would be. And so I don't know, I guess I would make a request of the motion maker, would you be willing to amend to your motion to change the accelerator to be the prior year's C.P.I.?

Vice Mayor Phillips: No, I wouldn't want to do that at this time. I think we would have to have more discussion on that to be changing the contract right now.

Councilwoman Milhaven: Okay. Thank you. Thank you.

Mayor Lane: Thank you, Councilwoman. Councilwoman Littlefield.

[Time: 00:56:12]

Councilwoman Littlefield: Thank you. Yes, Linda pretty much -- Councilwoman Milhaven pretty much asked the questions I had. The biggest concern I have with this is the 1.5% increase because we don't know what the future is going to hold. You know that can be influenced by many things I don't know the control of the City Council or the Arabian Horse Show just because of the way the economy goes sometimes. There might be something that every periodically we could take a review and relook at that number and see if it's holding up or not. The other thing is taking a look at WestWorld itself, and what it is for the City of Scottsdale, we are supposed to be the west's most western town. This is what a lot of our tourism, a lot of our cultural participation in events leads us to. And there's no really better event in all of Scottsdale to showcase that than the Arabian Horse Show. It's done it for years. It's done it extremely well, many, many people come here for all over the world to see it and it's an event that's growing, that's multiplying. More and more people are

coming. It may be that we can get other Arabian horse shows or other horse shows because of this. And I think that the benefit to Scottsdale goes beyond the contract when you look at the tourism and the renown that Scottsdale gets for having events like this at WestWorld. Yes, it is a multiuse facility. We use it for many, many different kinds of events, many different things, Barrett-Jackson coming up now. But it also is WestWorld! And I think it's important that we keep that part of our facility and that part of our culture and by keeping the Arabian Horse Show here, that's one of the ways we can do it. Thank you.

Mayor Lane: Thank you, Councilwoman. Councilwoman Korte.

[Time: 00:58:19]

Councilmember Korte: Thank you, Mayor. There's a lot that goes into the negotiation of contracts and it's not always numbers. It's history and it's loyalty and it's capacity to pay too. I understand that. I will be supporting this, although I want to express my concern around the escalator, 1.5%. And perhaps a compromise would be to review in three years that escalator and review it in terms of the C.P.I. that Councilwoman Milhaven referred to after a three-year period. So I would ask for a friendly amendment to that motion.

Vice Mayor Phillips: If you are asking me -- I mean, if you want an amended motion, you can do that. My feeling is if we start changing contract and adding things to it or whatever --

Mayor Lane: Go ahead, Councilman. Since it was addressed to you to amend it.

Vice Mayor Phillips: Then it should have come to us as an agenda item and we can discuss the inner workings of the contract and we can decide how the contract goes and then we are micromanaging and we will be doing every contract for the City. So I don't think we should get into that. We either have to accept what the staff presented to us or not, and that's why I want to hold with what we have here.

[Time: 00:59:59]

Mayor Lane: Thank you Councilwoman and thank you Councilman Phillips. You know, I think there are two things I would like to address. I already had indicated that all things are not perfect any time a contract is negotiated, for either side. Somebody is giving on both sides. One of things we are failing to motion here, however we want to designate the \$240,000 year to debt service or otherwise, there's a certain amount of credit, I'm talking about mentally in negotiations or otherwise as it relates to that type of commitment because that takes the payment.

Now, I want to just make it clear to anyone who is listening on this, when we are talking about the 300 and some odd thousand payment in years gone by, that did include a hard cost that was not a revenue source to the City. It was more or less a pass through of certain elements of costs that were associated with having the tens versus a building. It was not something that we were recovering anything. I don't know if we marked it up. Those were hard costs, 100,000 here, 100,000 back out

the other direction.

So the two things that I guess I'm concerned about is that we -- we need to keep that in mind, that there's nearly a quarter of a million dollars of debt service that's being offered here that I think is substantial. And if we were to separate this out to the equestrian center. Original cost on the equestrian center alone was somewhere in the area of the low 30s, 35 million or 36 million. I don't recall exactly where that was. We are talking about a little bit of a different thing that now has an added element. You probably don't remember, there are probably not too many people of sort of the insanity we were thinking about, of building two facilities that would be in direct competition with another. One being a non-equestrian facility and one being an equestrian facility. It was a practical and strategic move that was made more than a few years ago now and it take quite a bit of doing to bring everybody to grips with how this would work together and, again, I would like to applaud you for the work that we did, along with Barrett-Jackson, as a principle and producers on both sides of that spectrum in accomplishing that task, a huge one.

One other small item, and this is a relatively small item, but have we made a decision not to sell the tent?

Tourism and Events Director Paul Katsenes: We have been asked for several event producers to keep the tent for a short time, for the next year. Because they want to use it.

Mayor Lane: That's what I understood. Okay, I will be supporting the measure in spite of -- the one qualifier, I had and I think that's the present value of a quarter million dollars of a year of debt service coming you off in the next ten years. That's my thoughts on it. Councilman Smith.

[Time: 01:02:54]

Councilman Smith: Thank you, Mr. Mayor. You know, listening to the comments of some of the people, I want to make it clear, that I'm not arguing whether we build WestWorld, it's built. In the business, you call that a sunk cost. Arguing to build it in the most western town, we already had that debate. We had that debate two years ago and we have made the expenditure. We spent the money. All I'm trying to do is call attention to the fact that we had an agreement at the time that that deal was done, at the time the Council voted for the partnership, as the Mayor describes it. We had an agreement from our partner to pay \$240,000 towards debt service and I take seriously the fact that I have been elected as one of seven fiscal stewards over the taxpayers' money and somebody told me, it's not a matter of negotiation.

I mean, everybody is saying that contracts are difficult to negotiate. That negotiation was done before we approved the project. Each of those three event sponsors came to the table and said how much they would support -- how much they would pay and the term that they would pay it over. And I don't know how I can now compromise on that number. If I had a contract over here that said I'm going to give you \$240,000 as agreed, that's fine. Then a contract over here that says here's what I will pay for the facility. I will be doggone if I can figure out how we spend \$30 million or whatever the number is on the facility and conclude in our own minds we should now rent it for less. I mean,

that is a kind of big decision or decision in a municipality or anywhere that just doesn't make any sense. Why would you spend that much money and then rent it for less? If the statement that were made is that they are saving money because it's a more convenient facility for them, you don't have to put up tents and all of that sort of thing, but I just don't understand why we would spend all of that money and rent it for less.

And I also don't understand how we can now rationalize that it's okay to compromise and negotiate on a number that was agreed to before we ever built the project. And we are even rationalizing that the stalls will pay for themselves. Nobody has put forward anything that says the stalls will pay for themselves. Maybe they will but there's 101 other capital projects that could come forward with that same preliminary request and maybe they could get \$175,000. So it's -- I'm not hear anything in the conversation that has to do with the basic question.

We had an agreement. We negotiated it. It was negotiated two years or more ago. \$240,000 of debt service. If it can't be done, then it can't be done. Let's admit it. But that was the deal. Let's not pretend we are negotiating what was already agreed to. And let's not pretend that we should be renting out a facility that we just spent \$50 million to modernize air conditioned. It's ludicrous to say that we don't have more cost on the facility. You can't triple the size of the square footage of a facility, air condition it or air climate control that. We can't do that without spending more money. We will most certainly spend more money on this facility and we are at the present time. So, again, I say why would we rent it for less? And where is our \$240,000?

[Time: 01:06:58]

Mayor Lane: Thank you, Councilman. There's no further comments on this, as it stands right now. We do have a motion and a second on the table. I think we are then ready to vote. All those in favor, please indicate by aye. Those opposed with a nay. Aye. The motion passes 5-2, with Councilwoman Milhaven and Councilman Smith opposing. Thank you very much for all of the input and the presentation by staff. I very much appreciate that.

ITEM 24 – CIVIC CENTER MALL IMPROVEMENTS

[Time: 01:07:41]

Mayor Lane: Excuse me. That completes the remaining item that we had moved from consent to the regular agenda. So we now move into the Regular Agenda items which are 24, 25, and 26. We will start with item 24 which is a civic center mall improvements and we have Tourism Development Manager Steve Geiogamah, as the tourism development manager.

[Time: 01:07:58]

Tourism Development Manager Steve Geiogamah: This evening, we are representing to you the Civic Center Mall project. The requested action for City Council this evening, for consideration is Resolution Number 9983. There are two financial actions in this resolution that we are going to go

over in detail in regards to this proposed project, as well as some aspects related to the design review plan and construction element in just a moment, Mr. Earle is going to come out and walk us through the construction element and the timeline associated with this project. Excuse me.

In regards to the first two actions of the resolution, they deal with the finance. The first is to allocate \$300,000 of special revenue funds/bed tax dollars to support a design review plan for Civic Center Mall improvements. This is coming from contingency one-time use -- I'm sorry, coming from carryover one time use and we will go over where they are coming from and their impact on the budget. The second part is allocating \$600,000 annually for 20 years from the Tourism Development fund, beginning if and when the Civic Center Mall project proceeds and the debt is issued. I think the key awards there in that particular action is if and when, following the design review plan when we have the details associated with the construction of this project. So what we are requesting is an allocation at this time of \$600,000 support, potential construction on this project.

To give you a little background on the project and the tourism industry's input in this particular project. This came as a result of the five-year Tourism Development Plan. There was an initiative noted in there for an enhancement of a downtown event venue in downtown Scottsdale seen as critically important. So this particular project has been put out to the Task Force for the Tourism and Development Commission, as well as key stakeholders, ownership, City staff over the past year in terms of this project and these are some of the goals that were identified as we were carrying forward this proposed project. Create community activity is important, create an event ready that allows it to be competitive in the market area and enhance the mall infrastructure, and one key element, take a holistic partnership approach that includes input from stakeholders and users in the community.

It was important in terms of using the bed tax dollars and how they are allocates in regards to possible upgrades mall. These are possible upgrades and actions that could take place. Staging equipment will be considered. Increased storage facilities, landscaping alternatives to minimize maintenance, event signage and way find and increased sight line to the mall as well. Enhanced lighting and power sources and infrastructure improvements once again. As we move this project forward, I think one critical point to make on the infrastructure improvements in regard to the use of bed tax dollars there could be other funds identified for potential use as this project has moved forward specifically related to infrastructure projects but we are asking for allocation of bed tax funds as this is seen as an event venue downtown, and supports the tourism industry in relations to the support of capital funds and bed tax dollars towards capital projects tourism related.

This slide outlines the allocation of the funds and the impact on the budget itself. Starting on the left-hand side of the screen there, and I should note this is per Financial Policy 21A and how these allocation of funds are used and outlined here. And once again on the left-hand side of the screen, you will see the carryover balance as indicated, those are one-time use funds available to support projects such as this, and as we move from left to right, you will see the salmon colored bar that indicates the marking expenditures to the contract with the Scottsdale Convention and Visitors Bureau, and the column on the right-hand side of the screen indicates allocations per the tourism and development program. Allocations to tourism events, the general fund allocation, one-time use and administration. The funds are allocates there, as well as some of the capital projects in screen there

are noted as well.

So as we jump back to the lower left-hand side of the screen, that is the arrow that indicates the Tourism Development Commission's recommendation to allocate \$300,000 to the design review plan. And from that source, you can see there's \$5.1 million available that support that design review plan. A one-time use from carryover funds. Jumping back, we will see an allocation of \$600,000 support, the debt of construction of this particular project. And one important note above the red arrow, you will see additional available allocations, \$600,000 as well as a little over \$1 million. Those are funds available for any projects that come at a later date during the design review process for consideration. There are funds still available for multiuse debt and capital project in the future if Council so desires to allocate the \$600,000 this evening, as well as the \$300,000 from the design review plan. So at this point, I will hand our presentation over to Mr. City Engineer Derek Earle.

Mayor Lane: Thank you, Mr. Geiogamah. Mr. Earle.

[Time: 01:13:21]

City Engineer Derek Earle: Thanks, Steve. Actually, Mayor, Councilmembers, there are two things I would like to do tonight. First of all, I would like to give you a brief history of the Civic Center Mall. I found it interesting to look at the history, but then secondly, I would like to talk a little bit about our work plan to execute the master planning and potentially the future capital project. The first reference to a Civic Center Mall, a large open area actually goes back to 1966, in a master plan that was prepared by Benny Gonzalez. For those who are not familiar, Benny Gonzalez is a locally famous architect, who was responsible for design of this building, the Civic Center Library, and the S.C.P.A. He's well known in this particular area.

If you look at 1966 and do the math, it's almost 50 years ago before most of the people in this room were born. The Kiva and the library were built in 1968. Again, we look at the age of those facilities.

Councilmember Korte: Who is he looking at?

City Engineer Derek Earle: I was born around that time. But the City Hall Kiva and the Library were built in 1968, the initial development of the area of the first parts of Civic Center Mall date to the mid-1970s. What we call internally the Drinkwater underpass or the connection over to the west side was constructed in 1986 and they were some minor renovations done to the Mall in the 1990s. More interesting, it's rare that I do this. I pulled in some -- you have me on. There you go. I pulled in some old area photographs just to give you a visual of how this area was developed. Steve, am I on pointer or -- Brian, excuse me. Thank you.

We can see the area here which is the current campus that we are located on was the original development and, of course this area goes back to 1969. More interestingly, you look at the area where the Civic Center Mall is now, it was mostly small businesses residential, basically a small mixed use area that was redeveloped. Moving forward to 1969, and actually, I found this was the most interesting piece in my research of the Civic Center Mall. You see the Kiva and the Library. You look

over on west side and you see a redevelopment of the west side. You see the Center for the Performing Arts, several new buildings and a central area or a central open area, Drinkwater or what was originally called Civic Center was that gray at the time. Most interesting on this, this was partially funded by a H.U.D. redevelopment grant going all the way back to the mid-1970s. 1986, and this is a little fuzzy. I apologize for the fuzzy pictures -- was when the underpass of Drinkwater and this is the most recent aerial. You can see the mall as it existed today.

The primary focus of the master planning will be three areas, although we will look at the entire Mall area. One being the -- what we call the west entry, a second area being the second event area and the east event area. All three will be key in the master planning although we will look at the mall as a whole. As far as the work plan, what you would be authorizing tonight, if you choose, is the \$300,000 for master planning. We would use one of our on-call contracts to do the planning. We would begin community outreach and we recognize that there's a significant amount of interest in what happens with the Civic Center area, the Civic Center Mall, but we expect this to be a very expensive process. We will look at the current infrastructure and see what the conditions are and develop our design plan and a draft capital budget.

Finally, the last item is we'll be creating a municipal use site plan which is a technicality. And one of your items tonight is to approve that. After that's done, it will require council action for us to do this next slide. We would bring to City Council, the proposed capital project. We would bring the plan and the capital project to council for approval and if approved, we would move forward with the final design plan. We would expect the final completion in the range of 26 to 30 months. So about a year and a half to two years, actually about two years to two and a half years. Excuse me. I can do my math today.

I know there's a lot of words on this screen, but in essence we have highlighted this one is an allocation of \$300 in bed tax funds to do master planning and the second is to reserve \$600,000 for future debt service to allow for future bonding for the construction and the last is more a formality but the use of the master use plan to begin the process. With, that both Steve and I will be available. If it's okay, I will move over to the staff table.

Mayor Lane: Thank you very much for the presentation. We do have one request to speak, but certainly if you stand by, we undoubtedly will have some questions and comments. We do only have one request to speak on this item and it is Mr. Tom Frenkel, if you want to come to the podium, Mr. Frenkel.

[Time: 01:18:55]

Tom Frenkel: Mayor, members of the council, Tom Frenkel, East Montecito. Happy New Year. What a nice thing to see on the regular agenda. As a 30-year resident and someone who has been drawn to the Civic Center Mall since I moved here, and I have always felt it was the most beautiful spot and certainly the most underused area in this city, what a nice thing to see it on the agenda, especially with the tourism dollars and the mechanism and frankly, quite a surprise. I didn't know how it got here, but the fact that it's here and in front of you is wonderful. The one item that I just did want to

Speak on is the gentleman that just spoke, his presentation, he said that he would -- upon approval of this, they would go with one of the City's approvals -- I don't know quite the word contractors or someone who would design this master plan. And I was involved in the last time around, the unsuccessful effort and had spent quite a bit of time with the group and with the planner that was designed. And I think the single most -- almost the biggest decision that you as a Council and your staff can make is who that is going to be. I mean, everyone knows that it's right in the center of the City. The public involvement, even from some of the people who are here that don't want to speak. Everyone cares about it and there are a lot of opinions.

But whoever that contractor is, matters quite a bit, and what I would urge Council or City Manager or whoever -- whoever is going to make that decision, I don't know if that's a set list of 1 or 3 people and you pick whoever is cheapest or whoever is most qualified but that one decision dictates what we are going to end up with, regardless of the involvement and the last go around, I'm sure well intentioned was horrendous and I guess my only comment is that whatever resources you have in your own development department or potentially -- not that you would want community input to pick the contractor, but that's a crucial, crucial decision and I would take the head of your development department and whoever you as a Council are the most -- the most confidence in, and assign them some time and pick somebody that is going to give us the kind of consultant that is going to deliver what everybody wants involved with it. Thank you.

Mayor Lane: Thank you, Mr. Frankel. That is the only card we have, request to speak on this subject. So we have some comments or questions of the staff and we'll start with Councilwoman Milhaven.

[Time: 01:22:05]

Councilwoman Milhaven: Thank you, Mayor. In the materials you gave us, you said that this project is being brought forward as part of the Tourism Master Plan but I also know that the Tourism Master Plan has lots and lots of other really good ideas in it. Why does this rise to the top and have the level of urgency that we need to vote for it before we hear from the Tourism Task Force?

Tourism Development Manager Steve Geiogamah: Mayor Lane and Councilmembers, you are correct, there were a lot of initiatives being moved forward with the Tourism Strategic Plan. This has not taken a priority from others. It's come about through some of our event committee meetings. Some of the event initiatives that are taking place and the stakeholders in the Mall asked us to take look at this closer. We began conversations and began the process no move this forward. We found an opportunity to move that forward and in the time frame that was presented. I would say that the other projects are moving forward. We currently have \$645,000 currently budgeted for the plan and we are still moving forward some of those projects and we hope to bring those forward to City Council in the coming weeks.

[Time: 01:23:32]

Councilwoman Milhaven: It does have a level of priority, because every item we do with bed tax

precludes us from doing another. For me, I would like us to act more broadly. We will hear about the Desert Center and there's potentially another event venue somewhere downtown that that's being elaborated in addition to several other ideas. I would prefer that we wait and consider all of those so that we don't run out of money because one project could pull itself together faster than another. I would rather pick the best idea and get it done right.

The other thing that causes me a great deal of concern is to ask us to pledge \$600,000 over 20 years is asking us to approve a pig and a poke, right? What you are saying is we think we want to improve the Mall, but we're being really vague about what that is and what benefits we have. And so I would not be supportive of committing that \$600,000 a year. And then \$300,000 to figure out what we want to do. It sounds like a pretty big number. That sounds like we are getting into an awful lot of detail around what that will look like before we agree on what we want it to be. You know, and I read here to say that what we want to do is increase visibility and accessible, we can make the entries prettier. Unless we buy property and knock buildings down, I'm not sure how we will accomplish that. And then making it capability of hosting festivals and gathering up to 25,000 attendees, perhaps it's a different configuration that makes sense.

I'm not supportive of this because I would like to look at this, including all the list of all the possible projects. We could have a level of priority on what we want to do. I'm not ready to make a 20-year commitment to them. And I think \$300,000 is an awful lot of money to get -- I think we can spend a lot less to get some conceptual suggestions.

Mayor Lane: Thank you, Councilwoman. Councilman Smith.

[Time: 01:25:27]

Councilman Smith: Thank you, Mr. Mayor. Actually, Councilwoman Milhaven made a lot of the comments that I might have made, particularly the -- asking us to vote on a pig and a poke. The reservation of \$600,000 out of the bed tax monies for 20 years is a \$12 million request, a reservation of money and we have -- normally, we get a plan on the back of an envelope or the back of a napkin. We don't even have a napkin for this one. So I'm not inclined to do that.

I suppose -- and I'm in an awkward position here because I think like many other people here, I consider myself a supporter of arts and culture in this city, as well as the supporter of tourism and I love the synergy of the possibilities here -- possibilities here but I can't -- I guess first responsibility is a fiscal steward of the citizens, the taxpayers' money. I can't just -- I can't just approve \$600,000 based on a study that hasn't even been done, an engineering report that's a year away.

I don't have a feel of what you would get. I would probably share Councilwoman Milhaven's comments that it's an awful lot of money to spend on the problem. I hope there's a marketing plan, something that says what type of return are we going to get on this, what shows are we liable to attract? That's the next action that we oftentimes to do. We tend to build projects and hope they come. But given the time you have, I would urge you to spend this money and not only on an engineering project definition and making sure that it's tourism related, because the tourism dollars

are only supposed to be spent for tourism-related projects. So if we got crumbling infrastructure that should be fixed in the general fund, that's where we should get the money to fix it.

[Time: 01:27:51]

I guess, you know, I would like to make a motion at this point, if I can, that we grant number one and number three on your wish list but not number two. And simply stating we have the \$300,000 to study the problem, develop the engineering plans, hopefully put what you think the benefit would be for the tourism dollars. And then come back to us, we will find some money for you, if it's a good project. So I don't know whether -- how to go about doing that. I have never done this before, Mr. Mayor.

Mayor Lane: Well, Councilman, if you would like to make that motion, it could be made and seconded but it wouldn't necessarily cut off the rest of the conversation.

Councilman Smith: Very good. Consider it a motion made then --

Mayor Lane: Do you want to make that -- I'm sorry, if you wouldn't mind clarifying that again for those of us who are now listening as to the motion.

Councilman Smith: To read from the agenda, the motion is to authorize a fiscal year 2014 and '15 capital contingency budget appropriation transfer in the amount of \$300,000 to a newly created capital project titled Civic Center Mall improvements to be funded by the tourism development fund carryover funds for a design review plan.

Mayor Lane: Just simplify it. I appreciate you reading it, but I think I heard you say that if we are looking at the requested action, you were looking for the first bullet point, Resolution 9983, and the last bullet point, authorizing the initiation of municipal use master plan site for the purpose of amending the existing --

Councilman Smith: My thought exactly.

Mayor Lane: Okay. I didn't mean to complicate it by the total reading of it.

Councilman Smith: That's right.

Mayor Lane: I think I got that and I think everyone else has got that now. So if that's the case, that's the motion on the table. Is there a second for that? The motion dies for lack of a second. Not for lack of comprehension. But in any case, that doesn't necessarily mean that it's not a good idea. What I think would be important is really maybe to continue some of the discussion on this because I think there's some very good points that have been made, but if we were to continue the discussion, we can see where this might take us from here. Vice Mayor Phillips.

[Time: 01:30:34]

Vice Mayor Phillips: Okay. Thank you, Mayor. And the reason I didn't want to second that is I kind of agree with Linda Milhaven's comments about that. I think, you know, the 12 million overall is too much, the \$300,000 is too much. I would like to see work done there too, but I really feel that an architect, if you brought this to them, would be willing to give some kind of a design of what they could do without us even having to pay for it because they would be so willing to get the job. I would rather see some sort of conceptual design than something that we will be paying for than to say, here's all the money and then we'll come back later with something. So, yeah, you can't pay for it up front. It doesn't make sense to me.

But I would like to take this opportunity to say that I would be willing to give you 25,000 if you could change the name from Civic Center Mall to Civic Center Park. Because it's just driving people insane. A lot of tourists come here and say, I'm looking all over for the Civic Center Mall and I can't find it. I said there's no shopping there. They are like -- because it's not a real mall! And I understand the concept of a mall, but we -- I think that's the only thing we need to look at is changing that name. Thank you.

Mayor Lane: Thank you, Councilman. We'll note that for the record that personal fund of \$25,000 coming from you for the change of name. Councilman Phillips. No. I'm sorry. Thank you, Councilman. Thank you, Vice Mayor still. Councilwoman Korte.

[Time: 01:32:34]

Councilmember Korte: Thank you, Mayor. You know, I think for me, this comes down to justifying the use of these monies, tourism, bed tax dollars for what I believe is a capital improvement project. And so I will not be supporting any of the options today. Thank you.

[Time: 01:32:42]

Mayor Lane: Thank you, Councilwoman. You know, I would agree in large part for a lot of things that have been said to this point in time, but we have had somewhat of an odd arrangement and how we analyze these items, certainly this is a capital improvement project. The one qualifier we have on this is it's not coming off a bond even though it was a listed item on our recently rejected bond, but now the determination is whether or not this qualifies as a tourism-related capital project and thus eligible for the tourism capital -- the bed tax capital funds. So that's one thing that apparently has been determined maybe by staff and by the TDC, but we have found that that's been a little less than calculated in the past, and we are -- and I think I share much of the same concerns, certainly, that have been voiced by Councilwoman Milhaven and Councilman Smith, that, I mean to use the term that's out there and I have written it down because I think the technical term is really important, a pig and a poke.

\$600,000 is an antiquated delineation of funds coming out of the bed tax capital funds for bed tax projects, as a slice of the original pie. So we continue to use that denomination, if you will, and it translates into about \$7.5 million worth of capital funding available. So I guess that in and of itself is

an indication. But what we have done and I noticed the wording on this is -- it goes along the same lines of what we have been doing before. Additionally authorized reserving debt service. So more or less, as a debt service, not to exceed \$600,000 for 20 years for the tourism, what we have dubbed the tourism development funding. It's somewhat of an unofficial reserving, I mean, which could be changed at any point in time. Like the rest, I'm not particularly crazy about this element.

I think really we need a great deal more, in order to even prioritize, from the dais here, to prioritize the projects that may be before us and though we have, you know, spent some of these funds in some instances with wild abandon, as some people might consider, most other cases were a calculated event. We were trying no move ourselves to the point of tourism-related infrastructure that was important for our City. I like the idea. I'm a big supporter of what goes on in downtown and to have a good venue for events in downtown I think is very important, but I have no idea as to whether or not this right now is what we have got on deck. And I know that once we get some kind of plan, whether we pay \$300,000 for it, or \$25,000 to change the name, we want to take a look at what's being suggested and we always have the opportunity to accept or reject that kind of plan.

If there's a big question mark out there and it goes to the use of accumulated carryover funds, which has been a little bit of a more accessible amount of money for discovery of these kinds of projects. So on the one hand, I believe the \$300,000 is a bit much, but I -- you know, I have not been in this end of the consulting world. It seems like it's a bit much. Much rather investigate this and take a look at it, without any commitment otherwise, and see where we may land on this.

[Time: 01:36:46]

Bullet point three, I guess that probably is a requirement for us to be able to facilitate. And maybe I should pose that as a question to whomever would like to answer that. Is that more or less a requirement in order to move forward on this?

City Engineer Derek Earle: Mayor, members of the council, yes, that is a requirement, for any improvement we do.

Mayor Lane: So there's no particular cost to that, but it's just an authorization from this body to do so?

City Engineer Derek Earle: That's correct. That was actually part of the -- it would have been part of the architect fees to submit that through the normal route.

Mayor Lane: Very good. So I -- even though I didn't second or we are prepared to vote for it. I think the motion is probably pretty close to where I would like to see us myself. Councilwoman Klapp.

[Time: 01:37:25]

Councilwoman Klapp: I'm concerned about the \$300,000. I'm not sure that that's the right amount.

It seems like this is coming to us because it did not get passed on the bond list. So now there's another approach to try to do some work on Civic Center Mall. I would agree wholeheartedly that we should change the name, and that would probably not cost a lot of money to get rid of "mall." If you stood at Brown to the Mall, if you just ripped out the center section of the trees and the planters and all of that stuff, all of a sudden you have a large pedestrian walking area where people could actually see the Mall. And I don't think that's really expensive. So those would be the two things I would consider doing, is doing something at the entrance to get people to invite them into the Mall.

And also to change the name of the mall, and I'm not too inclined to want to spend \$300,000. I certainly don't believe this is a tourism project. This is a community mall. This is -- as stated, it's for community activities. I think it would be in the future, but I can't see why we commit this type of money from tourism and development funds for a project like this with so little information -- you know, there's the money out there in the tourism fund and that's the way we will try to fund this project. I'm not for that either. I don't want to vote for anything that's been presented to us tonight, but I'm willing to you have put something else together and bring it back to us and maybe I will consider that. This just doesn't ring my chimes too much. Thank you.

Mayor Lane: Thank you. Councilwoman Littlefield.

[Time: 01:39:25]

Councilwoman Littlefield: Maybe because I'm new on the Council and I'm not real experienced on this kind of thing but I feel this is a premature to vote on something like this, this large, this large commitment of money, at the moment when we don't know what our tourism projects will be coming down the works. I don't know what the projects will be. It's limited funding. It's not monies that are just going to be coming and coming and coming without end. So I think we need to have a better idea of what kind of prioritization do we have? What projects are going to be in competition, if you will for those funds and see if that is the best use of the funds. Thank you. I will not be supporting this.

Mayor Lane: Councilwoman Korte.

[Time: 01:40:32]

Councilmember Korte: That makes three of us with Councilwomen Littlefield and Milhaven talking about prioritization. I think if there's one direction that we can give you, that we at least some of this is premature that there -- that it needs to be taken into a full picture and prioritize. And I know the Tourism Advisory Task Force is working on a prioritization and perhaps it would be responsible to wait and see what that is.

[Time: 01:41:25]

Mayor Lane: I will ask if someone wants to form a motion on this item, one way or the other.

Vice Mayor Phillips: Mayor, I move that we do not approve the Civic Center Mall Improvements, Resolution 9983.

Councilwoman Klapp: Second.

Mayor Lane: The motion has been made and second. Would the second like to comment any further on the second? No further requests to speak then. I think we are ready then to vote. All those in favor please indicate by aye and those opposed with a nay. Aye. The motion is unanimous at this point in time. Thank you very much for the presentation.

ITEM 25 – DEFINE CAPITAL AND OPERATING BUDGET PARAMETERS FOR PROPOSED FISCAL YEAR 2015/16

[Time: 01:42:12]

Mayor Lane: Next order of business is Item 25, which is define capital and operating budget parameters for proposed fiscal year 2015/16 and it requests three items, presentation by Public Works Executive Director Public Works Executive Director Dan Worth to begin with, and presentation by City Manager Fritz Behring and then provide possible direction to staff regarding the city's proposed fiscal year 2015/16 capital and operating budget. So I presume then we'll start with the man at the podium, Mr. Worth.

[Time: 01:42:43]

Public Works Executive Director Dan Worth: Good evening Mayor and Council. I am here to give the first part of a two-part presentation. We will be seeking your direction on some key issues at the beginning of our budget process for fiscal year 2015/16, I will be presenting some issues related to the capital program and I will be followed by the Budget Director, talking about issues related to our operating budget. I will give you a very high level overview of the current environment in our capital program and I will be asking for some specific direction on two questions towards the end of the presentation. Right at the beginning, I'm going to tell you don't pay attention to the chart in your briefing packet. I'm going to throw another one up on the Elmo, if you can present that for me, Brian.

And the reason that I'm doing this, if we want to talk about investment in our capital infrastructure, a good starting point is to talk about the value of our capital infrastructure, and I think that it's informative to talk about the value of our capital assets in two different categories. There's the category of capital assets that have a dedicated funding source, an enterprise fund to pay for them, and there is the other capital assets that don't have that dedicated funding source and basically generally funded government assets.

So I have taken our total asset inventory and broke it down into two charts. This is the general government assets, about \$1.8 billion in total value. As you can see, a large portion of that is our

street infrastructure system, about three-quarters of it. The other fairly large segment of that chart is the buildings, as you would expect and then some other smaller miscellaneous categories. This is the enterprise slide, and as you would expect, the largest portion of that is our water and wastewater enterprises, two large segments. One is water and one is wastewater, some very small pieces associated with some of the other enterprises. But the total of this is about 1.4 billion. So our depreciable assets, citywide, somewhere in the neighborhood of \$3.1 billion, slightly more than half of it, and Brian, you can go back to the original presentation now -- if you don't mind, please. Slightly more than half of it on the general government side.

This chart shows what we plan to spend on that asset or that collection of assets in our preliminary '15/16, next year. We got all of this stuff that we have budgeted now in the capital plan, all of this stuff that we anticipate having additional expenses included this year, the items that are budgeted in the five-year plan for '15/16 to have additional funding allocated to them, and this also respects funding requests from -- or at least not all the requests but those that we anticipate recommending we support in the '15/16 budget. So this is a good idea of what we think we will be budgeting for next year, about \$556 million and you can see the categories, the biggest slice is water and wastewater on the enterprise side, preservation, a lot of that is land purchase, transportation, remember that was three-quarters of the total general government assets. It's less than a quarter of the budget.

Another way to look at this, I think, it's very informative, if you take the amount that particular planning on budgeting. I think we draw on this. If you look at the enterprise -- maybe I can't. If you look at the enterprise side -- I'm not going to try to get fancy. The water and the wastewater and aviation wedges, they add up to about \$1.4 billion. We are looking at spending \$232 million. If you do the division, the amount that we will spend divided by the value of the asset, we are looking at averaging about 16% of the value of that asset in fiscal year 15/16, 16% that's on the enterprise side.

On the general government, you take a look at the general fund wedge, the transportation wedge, some of the smaller miscellaneous pieces of the chart. Don't count the preservation because that's mostly going into land purchases, but if you add up those general government pieces and do the same math instead of the 16% that you get on the enterprise side, you get 7.5%. That's the amount that we are budgeting to spend on \$1.8 billion asset on the general government side.

[Time: 01:48:43]

Mayor Lane: Mr. Worth, you know, in using those numbers that you just talked, about the 16% versus 7%, one being on the enterprise side, 16%, you are talking about the recapitalization of that fixed asset as it is; is that right?

Public Works Executive Director Dan Worth: Mayor, it's a very rough indicator, but that includes recapitalization. Of course that includes anything that we intend to spend on those assets that will include expansion as well, but it does include, as a part of that capital expenditure recapitalization.

Mayor Lane: If you were to translate -- if you were to translate the -- the 16% you are talking about, something less than eight years?

Public Works Executive Director Dan Worth: If it was all going to capitalization, it would be something less than eight years.

Mayor Lane: Okay. And then the 7% is something north of ten year?

Public Works Executive Director Dan Worth: Yeah.

Mayor Lane: Okay. Thanks very much. When you think about it in terms of years, you think about that cycle on a fixed asset. That's the only reason I ask for that. Vice Mayor Phillips.

[Time: 01:49:12]

Vice Mayor Phillips: When you say that we have \$1 billion in assets, and we are spending 16% on them, it doesn't mean we have to cover the billion in assets. We have to cover what is depreciated, right?

Public Works Executive Director Dan Worth: Correct.

Vice Mayor Phillips: Are you showing depreciated assets?

Public Works Executive Director Dan Worth: When all of those assets were new, it was a higher number. It's like only a very rough measure of what we should be investing. I have think that the key point, though is that where we have the greater ability to use the rates that we are collecting for the service, to pay for the improvements, to be associated with the service, we are investing more. We are investing at twice the rate than we are on the general government side.

[Time: 01:50:09]

Public Works Executive Director Dan Worth: This is just a snapshot of current general fund C.I.P., the top line, you can see that we have a cash balance in our general fund C.I.P. at the beginning of this year, the year that we are halfway through now, \$34.4 million.

The list of projects in the middle of the chart are anticipated cash expenditures for the entire general fund funded C.I.P. and at the bottom, you have an anticipated cash balance at the end of the year, \$16.8 billion this is a current snapshot look at the whole five-year program this is all the stuff that's in the five-year plan with general funded expenditure plan. This does not include anything that's been proposed or submitted as part of the budget process that we are undergoing now. So this is all stuff that we have already figured out that we have to pay for. No new adds.

You look at the first column, we're adding already in the five-year C.I.P. \$13.4 million that is scheduled to be added, new requirements, new budget authorizations for fiscal year '15/16, then you can see how much we are adding the next three years beyond that. And then the bottom three lines shows you how much money we have to pay for that. \$16.8 million cash balance rolls over from the last

chart. That shows how much we are spending this year. This line shows the result of our policy whereby we transfer 25% of the construction sales tax revenue that comes into the city every year. That equates to a little more than \$2 million a year and then this last line is also a policy.

We also have a policy that gives you the option to transfer any reserved fund balance or a portion of an unreserved fund balance from the general fund revenues into the capital program at the end of the year, decisions that you made last year as part of the budget process. So we anticipate moving \$3 million into the general fund C.I.P. from the general fund revenues on the operating side. That was a part of the overall package a year ago. I've got question marks, each of the subsequent years because we don't know if there's going to be a balance or if the decision is going to be to transfer that. One of the key takeaways on this chart is if you compare this line that shows the new budget authorizations each year with the sum of these lines. And you can see that there's a big disconnect between what we're putting into the budget and the money that we anticipate having to spend on it.

So the big issues, what I just said, our cash balance isn't sufficient to fund all the existing projects that we already have planned in the five-year plan. I think I have gotten up in front of you for the last four or five years now and told you that a big part of that future deficit is a series of drainage projects that are designed to provide a regional draining solution in the portion of the city, these are largely State land, it's north and south of the freeway, between Scottsdale Road and Pima Road. They carry a price tag of about \$12 million, of additional future budget authority that we have got in the plan. It is a big part of, but not all of the anticipated general fund deficit and the C.I.P. and one of the things that we are going to be doing this year is taking a hard look at those projects and do something some prioritization. Is that really the best thing for us to be tying up \$12 million of general fund C.I.P. or are there some alternatives and we intend to bring you some of the results of that analysis as we get further in the budget process.

And then the last bullet, the cash flowing in from 25% of the construction sales tax is not sufficient to meet even just our basic needs, the -- the keep the lights on projects that we spend money on to maintain our information technology and our buildings that we currently have major capital replacements, and associated with the existing stuff. And somewhere between 4 and \$6 million a year or 25% construction sales tax is bringing in \$2 million a year to address that.

So here are the two key questions that we are looking for some correction on. We are not looking for details but we already mentioned it during the previous discussion, do we want to have a bond program to generate some revenue to address some of those needs? And if so, when? And then do we want to take a look at changing the mechanism whereby we designate the minimum amount we translate into the C.I.P., the 25% construction sales tax. So I would be happy to entertain any kind of discussion or to answer any kind of questions regarding this but I'm looking for some feedback on these two questions.

[Time: 01:55:44]

Mayor Lane: Okay. Very good. Thank you, Mr. Worth. Vice Mayor Phillips has already spoken. So just clear that. It looks like we have a question. I will ask both Nohl Rosen and Wendy

Springborn whether you would like to speak now or after both presentations.

City Clerk Jagger: Your Honor, I believe those are public comment for the end of the meeting.

Mayor Lane: Well, then you will definitely wait until the end of the presentation.

City Clerk Jagger: The very end.

[Time: 01:56:23]

Mayor Lane: So we do have some questions and directly on this, starting with Councilman Smith.

Councilman Smith: I'm sorry, Mr. Mayor, I thought Vice Mayor Phillips was ahead of me. Pardon me.

Vice Mayor Phillips: He canceled me out.

Mayor Lane: Are you trying to -- I'm sorry. Vice mayor, were you looking to be back on the screen? Because you were left on the screen from the previous question. That's the only reason I -- okay.

Councilman Smith: We are fighting over who will go first. I will go first.

Mayor Lane: Let know how it works out.

Councilman Smith: I think what you displayed here, Dan that we have a huge capital investment challenge in the City. You were generous in your first chart in showing the depreciated value of the assets and I think everybody needs to understand that that's the assets that we have to deal with but only at about half the price we had to pay for them, in the general fund asset category, not counting water and sewer and those things. They are fine. They are taking care of themselves but in the general fund assets. We have about \$3 billion worth of assets in the City.

And it's true, as Dan showed, those are about half depreciated from an accounting point of view down to a billion six or something like that. But if you start with the \$3 billion and that's what you have to start with, because if you go to replace them, that's the price you will pay, plus inflation. You will pay more than \$3 billion if you try to replace all of those. If you start with the \$3 billion of assets and you assume that they are going to last 30 years, that's \$100 million a year that you have to put back into the capital program, just to stay even. And assuming you don't have any inflation in the cost of replacement of the assets.

And a few months ago, the City Treasurer made a presentation to the Council on the financial results as of the end of last year and he displayed at what is an astonishing number. It didn't get much discussion. But the physical assets of the City and the government enterprises, not the water company and so on, the government enterprise assets actually declined from one year to the next. I don't think there's anybody in the accounting department or anybody in the city that can even

remember when the city's assets ever showed a decline from one year to the next.

And why did they do that? It's simple math. We just didn't invest as much as we had the City assets wearing out. That's what Dan has displayed here. It's -- it's not just in this general fund that's going to be spending \$17 million and then basically be out of money next year. And later he will probably talk about the transportation fund, the same thing. But we're seeing -- we as citizens are seeing evidence of this deterioration of assets. We are seeing it on our streets. Maybe we are not even seeing it, but we are being told that the street condition, known as the pavement condition index has declined significantly over the past five years. With see infrastructure requirements throughout the city that need to be replaced. We don't have any money to do it.

The solution is not going to be Item B on the list to increase by, you know some, some number from the 25% of construction sales tax to some higher number. That's chump change compared to what we need here. What we need is the voters of the City to recognize that the assets of the City are literally their front yard. It is the collection of assets that give value to their real estate. It's why their real estate with an address of Scottsdale is worth more than the real estate would be if it had an address of Apache junction. But it doesn't happen by magic. The citizens must help us in this effort.

We as a Council, I think need to be united in explaining this to the citizens and helping them understand the risk to the assets that are there the underpinning of the value of their investment in the City. They are at risk. And that's what Dan is trying to say. Dan is not a very good person to tell you if the movie theater is on fire. You want to get somebody else to do that. But trust me, the movie theater is on fire here. And I would urge the City Manager or the staff or the Council here or the Mayor to agendize some future work study or a council agenda item to have a complete discussion of what are the capital needs of the city?

What are the resources that we have to deal with this? And how quickly can we put together a bond election and convince the voters of that? My advice, if that's what you are looking for, item one absolutely, it has to be a bond program, there is no other solution. And item two, you can do that if you want, but as I said, it's chump change. You will have to do number one anyway. Thank you, Mr. Mayor.

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

[Time: 02:01:54]

Vice Mayor Phillips: Thank you, Mayor. Well, you know, from a layman's viewpoint, the way I look at it is like, you know, the City's assets and the depreciable assets and we have to cover that and it's \$100 million a year and all of that, if you buy a truck and you say next year it's going to be a year old and it has \$15,000 miles on it, and so I should put \$100,000 in the bank to cover that, always cover the amount of the truck so you can buy a new truck when the truck wears out. That's all a good thing but nobody does that. What you will do is you will put oil and you will do your filter and you will maintain the truck and I think that's what the City needs to do is not try to cover the costs of the entire asset but to be able to maintain the asset. So I don't think it's that big of an amount.

The slide before this, Dan, can you go to the slide before this? Drainage projects I think are critical things that we need to do. The cash balance to fund all the existing projects. What are the existing projects? Are these projects that need to be done? Are they projects that want to be done? I'm sorry that we have it, but we have five double lane roundabouts that don't need to be done. They are wanna dos. It's a matter of appropriation of where you put the money, not necessarily projects that we don't have money to cover.

As far as the bond goes, I have no appetite for a bond. I have no appetite for bringing that to the voters. If we did have to do it, it would have to be critical items only. It would have to be much less than the last bond and it would have to be a line item, in my opinion. And I guess that covers that. So that's my opinion of the bond.

Can you go back to the next one, Dan? The two question one. Yeah, okay. Okay. The construction sales tax. Construction sales tax has gone down. So I think we do need to do that. I don't even know if we can double it, but construction sales tax is going to be way down. So that's nowhere near going to cover something now. It never was enough to begin with in the first place. Thank you.

[Time: 02:04:27]

Mayor Lane: Thank you, Councilman. I would like to think that there's very little opposition to the idea that we do need to be able to fund our capital projects. And I think the prevailing wisdom has been whether it's private sector or the public sector that long-term capital projects need to be funded by long-term capital debt. That's the only reasonable way to try to affect a growing community, a good community, a solid community with their infrastructure. It's a mistake that a lot of communities across the country have failed to recognize and they find themselves in a lurch, trying to find somebody else to pay for it.

So I think it is something, as far as the bond program, my inclination and this is not a decision we are making here, this is a guidance issue and I think that's pretty well recognized by everybody that has spoken do. We need a bond program? I think the answer is yes. The last time when it was rejected, you know, there's various opinions as to what the legitimacy of not only the items within the bond questions but also the legitimacy of the bond program on the overall. There is a tremendous amount of distrust that was pervaded with City -- against City Hall and its decisions in this regard.

So I think it's an important factor that we have to do, if we need to move and it says, if so when? I think there's a critical component there as far as what time do we have to facilitate a meaningful, open and transparent assessment of projects that may need to be prioritized. Now, I think trying to prioritize the items from the dais, we have done that before. We have made some selections and there's some agreement about adding or deleting items but the bottom line is that we do need to have an objective look by staff and by the departments on those items that are of significant need. Whether there continues to be a softness with the constituent voters as to whether or not they want to invest further on a capital pond project, what we need to do is assure them, as best as we possibly

can, that number one, we are looking out for the best interest of a great city. We are all talking about the investment in our front yard and in our home or our truck or whatever it happens to be but the fact remains that it's exactly the same kind of logic that we have to employ with our City. So my -- I would say the bond program, yes.

I think we definitely have to bring that forward and we are going to have to work as a body to make sure that we find ourselves in some manner and hopefully in agreement that we don't somehow generate from this dais forces that will try to defeat it in spite of a majority vote, just to get it on the ballot, much less from the voters' standpoint. I think it's an important element. It continues to be something that the city of Scottsdale needs. We just talked about that. There could be a transference on some things that do qualify as tourism related infrastructure, that we just discussed before. It's been rejected for a number of reasons.

Those are the kinds of things that there is some movement, if the folks in this room don't know it or that are watching us on TV, the important thing that we have done with those M.P.C. bonds, funded through the tourism tax dollars was a rebuilding of the T.P.C. It's one of the major sources of tourism dollars with the Open. Frankly, no matter where we might stand with regard to the equestrian center, the multiuse facility at WestWorld, it's an investment in large part by tourism dollars. The Museum of the West we talked about earlier, tourism dollars that funded those M.P.C. bonds for the structure of that, all things that could have been on a bond and on the -- on the backs of our taxpayers, our local residential taxpayers on a bond issuance. So I think that we have worked this as hard as we can to make sure that we are not putting any additional items into the tax burden of our residents but nevertheless, still need to go that direction.

I don't disagree with anything really that's been said by Councilman Smith, except that I maybe look at this just a little bit differently, but I think in general, I think there is certainly a calculated and a true look from where he talks about it. The question as to when, I would say that depending upon what it takes, it puts a process in place that will be seen and trusted as transparent and full accountability and disclosure. I have think that's going to be a deciding factor. I don't know exactly what the timetable is to put it on the November cycle of this year, but I know that's going to be fast approaching and we're going to be busy with a lot of things. That's one thing for us to consider. Beyond that, it will be 2016. But it does comes down to, you know, how much of a crisis this is and what we can do to mitigate it in the meantime, if, in fact, we go to '16.

So the last question, now this is, again from my perspective, obviously as a member of the voting body of seven, the construction sales tax, the own thing we need to continue to remember there is the fact that any time we increase that, we reduce our general fund. So if it's \$2 million or it's \$4 million, that money is coming off of something else. Something else has to be sacrificed for it. That's the only consideration that we have there. I don't know that we have that excess capacity but if I do, I think that's a calculated effect. That's not just a whim. Councilwoman Littlefield.

[Time: 02:10:43]

Councilwoman Littlefield: Thank you, Mayor. I will start with the second question and kind of echo

what Mayor Lane has said. I don't know whether or not we ought to take more of the general fund transfer for construction sales tax and put it in the C.I.P., that's something that we would have to look at in the overall budget and see if we can afford to do that. If we can, if we have the money to do that, fine. Let's go ahead and do that. Otherwise, you know, we don't -- we would have to look at what it would cost us in the general fund to do that.

As far as the bond program is concerned, you might be surprised that I would be willing to listen about that and discuss the possibility of having a bond issuance. However, there would be some things that I would be most interested in learning and in listening to and that is our citizens. I was very active in the bond issue last time and I was against it. The reason is that the citizens told me they did not like the way it was structured and they did not like the size of it. It was \$212 million. I never heard anyone say it was too little. All I heard was it is too much. Many of our citizens are still hurting from the recession. They are having a hard time and they are going to be very, very careful about adding to their property taxes especially after the override passed and the Maricopa County Hospital bill passed. That will all add to their property taxes and now we will ask them for another addition. We need to be careful on how much we will ask or we will have the same result we had last time.

What they told me they wanted was only the most important items to the welfare of the City. They wanted them individually itemized and they wanted an estimated tax on each item so they knew how much they were voting for or against. I would be interested in looking at that. I have heard some people talk about, well, if we do, that then the north is going to not vote for the south and south is not going to vote for the north and the City is not going to get anything. I have more faith in our citizens than that. I believe they will look at a bond issue, look at the items listed, and vote according to what's best for the City as a whole. I do not believe they are going to pick and choose according to location. They are going to pick and choose according to need. And I think that that's something that we need to consider.

If so when? Depends on when we can get it done. You know, I have no say on that right at the moment, because it's going to depend on the movement of this Council and the movement of staff, putting together an issuance. A suggestion I would have on a bond issue is look at the items that the task force has put together. They prioritize things pretty well. Items number one, items number two, put those on there, the things that we haven't done yet. If there's any room, put on a third. I wouldn't go over \$100 million, that's for 20 years. If you put on \$100 million a year for 20 years, they are going to laugh in your face and turn it down. So don't do it! Let's get what we can. Let's ask them for what they can afford. And let's be rational and reasonable about what we are asking for. Thank you.

Mayor Lane: Thank you, Councilwoman. Councilwoman Milhaven.

[Time: 02:14:06]

Councilwoman Milhaven: Thank you, Mayor. I just want to clarify Councilman, Vice Mayor Phillips talked about roundabouts and transportation and I just want to clarify this general fund C.I.P. is funded entirely separately from the transportation projects, isn't that right?

Public Works Executive Director Dan Worth: Mayor, Councilwoman Milhaven, that is correct and I think I'm --

Councilwoman Milhaven: So that's a separate conversation?

Public Works Executive Director Dan Worth: Those are the projects. They are not transportation projects. They are currently in the C.I.P. I do have a couple of other slides that I will show you.

Councilwoman Milhaven: So we will get to that but it's not part of this conversation.

Public Works Executive Director Dan Worth: Similar issues but it is a separate pot of money.

[Time: 02:45:45]

Councilwoman Milhaven: Thank you. And that's interesting, Vice Mayor Phillips during the bond campaign, he said we should pay for capital out of our annual operating and now he's saying we should just do without. I think that's inappropriate. If we just do without, we will erode the quality of our community and I don't think any of us want that. I would be supportive of a bond campaign.

I would like to have a work study. I would like staff to schedule a work study for us. I have think there's important philosophical decisions we need to come together on and Councilwoman Littlefield alluded to some of them, how much, for what purpose, and what is that going to look like and I think we need as a body come to agreement up front, around that, so that we work as best we can to get a unanimous support of a bond issue. So I'm certainly in support but I think we have a lot of work to do before we get there. Thank you.

You know what, one more thing. I was going to start with this but I decided against it. With all due respect, I don't know that \$212 million is too much. I live in an average house, and it would have cost me \$60 a year in increased property taxes. I think most people in our community could afford \$60 a year. It's about did they think the project had value. I don't think it was too big but we'll get to that conversation in the work study. Thank you.

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

[Time: 02:16:08]

Councilmember Korte: Thank you, Mayor. Talking about the cost to taxpayers of \$212 million bond issue of about \$68, \$65, I was just reading an article in Fountain Hills Times and they recently passed a bond to improve their street infrastructure and that was \$7 million bond, and it was costing the average homeowner \$42 a year. \$42 a year for \$7 million. And it was costing us \$68 for \$212 million.

We live in a great city. And it is the last thing we want to see, is the infrastructure of the City to

degrade. I am in favor of a work study session moving forward with a bond issue. And I believe that we should set a goal for 2015. I don't know what an appropriate amount would be as far as total dollars because I think that should be determined by priorities and need. I really do believe, though, referring to philosophical differences, is that it is critical that this Council provide leadership in a unified voice for this next bond issue. Because the last thing that I want to see is a recurrence of current seated Councilmembers actively campaigning against a bond issue that is a reinvestment program for Scottsdale, although I think that's number one critical point.

Regarding construction sales tax, my only question is, where's the money? Thank you, Mayor.

Mayor Lane: Thank you, Councilwoman. Councilwoman Klapp.

[Time: 02:18:10]

Councilwoman Klapp: Well, I will be pretty brief. I believe that we should have a bond program. I don't think that \$200,000 was too much. I will remind you, the previous question that was on the ballot was less than \$100 million and it went down. So it wasn't the money. It was no one wanted to invest in the bonds at the time. I believe we need to move forward with a bond package. I don't know what the size should be. I don't think we should restrict ourselves to saying it has to be \$100 million or less.

As far as timing is concerned, my feeling is politically to put it on the 2015 ballot may not be a smart move. That's my personal opinion. I don't think people are ready yet for the bond package and we may not be ready to promote it, but that's -- I'm willing to listen to see if something could happen that we could adequately communicate to the voters about the need for bonds and certainly I agree with everyone that we need to have unanimous Council support for it or it's going to be a problem. So that would certainly mean we have some work to do in order to bring it forward in 2015 and perhaps 2016 might be a better choice.

As far as the construction sales tax increase, I think it's kind of -- it's not going to adequately fund any type of bond policeman. I don't see a need for increasing it. And you didn't ask the question, but I would say when we get to the unreserved fund balance, as we have done in the past, and, you know, we have said that \$3 million should be transferred, I would be more than willing to increase that if the money is there. So I certainly think that if we were able to generate monies this year, as we did last year and so far, I don't know if we are going to quite get to the large bundle of money that we had at the end of last year but if we can generate more funds, then I hoped that we could put the majority of those funds into the C. I.P. Thank you.

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

[Time: 02:20:26]

Vice Mayor Phillips: Thank you, Mayor. Well, since Councilwoman Milhaven brought it up, I would like to reiterate what I said that I had no appetite for a bond. I didn't say that we're not going to have

a bond at all. I did say if there was going to be one, I would only go for a line item in critical issues only. As far as the roundabouts go, that's an example of an unneeded project and I'm sure there's unneeded projects in the C.I.P. as well. We can probably find it throughout these things as well. A lot of bond, we had feel-good projects and not critical item projects. And that's one of the reasons why the voters voted it down. If you can see the way we are talking right now, we are already disagreeing on the bond. So, you know, as far as Mayor Lane's point, if we are going to have one, we have to agree on, it we will have to make the voters rest assured that we all think it's a good idea. And I agree with that. You know, we can't say we've got to have 212, I see nothing wrong with that. I can't say \$1 million on my side of it. We can agree that it has to be critical items and line items. Thank you.

[Time: 02:21:48]

Mayor Lane: Thank you, Vice Mayor. Mayor Lane: Just a couple of added items that I would like to mention. One is that something that's always available to us if we went back to the two questions and two questions and the second one being the construction sales tax percentage, whether that would be increasing and a number of us, I think, have already addressed the fact that it's really subject to a calculation and what kind of offsetting costs it would be to the general fund.

One of the things we have been doing over the last several years and year-by-year basis, it makes complete sense, that is if we have an unallocated reserve, we can always make the decision to put additional funds into the C.I.P., much as Councilwoman Klapp was just mentioning. I think we have done that before. It's a reasonable way to go without changing the percentage. If it's there, that may be a way to go. And I think that makes it pretty plain and pretty simple and doesn't jeopardize something else.

The other is the timing on this, there is just -- it's not just a small consideration, when we are thinking of the expenditure of funds. A special election in 2015 will cost us an additional half a million dollars because there won't be anything else going on at the time.

There are two things that we need to consider. One of them is just exactly that. There's a cost to the speed on that. It's a perception of how that may be seen, and it's also a matter of whether we have given it sufficient time to make sure that it looks right to everybody and that we had time to truly evaluate the elements as they are re-reviewed. We are now talking about, I think, there really has not been a suggestion to instigate a new bond review commission, and therefore, we will be working with the data as has been presented in previous years and then subject to a review and I think the work study suggestions is probably a good way to go, but after a very calculated effect by staff on those other numbers, where they are, what's been done, what hasn't been done, how we may reprioritize it on a critical basis. There's a consensus of opinion there. I think there's a consensus.

Now this is just a draw to go from a directions standpoint, that bond working towards a new bond is something we all want to do there may be some differences of opinion in how we get this and what amount but nevertheless, I think it's something we have to do. As far as the date and timing on it, we may consider the additional cost but I think more importantly, we want to make sure that the public

sees this as a transparent and legitimate measure to move forward and we are not rushing or slipping something through. Perception is 90% of the view. So I think with that, unless there's any exception to that sort of synopsis of our opinion, that's the direction we can give on the subject.

[Time: 02:24:57]

Public Works Executive Director Dan Worth: Mayor, I appreciate that. What we will do is we will work moving forward to frame the discussion for the possible work study, and we'll do it on a timeline that would allow us to support a 2015 election of the decision that you arrived at. So we won't preclude that possibility, but we will be bringing the potential lists using the Task Force recommendations as a starting point as well as the other issues that we will have to discuss, as far as how we structure it and we'll be bringing that to you for a work study in the near future.

Mayor Lane: Excellent, Dan. Thank you very much.

Public Works Executive Director Dan Worth: Before I turn this over, just a couple of slides on the transportation and really, I could just get the slides and say ditto, the transportation fund, like the general fund, there is a dedicated funding source. Our .2% of a percent transportation tax goes to C.I. P. projects but if you go to the five-year chart, there's a lot of very small print here, but if you look down at the bottom, you can see the two key lines we are adding between 8 and \$11 million a year in new budget requirements. A lot of that is to just take care of existing stuff, 3 million of that is my paving overlay program to rejuvenate existing pavement. So \$8 to \$11 million a year, we are generating, \$9, \$10 million of revenue from the transportation, .2% sales tax. The situation is not as dire as the general fund but it's still something that we are losing ground over time, unless we consider an alternative renew source. So --

[Time: 02:26:51]

Mayor Lane: Mr. Worth, if I might, does any of this consider -- and I realize we do have a separate sales tax component that funds a good portion of this, maybe to the tune of between 8 and 11, I think is what you were saying, but is any of this considered or are there avenues of additional revenue for Prop 400 and the arterial roads and the connectors that qualify?

Public Works Executive Director Dan Worth: This chart just shows our transportation sales tax investment and if you look at some of the projects on here, the Raintree project, the Pima Road projects, we have substantial revenue coming from other sources from the Proposition 400, and the Salt River Pima Community and the federal grants. We talked earlier about the dirt road paving that's funded largely 93%, I think, by a federal grant. Those all are viable additional sources. They are invaluable to the capital transportation program. They also all require some local match funding. We've got to pony up some money to get the benefit of those additional funding sources, those outside funding sources and that's what you are looking at here. So if there's no further discussion on that, I will turn it over to Budget Director Judy Doyle, who will present the general fund operating issues.

Mayor Lane: Okay. Thank you very much, Mr. Worth. Ms. Doyle, welcome.

[Time: 02:28:25]

Budget Director Judy Doyle: Good evening Mayor and members of the Council. I'm excited to be here this evening to begin our 15/16 budget development discussions. It's hard to believe we are already here. It feels like we just adopted the 14/15 budget. The annual budget process is an opportunity for you to identify your priorities, what services and programs the city will provide and what those services will cost to our citizens, business owners and visitors. Decisions that need to be made related to the budget can often be difficult, but as our City Manager proved last year, the process does not have to be.

As you may suspect, we continue to face our new financial reality as we slowly emerge from the recession. Later in the presentation, I will try to put this into perspective for you. While you will see anticipated revenue growth, and you know the great strides that we have taken to reduce and limit spending, difficult decisions will still need to be made. As we, again, will not have enough revenue to meet all of the needs and priorities of our City. Tonight, with this brief presentation, we hope to get your input governing body on two areas, our revenues and our expenditures. At the end of the presentation, we would like to identify what you are willing to support and what you will not consider. Setting those budget parameters at the beginning of the process will make the City Manager's job that's much easier that is realistic and you can adopt.

I will quickly go through some information, beginning with the two revenue sources that you have control over, our local sales tax, and our property tax. As you can see from the pie chart of our current budget, our 1.1% local sales tax is the largest of our general fund sources at 42%. The next chart here details that breakdown of the local sales tax by category. Originally when we adopted the budget, we forecasted 106.7. We have revised that up 1.6 million or about 1.5% because the economy is doing a little better than we had expected. We are forecasting next year, based on our current data 109.8 million. I will mention that this amount may be modified, when our proposed budget is released in March as we will continue to evaluate the holiday numbers when they come in in February.

The next chart shows the ten-year history, and forecast period. To give you an idea of the amount of sales tax money we collect and how close to our estimates we are to reality. The dot on the column represents the estimate and the column itself identifies reality. Just to kind of put this into perspective for you, in 06/07, the City generated \$120 million. As I mentioned, we are forecasting in '15/16, a difference of about 10. Another source of revenue that you have control over is the property tax, which equates to about 10% of our general fund sources. This primary property tax detail you can see the current year we are collecting about \$27.5 million and we are forecasting about \$26 million. This does not assume any increase to the levy. This is just based on new construction and new valuation within our City. I will note this forecast is also subject to change as we have not received anything from the accounting. We expect to receive something next month.

The optional increase is what we would like to get input from you this evening as we move forward.

As you know, council has opted to forgo the statutory allowance of 2% over the last four fiscal years which equates to about 2.1 million. So later in the presentation, we will ask for direction from you if you would like to include that prior four year 2% allowance. We will also ask direction for the 15/16 2% allowance and we will ask for direction on a tort recovery of 1.4 million. I will note that Council did authorize a tort recovery in the current budget of \$2.1 million.

Let's look at the expenditures. Consistent with our discussion last year to stay competitive and predictable with our workforce, we would like to move forward with a 3% of payroll we have programmed for salary increases for employees who perform well, which is consistent with Council's goal to invest in a high performance organization. The forecast cost of 3% is about 5.9 million in all funds and about 4.6 million in the general fund. So to break that down about 1% salary increase is about 1.6 million in our general fund. Personal services as you know is a large piece of our budget, about 73% of our general fund divisional operating budget. Because it's so significant, identifying if the Council has some ideas or desires as to where they feel comfortable on the issues of salaries and compensation, it helps us incorporate that up on the budget end of the process, in making decisions at the last minute. And we want to stay in tune with the other Valley cities. We don't want to get too out of whack with salary adjustments. Plus it does send a message to our workforce as to what they can expect.

Another area on the expenditure side that we would like direction from council is the C.I.P. contribution. This chart shows you the general fund's history of the contribution and forecast. As you can see, the peak in 06/07, and 07/08, was up around \$14 million. The current budget includes the 25% of construction sales tax per our financial policy, which was about 2.6 million. It did include some one-time revenues that we expected from the sale of City-owned buildings of 3.5 million, plus we do plan to transfer an additional \$7 million of unreserved fund balance for pay go. As Dan mentioned, the current budget does program in 15/16 that 25% construction sales tax of 2 million, plus an additional 3 million based on an additional anticipated sale of a building. At this point in the process, it is difficult to say how much we could comfortably contribute to the C.I.P. for pay go.

We are in the middle of developing our revenue forecast and finalizing our expenditure budget. The few things that we do know are beginning on reserve fund balance for 14/15 is actually 8 million greater than what we thought it was when we adopted the budget, which our City Treasurer shared with you in October when he presented the 13/14 actual results. We also know as I shared with you this evening, that sales tax is coming in better than planned of about 1.6 million and our City Treasurer will present to you this evening in his December monthly financial update that building permits are coming in better than planned to the tune of about 2 million.

Now, with all of that said, I will note that we do need to maintain some unreserved fund balance. In the 15/16 we have an additional pay period that will cost about \$8 to \$10 million in the general fund. So we do have some other items for you to consider as we go through the budget development process. We just wanted to share with you some of the key general fund cost drivers.

First, the police retirement. We are expecting an increase of about 2.4 million next year and November we have received a memo from a state indicating a ruling from a case had reversed some of

the pension reform changes. The reversal will have a significant impact to our contribution, our employer contribution rates in 15/16 of over 7%. Now, State has given us the ability to phase that in over three years, however, we are opting to just take that increase in year one. If we don't, it will be a loss of contribution dollars into the plan and it will decrease the funded status at June 30th of 16.

Next our internal service charges. We are anticipating an increase of about 1.3 million. This is primarily the result of our property liability and workers comp. This is in an effort to get our risk management fund at an actuarial 85% confidence level per the direction of our Loss Trust Fund Board. We are seeing a \$1.1 million increase which equates to 8%, in healthcare. This is something that we had planned when we built the 14/15 budget for the 15/16 year. Our H.R. department will be coming forward to discuss the healthcare rates with you.

Police compensation, you will continue that discussion on February 10th, that could be a cost driver for our general fund. I will also note that our Police Department does plan to bring forward a request to increase their overtime in 15/16, just based on prior year usage. So that will become part of our budget discussion as we build the 15/16 budget. And then fire staffing. The Fire Department is part of the budget development process will also be asking for additional staffing or over time dollars to mitigate some of the constant staffing issues that we have been experiencing. So this issue will also be presented to council, as part of the budget development process in the future. I will conclude by soliciting your input and direction on both of those policy revenue discussions. Mayor would you like to interject?

[Time: 02:40:21]

Mayor Lane: You might have seen me lunging to the microphone. I have a couple of quick questions with some changes that I know are imminent on some costly issues that have been projected into our budgets as I believe they have been. And it's the T.P.T. reform. One is it's being -- it's going to be pushed back a year. That's one and I'm not sure exactly how that might impact the 4.5 million or thereabouts that we had scheduled for the increased cost center. I don't know whether that has any impact. But there's also now -- and Mr. Nichols, I'm sure you are probably aware of some of the changes that are being proposed with regard to the prime contractor deal and the subcontractors deal. That may change those numbers too. I didn't know whether anybody had quantified that, but if, in fact, that were to move the needle back a ways off that 4.5 million, whether there's any consideration for that.

City Treasurer Nichols: Mr. Mayor, members of the Council, we are aware that there's traction gaining in the Legislature, but we haven't heard anything from the League of Cities and Towns yet, what impact that would have on us. Not only from the Legislature but we are hearing it from people who are subcontractors in the City of Scottsdale as well that they would like to see those rolled back as well. We believe it would be a positive impact.

Mayor Lane: The two components of the subcontracts is the trades. They would pay individual sales tax outside of a prime contract arrangement. So it would still be at the site of service versus the point of sale and I think that was probably the largest component. So I'm anticipating and I haven't

quantified it either but I'm anticipating and I think the Legislative has been prompted by the League and most of the mayors to follow that line, something the subcontractors had asked to have affected to -- I think it will move the needle back but I certainly give consideration to the fact that it hasn't been determined yet. That may be something that would be on the other side of these drivers.

City Treasurer Nichols: Mr. Mayor, members of the Council, it would favor the City of Scottsdale.

[Time: 02:42:44]

Mayor Lane: Okay. And I'm just thinking, was the \$4.5 million, was that the number we had quantified, you know, when this -- when we originally went into effect?

City Treasurer Nichols: Mr. Mayor, members of Council, I'm not exactly sure if that was the exact number. There was a -- if you remember, there was a half year implementation and then once we looked at the full year, there was a more significant impact but I can return to Council with that number. It is programmed in the 14/15 budget and the five-year plan going forward right now, that impact.

Mayor Lane: And then the other component and I don't know whether it was part of it. Let me use the \$4.5 million, I don't know whether it's the half year or the full year, so you defer to you on that. The other part of that component was whether we saw any denigration in our ability to recover from audits, because of the more concentrated effect we have and control over audits within the city versus what would be going on the A.D. O.R.

City Treasurer Nichols: Mr. Mayor that was a concern. As you know, some of the implementation has been moved back. The audit portion was not moved back. That did take effect on January 1st of 2015. We still retain the right to audit within the City of Scottsdale. It's just now a request has to be made through A.D.O.R. for us to do that.

Mayor Lane: Right. And, of course, some are multi-jurisdictional that we may be out of all together, as far as our ability to audit them, depending upon what the A.D.O.R. wants to do. But I was wondering whether or not that amount was part of the \$4.5 million or what it was, whether there was any consideration for that potential denigration of recovery.

City Treasurer Nichols: Mr. Mayor, members of the Council, that was not included in the \$4.5 million, if there is a denigration from the lack of auditing on the current taxpayers.

Budget Director Judy Doyle: Mayor, if I could, I will just clarify. The amount is \$2.4 million was the amount that our tax audit team had forecasted as a result of that change. That was a full year. We -- as you can see, on this chart, if you look at the construction line under business, you will see there is a reduction in 15/16 related to that. We did account in 14/15 for that partial year reduction as well.

[Time: 02:45:05]

Mayor Lane: Okay. Very good. Well, then there's a possibility -- now, I realize it's not been quantified, but the significance of the change going from point of sale to point of transaction is big for us. So I would think that there would be at least a reasonable prospect for us to cover, if not all, some large portion of that. And it would help to go against some of the -- what we have got faced there. So thank you. Councilman Smith.

[Time: 02:45:32]

Councilman Smith: Thank you, Mr. Mayor. Go back to your slide where you want some guidance from us, I guess your -- and I will talk first to the slide that requested guidance on the property tax, 2% allowance. And in short, my answer is, yes, to both of your questions which if I understand the yes and no, my yes would mean that we should take that allowance. And I need to explain to people why I take that position, and it's not just a matter of financial balancing the budget or whatever. It is a matter of policy. And what I consider to be fair treatment for the citizens that are -- that are now and have suffered greatly during this recession. I think we have patted ourselves on the back for four years, maybe five if we do it again for not imposing a tax on the citizens and we probably exclaim that. But think about the numbers. This tax is \$500,000. That's all we are talking about. That's what the slides showed. And I'm not going to argue that it's not a lot of money. \$500,000 is important, but if we do not impose this tax, who are we benefiting? And the answer to that is half of the property tax is paid by business. In the first instance, this is a bonanza, a windfall, a saving, a nontax increase, whatever you want to call it, benefiting business. The other \$250,000 is paid by residents, but disproportionately. Probably 20% who own the very expensive property pay 80% of the tax that's imposed or would be imposed.

And so the second part of this action that we have taken now for four years, going on five, is to grant relief to the most affluent members of our community. I don't think that's right. I don't think that's what we are here to do, to pass on tax breaks to business and the most affluent members of our community at a time when we are making those decisions based on what we say is suffering and needs of less fortunate people in our community. This action that we have taken for four years and now proposed to take for another year, with just a pass on this tax increase is -- has nothing to do with helping the average Scottsdale citizen. The average Scottsdale citizen probably enjoys a savings from this action, I'm going to guess of 30 cents a year. It's just not a big deal and it's not directed in the right direction.

Let me tell you what we have done in the same period of time, and I'm going to have Judy move back to the slide that is the ten-year history of sales tax collections. In the same year of -- in the same period of time that we have applauded ourselves for not increasing taxes on business and affluent members the community. We will get to the slide eventually.

Budget Director Judy Doyle: I don't know why it's stuck. Apologize.

Councilman Smith: Maybe she won't get to the slide.

Budget Director Judy Doyle: Here we go.

Councilman Smith: In the same period of time, we have, in fact, taxed and increased the tax on the citizens of Scottsdale. Look at the left-hand side, when the taxes -- the sales tax used to be \$87.9 million, and this year we estimate they are going to be \$108.3 million. That's \$21 million of additional money we have extracted from the citizens and the tourists but mostly the citizens of Scottsdale. So while we are applauding ourselves for decreasing taxes or not -- rather not decreasing taxes but simply not increasing taxes on business and affluent members the community, we sat passively by, letting the tax rate be applied to the purchases that those folks made as they emerged from the recession, as they revisited the car dealers and revisited the clothing stores and began to acquire the things that they postponed for so many years. And every time the cash register rang up their purchase, the city enjoyed a windfall. I don't think that's right.

And I will tell you what's even more egregious is embedded in this number, embedded in this \$108 million that we are going to collect from the citizens of Scottsdale and the tourists who visit, there's about \$8 million, again that was on the slide that Judy presented, about \$8 million that is coming from the tax that we impose on food bought at a grocery store. And I will tell you, you don't have to understand economics to understand the difference between progressive taxation and regressive taxation. Regressive taxes are those taxes that are imposed on people who can least afford it. And the most regressive tax that any community can impose is a sales tax on food. Because everyone needs it regardless of your income level and for those folks who have the most challenging income levels, either fixed income retirees or simply folks that are disadvantaged in our community, that is the most regressive tax that we can impose. And we impose it and we get as the slide shows, \$7.5 million from those folks and we have gotten that every year. We instead get it every other year in the future.

And so if you want my guidance on the question of what to do about taxes, as I said, I would reverse everything that we have done on this property tax bonanza for business and the affluent members of the community and instead I would direct our efforts to come up with a meaningful program of tax reform that reduces the burden of the most regressive tax that any community can impose. And by the way, not every community and certainly not the State, imposed this tax in Arizona or in other states. I would urge the City Manager to address this question, come back for a program for eliminating the food tax, the tax on food from grocery stores. Sometime sequentially or over the next four or five years. That's if you want to help what are truly the struggling citizens of our community.

The property tax tort recovery, I would continue to put that in. There's no other funding source for that. It's a legitimate inclusion in the property tax.

The salary adjustments, I would answer your question there, 3% for pay for performance. I guess I would challenge the City Manager and other Charter Officers, is it indeed a program of pay for performance? In the past, this is all too often morphed into simply an increase for roughly everybody. You have to be pretty inadequate not to get the 3%. A true pay for performance plan is one that looks at the performance of individuals and that say some people deserve nothing and others

deserve 6% and some people deserve 3% and some people are in 3% and others earn zero. 3% is not unrealistic if it's really a pay for performance plan.

And the C.I.P. contribution, I'm not sure what the question is there. If we have money left over, we should put it into the C.I.P., that's the question but I don't think you can prescribe that on the front end. Those are my comments, Mr. Mayor.

[Time: 02:54:16]

Mayor Lane: Thank you, Councilman. Certainly, there's a good bit of conversation on just about all of these, that we have just heard and I would not say that I -- well, I would not say that I agree. The sales tax increase certainly that Councilman Smith is talking about is based upon taxable activity, not rates. Most everything we are talking about here are rates, not tax levy totals and, therefore, when our tax levies, by virtue of total amount collected increased on the basis of taxable activity, that's a good thing. That's the way we want to operate. We want to be able to say we kept our rates the same but we are a more effective or growing economy and we have more taxable activity. The positive thing. People spend their money when they have their money.

The rates haven't increased and therefore the impact is at least no worse than it would have been at any other time. So I'm not suggesting we have a sales tax rate reduction but where I would suggest -- what I would suggest and this is for us as a body to determine, it's not a dictate in the way of any direction, directly to you to do anything, it's more from the standpoint of what this collective body feels and the way of guidance from us all. But I would agree that there should be room because we have increased taxable activity and the sales tax side of things. That has always been seen to be a great place for the City of Scottsdale, simply because 22% of our sales tax receipts come from folks outside of the City. That's a positive thing.

The tax on food consumed at home is something that has been something that I felt for years and, frankly, precedes me that it's something that we should seriously consider. Not to put it in jeopardy open it, and therefore, just in the same vein as the Councilman Smith suggested, I think some kind of -- if there's a phased approach to that, it might be something we want to consider.

I don't agree on the property tax issue at all and simply because not only that, he's talking about certainly a 10% increase in this year, because he's gone yes to both, the four years plus the current year, which is 10% at a time when we may be trying to go to the same taxpayers on a property tax increase for a bond issue. I don't find that palatable or fair and frankly I don't even think it's unfair from the standpoint of the distinction of the wealthy and the somehow businesses getting some kind of additional allowance. Everything is relative when we talk about your level, when we talk about a percentage of your evaluation for your home or whatever it happens to be. Or the extent of your purchases. For Councilman Smith, you know, an extra \$100 a month may not mean a thing, but it may mean a lot for somebody who is in a different position and the percentage of a 10% increase in the property taxes, again everything is relative. I think that would be hugely impactful. So my answer to number two is no on both counts. I would leave it just the way it is or as we have operated with it.

I have told you the one exception that I would suggest on the sales tax increase and the answer to that is no, but I would also say, and frankly, it's been working well for us. We haven't put ourselves in jeopardy on the sales tax as other communities have and actually have damaged their business based on that as well.

The property tax reform recovery, I would agree with Councilman Smith on that, that I think you are talking about something that if, in fact -- and I don't know what the extent and I won't ask for that number right now. What we are looking at, but the settlement of some large suits do put us into a position, probably, of some significant amount of tort recovery. Again, that's something we have done in the past. There's no other source to fund that. If we don't do it that way, the reserves will have to be increased to cover that extraction of those funds and therefore, we have got another hit to the general fund and therefore, something else has to suffer. And in these cases, it might be our -- well, we might have an insurance increase as well, but it also damages some of the departments that have greater exposure than others.

The expenditure side of it, I think the salary adjustments of 3%, even though I too would look for a true performance-based distribution on this, I do understand how that works in reality, but that's something I think that is very important. The C.I.P. contribution, I presume we are talking about from unallocated reserves, whether we change the 25% rate or we took it on a year-to-year basis. I think that's certainly something that we need to consider on the basis of the availability of those funds and what it would go toward. I also believe that it has something to do with what our confidence level would be in getting C.I.P. funds through a bond initiative. So that's -- so I would say salary adjustments yes, and C.I.P. contribution yes, but it's a subject to. More than yes or no here. Vice Mayor Phillips.

[Time: 03:00:04]

Vice Mayor Phillips: I'm awake. Okay. So next --

Mayor Lane: You need to repeat what I said then.

Vice Mayor Phillips: What he said. Local sales tax increase. I don't know about the increase of the sales tax. I wouldn't want to get rid of it, but I certainly wouldn't want to increase the property tax. The property tax, you know, it's for a small business too, it's not just for big business, and we don't want to discourage small business from coming in, because we are raising the taxes. People in south Scottsdale own homes and businesses. I don't want to raise their property tax. As the Mayor suggested, if we have a bond, we might be raising property tax as it is. So, you know, I have no appetite for that. So if something has to be raised, I suppose I would rather do the sales tax than the property tax.

The property tax tort recovery, I would rather see that in the general fund. I understand the ramifications of that also, but then we also see how much money we are putting out for that. I don't agree that the property owners should have to pay for litigation from somebody who did something

wrong, and then we all have to pay for it. So that's my thought on that. Next page.

Salary adjustments, I agree if it's truly a pay for performance, then I would agree to that. The C.I.P. contribution, I really think we should have a policy on that, you know, the -- somebody wanted to raise the 25% construction tax and obviously that's not enough to do anything. So we wait and see how much is left over at the end of the year and then we all vote on how much we want to put in. I would rather see a policy of 25% of the up reserved or something like that every year. So we already know what's going to be put in and we won't have to discuss it every year. So I guess those are my contributions.

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

[Time: 03:02:19]

Councilwoman Klapp: I'm not sure why this is not -- I think the first one was sales tax, no, I would not increase sales tax. And I would also -- I would also agree that I think it's a good time for us to look at if there's a possibility of phasing down the food tax, of food consumed at home, not in restaurants, but groceries, and it could be phased over a number of years because I realize there's a great impact. But I do believe that, you know, following the discussions in other cities about food tax, that Scottsdale has enjoyed a food tax for many years and we ought to be looking at how to phase it down from where it is today.

I would not increase the property tax. I don't like the portrayal that we applauded ourselves for not taking the 2% allowance. I think we were trying to be sensitive to the property owners and the problems that they had to suffer through for the last few years. We have been able to not take that allowance and still be able to balance our budget. So I don't think see any need in this fiscal year to do, it nor do I see a need to go back and try to get the last four fiscal years of tax that we didn't take. I don't see the need for it. Property tax tort recovery, yes, I believe it should -- it should come -- the tort recovery should come from property taxes.

The next question, I believe, was for salary adjustments. I would support the 3% pay for performance program and as I understand and in talking to some people in the City that administered this pay within their departments, I believe they did consider a higher percentage for some people and a lower percentage for others and evened it out at 3%. So some people didn't get anything. That's what I understood it to be and, of course, I would encourage that to continue in that fashion. It isn't a slam dunk that you will get 3%. It has to do with the performance of the individual but I believe 3% is an adequate amount to program into the budget.

And C.I.P. contribution, I have already mentioned that I believe we should try to put a considerable amount into it, if we can. It depends on how the year plays out, but definitely, if there's unreserved fund balance, I would be supporting putting a sizable amount of that balance into the C.I.P., although I did hear what you said about the coming costs for one pay period. That's kind of astounding. So obviously, we will have to keep that in mind for future reference. Thank you.

Mayor Lane: Thank you, Councilwoman. Councilwoman Milhaven.

[Time: 03:05:08]

Councilwoman Milhaven: Local sales tax increase, no. Do we have the authority to increase sales tax? Doesn't it require a ballot initiative?

Budget Director Judy Doyle: It would have to go to a ballot initiative. We wouldn't see anything until 16/17 if we did it.

Councilwoman Milhaven: Property taxes are a more reliable source of income than sales tax and coming through the most challenging economic time we hope we will ever see in our lifetimes, I think was entirely appropriate to not take the property tax increase to the City for the responsibility and not pass that along to citizens that were also struggling. But as we rebound, as we don't increase our property tax, and inflation increases our costs, it means that we have become more reliant on sales tax and less reliant on property tax and sales tax is a far more volatile source of income and so in the long run, it's not prudent for us as a City to become overly reliant on the sales tax while I agree with what the folks have said here about not maybe not this year, given if we are going to come forward with a bond, while I would agree with, that I'm also still open to considering a property tax increase in the coming year, based on my concern about the long-term reliance on sales tax versus property tax. Tort recovery yes.

Salary adjustments yes, and I have a couple of other comments. We heard from you earlier about police overtime and I think also fire overtime. And this is something we have been struggling my entire time on the Council. I would really like to get a handle on why that's necessary, if we are staffed properly, we shouldn't need overtime and my understanding is it's cheaper to hire than it is to fund overtime. So if we are going to see that request, I would like to have a pretty robust understanding about why that's necessary. In terms of pay for performance and salary adjustments, we heard and you mentioned earlier today about the work that's being done around police compensation and I applaud that effort. It's also my understanding and my expectation that we have done a similar exercise around fire, that we have looked at total compensation and we have looked at where we stand in the market place, and that we are being as thorough and as rigorous and as comprehensive in our review of fire compensation, total compensation in our place in the market place than we are around police and hope to see that also as we move down the road.

And then C.I.P. contribution, I don't think there's any point in changing that -- the policy around construction sales taxes. We have heard it's not going to be adequate and it means something else has to give. In terms of unreserved fund balance, certainly as we have it. I do -- I stepped away for a moment when Mr. Worth was talking about transportation C.I.P. I don't know how the others here feel, I would like to have a more robust discussion about transportation C.I.P. and I know the Prop 400 money goes towards some tort operating expenses and some toward capital. And I know there's been a policy about how that gets allocated but we heard last year or when we set transportation as being one of the Council priorities and Mr. Basha came and shared with us the state of affairs which were pretty dismal, but we didn't get much of a solution. So I would like to have a much more robust

conversation over how we allocate the Prop 400 money operating versus capital and review these projects because believe it or not, I agree with the Vice Mayor that while I'm supportive of roundabouts, are they really critical for us? And I so I like us to read some of those capital projects to see if they are really required, especially when you say there's not enough money. We need to have a discussion about what our priorities are.

Mayor Lane: Thank you, Councilwoman. Councilwoman Korte.

[Time: 03:09:33]

Councilmember Korte: Thank you, Mayor. Number one, no. I would like to see our conversation continuing around the food, grocery tax. I think Councilmember Smith brings up very good points on that and I think it's worth taking a look at to see how we can fit that in.

A question, do we know, you know, referring to number two, what is the impact of the 2% on an average home? And average business?

Budget Director Judy Doyle: Well, on an average home of 100,000 --

Councilmember Korte: Average home. That is not an average home. Maybe 250.

Budget Director Judy Doyle: We have calculated at 350.

Councilmember Korte: Thank you.

Budget Director Judy Doyle: It's about \$3.50.

Mayor Lane: A year?

Councilmember Korte: \$3.50?

Budget Director Judy Doyle: Correct.

Councilmember Korte: \$3.50?

Budget Director Judy Doyle: \$3.33, actually.

Councilmember Korte: Okay. Boy --

Mayor Lane: Yeah, keep going.

Councilmember Korte: Boy, that's onerous. And an average business, do we have any --

Budget Director Judy Doyle: I do not have that information but we should have that for you.

Finance Director Lee Guillory: Mayor Lane and Councilwoman Korte, the commercial class would be double that because we have a higher assessed valuation so for \$350,000 assessed commercial property, it would be a little over \$6.66. Just because of the different assessed valuation applied to their properties.

[Time: 03:11:32]

Councilmember Korte: Okay. Thank you. Given that knowledge and pragmatic knowledge I would support a 2015/16 2% increase, although I would not go retroactive on the previous four fiscal years. Tax tort recovery, yes. Salary adjustments and pay for performance, yes. And C.I.P. I do not see a need to change our policy.

Mayor Lane: Thank you, Councilwoman. Councilwoman Littlefield.

[Time: 03:12:10]

Councilwoman Littlefield: Thank you, Mayor. Increased sales taxes, no. Property tax 2% allowance, for previous four years, no. I think that would be a betrayal of decisions that we already gave to our citizens. For the 15/16, I would consider it if we need it, but right on the top of my head, I would say no. Property taxes tort recovery, yes.

And moving on to the next one -- I have a question, how did we come up with the 3% pay performance number, percentage, could you answer that?

City Manager Fritz Behring: That figure was put into the budget based on what I was seeing that was happening in the cities throughout the country. Not necessarily, just in Arizona, but nationally.

Councilwoman Littlefield: Okay. Yes, as long as it's a pay for performance, I would agree with that, I would say, yes, we can.

[Time: 03:13:31]

Mayor Lane: While I think you have been keeping a tally on it yourself Judy, I think if I was to summarize, obviously number one, it's unanimously that it is a no as far as any kind of effort to move the sales tax rate increase, and with a few indications, inclusive of my own, that some consideration for a food consumed at home elimination or of that tax on that, on a local level, would be acceptable. The property tax allowance, there is -- it's a little bit more split but the preponderance is that, no, for any of it. And there were two -- it was 4-3, but, yeah, it was -- 4 were no. Yeah. 4-3, but two yeses on the -- well, not that this matters, but there were two yeses for the full 10% and one considering just the 2%.

The third item the property tax as close as we have come on -- well, other than sales tax, I shouldn't

say it's as close as we have come. We had one no and the rest a yes on the property tax, the tort recovery. And then, the salary adjustments, again, it was pretty much unanimous with some qualifiers with regard to performance on that and then, of course on five, the C.I.P. contribution, what I got is that everyone was okay with continuing the policy on that as is available. That would be the summation of the guidance on those issues. I hope that sets us on a course at least to establish the front end as you described earlier so we cannot be dealing with some of this later on.

Budget Director Judy Doyle: Absolutely.

Mayor Lane: Thank you.

Budget Director Judy Doyle: Thank you. I appreciate your feedback.

ITEM 26 – MONTHLY FINANCIAL UPDATE

[Time: 03:15:40]

Mayor Lane: And thank you, everybody, for your presentation on all of that issue. And that would move us then to our final Regular Agenda item, Item 16, and that's the monthly financial update. To receive, discuss, and provide possible direction on the city treasurer's monthly financial presentation as of November and December 2014. And we have our city treasurer Mr. Nichols.

[Time: 03:15:59]

City Treasurer City Treasurer Jeff Nichols: We do. Mr. Mayor, and members of the council, I'm here to give you the monthly update. I know on the agenda it said November and December. Again, as I said last year, I didn't see a reason to go over November and then updating those numbers for December. So we will keep it simple and go with December.

To begin, as you can see, general fund operating sources, fiscal year-to-date through December of 2014, sales taxes are up slightly, and I will talk about those in a little bit more detail in a moment. But I would like to focus on the other revenue sources on this slide. First to begin with, the auto tax, you are seeing a \$600,000 positive variance or 17% of budget. I'm being told this is a favorable variance due to timing differences. We don't expect that to be available at the end of the year. We feel that that will come in fairly close to what the state has told us that they will give us. The property taxes, again, favorable variance due to timing differences. We are usually very, very close on the amount equal to the amount budgeted.

Other miscellaneous as you see in there, about a \$2.5 million unfavorable variance or 42%, it might be alarming. Please don't be. It relates to the sale of the properties that we had put in the budget for this fiscal year. They were budgeted to be completed by December. That's not happening. They are moving forward in a positive direction. We do feel like we will receive the 3 to \$3.5 million from the sale of the two properties, as you are all aware, the one sale of the church building over on the corner was taken off the mark and we go forward about just the H.R. building and the McKnight

Building. So the other one that I wanted to point out is building permits as Ms. Doyle had mentioned, very favorable variance and building permits, again, the vast majority is related to the multifamily units and the tale of those approvals, it's being pulled in this fiscal year and we are enjoying these revenues. We look for that to remain throughout this fiscal year. We feel that that's a category where we will finish significantly ahead of what we had budgeted, which will give you some availability in that C.I.P. discussion that we had on what gets transferred to the C. I.P. for pay go and fiscal year 15/16.

Digging down a little bit further into the sales tax category for the operating sources as you can see, the vast majority of favorable variance that we are experiencing, \$700,000 of it is related to construction and, again those are sales taxes related to the construction that we're seeing that the building permit revenue and the fees that we are seeing, the construction related to it, we're still enjoying that, as we mentioned, unless there's legislative action to roll back the actions that were already taken by the state legislature, we will see a decrease in this category, Scottsdale does not have a lot of warehouse-type facilities where builders buy the majority of their materials for their projects. We would a net loser in that category. However, if they make any adjustments we will keep you appraised of it going forward. As you can see, another category in there, the rentals. Some of this is due to our rentals, if you will, rentals that we do. We provide space for patios, restaurants, those types of facilities and we get rental income from that. One, as you can see the general fund sales tax, 1% general purpose.

We started out the year very, very strong and I had a great hope and an expectation maybe that that would continue but we see a month over decrease. We are still above our 3% forecasted rate, however, as you can see for the month of December, now we are at 4%. So we are coming back down to what we thought it would be. As we see the numbers going forward in January, the collections for December and then, of course, in February, the collections for January, hopefully we see these bars inched up a little bit, increasing that forecast. And so we would adjust our forecast, accordingly for the end of fiscal year and the beginning of 15/16.

Switching over to general fund operating uses by category, first thing, salaries and wages, you see a favorable variance of approximately 1%. It's 400,000 and I want to look at these two together. We see some savings in wages and they do relate to the police department. What's happening is we are seeing some people in the police department that are retiring. People are being promoted into those positions, but their hourly wages, if you will, are less than the people who vacated those positions. So we are seeing some budget savings in those categories.

On the overtime, the big driver, as we discussed and, you know, Councilwoman Milhaven, I would like too to understand if we are fully staffed why we are seeing increases in overtime but the fact remains that we are and this year, the two averages in overtime, only \$600,000 but as a percentage, 21% over budget. Most of that is related to police at about \$374,000 and fire at 228,000. In the police department, it's related to investigation, the disposal of evidence which we have talked about before, and also S.W.A.T. call outs and the planning for the Super Bowl. We will have a considerable amount in overtime related to the support of Super Bowl. The figure I heard out of the police department is an estimation of \$450,000, \$475,000, just in the support of the Super Bowl.

[Time: 03:22:44]

Mayor Lane: Mr. Nichols.

City Treasurer Jeff Nichols: Yes, Mr. Mayor.

Mayor Lane: Yes, just since it was brought up as a potential driver, the idea that public safety and specifically the Police Department was going to be asking for a change in their budgeted overtime and I think that probably is a long time in coming because given some of the track record we have had on the overtime number, it's probably right that it would be adjusted to be more realistic, no matter what -- and I don't mean to say no matter what the justification, certainly there has to be some understood management of the area on the overall, but what they have done through the course of the year, though is they look at public safety police, there's own a 1% unfavorable variation and it's quantified at about \$400,000 and I notice in the overtime, on the overall for personnel services, the unfavorable overtime is \$500,000. So something, if the preponderance of that unfavorable variance on overtime is in the police department, something was traded off within the budget in order to mitigate that \$400,000 or \$500,000.

City Treasurer Jeff Nichols: Mr. Mayor, I'm not exactly sure what slide you are referring to you are --

Mayor Lane: Well, I'm looking at the general fund operating. And as I just said that, it says an unfavorable variance, now this is in the general fund operating uses by division of 4 thousand dollars and the overtime unfavorable variance is \$500,000. So it's really pretty close one way or the other. There's no real trade off.

Oh, thank you very much. I'm looking at November. Well, are we looking at -- okay. We are already in December.

City Treasurer Jeff Nichols: No, sir, we are looking at December.

Mayor Lane: Why do I have this? I don't have December's numbers. That's why I'm looking at November's numbers.

City Treasurer Jeff Nichols: Excuse me, Mr. Mayor and members of Council, I believe that Ms. Doyle had sent that -- this presentation out today.

Budget Director Judy Doyle: Mayor and members of the Council, yes, it was forwarded to all of you today. Because of the short timeline, when we had this meeting versus when those revenue numbers came out, it was sent to you today.

Mayor Lane: Well, I guess on the basis of all of my previous expressions to coin an expression from "Saturday Night Live," never mind!

Budget Director Judy Doyle: I think I understand your question and I will just state that the amount of overtime that our City Treasurer is noting here is not just related to police. It also includes fire.

When you get over to the individual division, there's some additional things that are running police into an unfavorable variance in in addition to their overtime. We are also seeing an increase as it relates to the photo radar contract.

Mayor Lane: Okay. Ultimately, even whether it's November or December, I'm looking at pretty close to the same kind of numbers, of course. And I was -- my thinking was that there had been some tradeoff between line items within the budget in order to mitigate some of the overtime, but frankly, that doesn't really -- the math doesn't figure it that way, anyway. So,

City Treasurer Jeff Nichols: Mr. Mayor

Mayor Lane: I will stand by my never mind.

[Time: 03:26:34]

City Treasurer Jeff Nichols: I would certainly hope if they can do something to mitigate it, that they would take those actions and I truly believe that something that is watched and something that is managed can be reduced. Now, that being said, what's coming forward to you in the package from the Police Department is a request for an additional approximately 1.2 million and Judy, correct me if I'm wrong on the figures and it relates to the amount of overtime hours that they believe they need. And so hopefully we'll have some discussion when it's \$100,000 plus hours of overtime that they need. They will tie those out to specific programs of -- that they are covering with those hours, because, again, I truly believe if they are properly staffed, sometimes overtime makes sense. Other times, again, it costs you a little bit more than straight time, but you certainly don't want to overstaff so that you don't have any overtime, because then you probably have people not doing something.

Mayor Lane: Well, certainly we have seasonal considerations.

City Treasurer Jeff Nichols: Yes, sir.

Mayor Lane: You don't staff to your peak but, Councilman Smith?

[Time: 03:27:30]

Councilman Smith: Thank you. Oh, my question, Jeff, did I understand you to say that they may be coming back with an increase in budget request or whatever for overtime for Super Bowl and things like that?

City Treasurer Jeff Nichols: Mr. Mayor, Councilman Smith, no, the request that they are bringing forward, what my understanding of the situation is, is that they have budgeted overtime in the past based on dollars and they are taking a look at it and they are estimating the number of hours that they need. So they took the dollars that they currently have in their budget and they said again these are round numbers but it equates to about 80,000 overtime hours. They say when they look at the programs that they need to budget for overtime, they have a little bit over 100,000 hours that they

need to budget. So you take the difference of 20 some odd thousand hours times the overtime rate for the P.D., which is in the \$70 range and you come up with a 1.2 to \$1.4 million package and they will be bringing that forward as what's the terminology? Out of budget package request.

Councilman Smith: I would have different terminology for it probably, but I guess I'm just perplexed, everybody has known the Super Bowl is coming for how many years and we shouldn't be here in December of 2014 saying, you know, my gosh, I'm gonna need overtime for the Super Bowl or more overtime than I thought. I mean, that's the whole point of putting a budget together is to predict these costs and then try to live within them.

City Treasurer Jeff Nichols: Right, Mr. Mayor, Councilman Smith, I would defer to Ms. Doyle but I don't believe that we allowed them to bring forward a package related to overtime and the Super Bowl last fiscal year.

Mayor Lane: Yes, Judy.

Budget Director Judy Doyle: Mayor and members of the Council, this doesn't have anything to do as it relates to the Super Bowl and the additional work that we anticipate. This is truly related to what they are seeing as a need within their department in '15/16. I think it's premature, quite honestly to have the conversation. This is all still preliminary. These packages were due yesterday. It has not even been reviewed by our office or the City Manager. So we will bring that forward once we have had an opportunity to fully analyze.

Mayor Lane: Yes, I think you made that pretty clear when you were talking about it tentatively before, so I appreciate that. I'm sorry Councilwoman Klapp has a question or a comment.

[Time: 03:30:00]

Councilwoman Klapp: I want to remind you, we had a conversation about police overtime in the Audit Committee meeting just recently, and it was discussed that it appeared that based on our review of the figures is that overtime has been under budgeted for some time and so, I think there is some need for them to come back and give us what is a realistic overtime budget versus just plugging a figure into the budget and then they are always -- you know, always showing a negative number, even if you look at the number there, look at the trend, the 12/13 was 3.2 and then 3.7 and then the budget is 2.8, well, that was a significant drop in a budget for overtime, and yes, they are below where they were in 13/14, but certainly they are above the budget but was the 2.8 a realistic figure is I think the question. I think we need to provide information on what is their true overtime needs versus a number provided for the budget.

City Treasurer Jeff Nichols: Mr. Mayor, Councilwoman Klapp, yes, I do remember that conversation and the Audit Committee meeting. And I do know the Chief has expressed to me that he's tiring of me getting up here month after month and saying that they are exceeding their overtime budget. The fiscal year-to-date figures are what they are. I mean fiscal year-to-date budget is 2.8 million. The actual is that this is across general fund categories. This is not just police.

Councilwoman Klapp: I realize.

City Treasurer Jeff Nichols: But the actual that's been spent to date is 3.4 million. So there are some needs that aren't being addressed. And like most people's budget, we do ask them that if they can to mitigate those increases if they can within their current budget if they don't have the capacity, we have also told them that towards the end of the year, they can come forward with a contingency request. So -- the positive variance in variance in retirement, most of that relates to public safety police and, again, it's simply a matter of arithmetic. It's creating the salary savings, we are also paying a little bit less in retirement for those people so we are enjoying those savings.

[Time: 03:32:06]

City Treasurer Jeff Nichols: And I will get in further detail on the contractual commodities and capital outlay because while it says -- it shows here that there's a \$200,000 favorable variance, there's a lot of movement within the division that I will show you. This is by division. As you can see, there's a lot of movement that creates the \$400,000 total operating favorable variance, however you look at Mayor and Councilman and charter offices and the armor car contractors and the banking services contract, where we are enjoying some savings from those contracts. Administrative services, most of that is timing difference. It relates to the Information Technology Department and they are going through their contractual applications with their software vendors and they are in discussions. So they budgeted for these things. We haven't written the checks yet. I don't think we will be enjoying those savings towards the end of the fiscal year. In community services, the majority of their savings relates to filling positions at an actual rate. It's less than budgeted. It also speaks to their programming. Some of their programming is down. So they are not bringing on part-time staff for those programs. We are seeing some savings in there.

Public safety fire, again favorable variances related to commodities, most of it being a timing issue. But that favorable variance in their commodities and their other line items is masking the unfavorable variance in their overtime, if you will. Public safety police, I think we have talked about that enough. And public works, the one or two issues that Public Works Executive Director Dan Worth is dealing with in public works is the moves related to the sale of those buildings, those moves were not budgeted for. We do budget during the course of any given year, certain moves of offices but certainly not to the level that happened this past fiscal year. The other issue that public works has is two significant storm events that they had to respond to and these eventer events caused structural damage to drainage facilities and parks facilities and they are going in and fixing those items. We have directed Dan to go ahead with those programs the city manager has and said if towards the end of the fiscal year there's a need for a contingency transfer, we will address it at that time, and Dan has agreed to that. He was going to bring forward a request earlier, but he fully intends to go forward with the programs that he had in place. So the requests may be for less than the \$600,000 that he had intended to come forward with earlier and we hope that's the case.

But overall, as Ms. Doyle mentioned, as I reported in October, we have some significant savings or winnings at the end of the fiscal year that were not in the 14/15 budget, the beginning balance that

we'll see but we are also seeing favorable variances in the sources at this point in time and the uses to the tune of about \$1.5 million. I truly believe that some of these, especially on the revenue side will be coming out in the fiscal year and talk about increased transfer to C.I.P. pay go, exactly what that conversation will be and how much it will be, we'll have to wait to see. With that, I would be happy to take any questions you may have.

Mayor Lane: I see no questions or comments at this point in time, Jeff. I think we did ask them in the course of it. Thank you very much for the presentation and your explanations. Thank you.

MAYOR AND COUNCIL ITEMS

[Time: 03:36:18]

Mayor Lane: That completes our regular agenda items. There are no petitions, I don't presume, that have been submitted. And therefore, we have no mayor and council items. Oh. See I'm just not used to these public comment items at the end of the meeting. This really is throwing me. Yes. Okay. So we do have that. It's even on here. But in any case, so, yes, we do and we will start with Wendy Springborn.

PUBLIC COMMENT

[Time: 03:36:45]

Wendy Springborn: Where do I go?

Mayor Lane: Right there. You are okay.

Wendy Springborn: Thank you. I was confused for a moment there. Good evening, Mayor and Council. My name is Wendy Springborn I live at 8313 Hubble street in Scottsdale and tonight I'm here on behalf of no good deed goes unpunished and I'm a glutton for punishment and I have been pulled into helping out with the Prada Del Sol event coming up. And as you are away on February 14th, at 10:00, the Prada Del Sol will be kicking off. Things have changed, we have taken a different path with the parade but I'm not sure if you are aware of the new direction of the parade, and all the locations. And with the help of Kim Kozio, we really have put together a pretty dynamic multicultural event that will be coming up. We are looking at main stage like we always had downtown but then also Native American village, Spanish village, Western village, community stage, as well as staging of antique cars that will be kind of bringing up the rear of the parade and have them posted all along. So I just wanted to say that I understood that there may be some concerns and we are doing our best to get the word out about the new location of the parade route. I'm sure there may be people who may be showing up at their usual spot at Thomas and Scottsdale Road, but we are trying to get that information out and any help that we can get from the City with regards to the new direction of the parade would be greatly appreciated.

Mayor Lane: Thank you, Ms. Springborn. I appreciate it. The next and only other is Nohl Rosen.

I'm just not used to waiting around for the full meeting for public comment. We appreciate you hanging around.

[Time: 03:38:57]

Noel Rosen: I was getting used to all the budget stuff. It seems that your budget stuff is much like Phoenix. But I --

Mayor Lane: Whoa, wait a minute now!

Nohl Rosen: It's long and lengthy and everybody wants to get their full stuff out. Mr. Mayor, members of the City Council, Vice Mayor, I'm Nohl Rosen. I'm with a movement called Rrally for L.E., which is Rally for Law Enforcement.

Mayor Lane: I'm sorry could you give your address?

Nohl Rosen: 1450 East Bell Road in Phoenix.

Mayor Lane: Okay. Thank you.

Nohl Rosen: But I do work in Scottsdale. So I don't know if that means anything. Anyway, we are -- I wanted to thank you for announcing the rally that we are having in support of law enforcement in front of Scottsdale Police headquarters. I think it's so important right now, now more than ever that we support our men and women in law enforcement. And they are being, well, unjustly attacked. They have got a hard job. They lay their lives on the line every single day to keep our community safe and I think it's important that the residents, the citizens come out in support of their police department. I graduated from the Scottsdale Citizens Police Academy and, of course, I'm pretty proud of that. Even though I live in Phoenix, my heart, my home, I have always considered Scottsdale my home. And, of course, I will be moving back and I'm moving my business back. That being said, I thank you for allowing me to speak today, because I do think it's important, because not only is the local going to be looking at us, national is going to be looking at what we do in Scottsdale, because it's a national issue right now. So I'm very grateful to have had the opportunity to invite the entire City Council out to this event, which I think is very important. Because supporting our police department, they do so much for us, to keep our community safe. I would say we owe 'em. And, you know, that's all I want to say on that matter. But I thank you for your time and I thank you for listening because, you know, law enforcement is important. It's important to the City. It's important to our nation. And we need to back our officers and let them know we have their six. Thank you.

ADJOURNMENT

[Time: 03:42:31]

Mayor Lane: Thank you, Mr. Rosen. And though this is public comment, and there's not an

exchange, it's not an agenda item, we did announce this at the beginning of the meeting. Well, very good. I think that takes care of all matters of business that we have and so therefore I would ask then that we have a motion and

Councilwoman Littlefield: So moved.

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