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#### **CALL TO ORDER**

[Time: 00:00:05]

Mayor Lane: Good afternoon, everyone. We are going to go ahead and call to order the November 20<sup>th</sup>, 2013 City Council meeting and this is a special meeting. We will start with our roll call, please. We do have Councilwoman Milhaven on call-in but she's part of the roll call.

#### **ROLL CALL**

[Time: 00:00:14]

City Clerk Carolyn Jagger: Mayor Jim Lane.

Mayor Lane: Present.

Carolyn Jagger: Vice Mayor Virginia Korte.

Vice Mayor Korte: Here.

Carolyn Jagger: Councilmembers Suzanne Klapp.

Councilmember Klapp: Here.

Carolyn Jagger: Bob Littlefield.

Councilman Littlefield: Here.

Carolyn Jagger: Linda Milhaven.

Councilwoman Milhaven: Here.

Carolyn Jagger: Guy Phillips.

Councilman Phillips: Here.

Carolyn Jagger: Dennis Robbins.

Councilman Robbins: Here.

Carolyn Jagger: City Manager Fritz Behring.

Fritz Behring: Here.

Carolyn Jagger: City Attorney Bruce Washburn.

Bruce Washburn: Here.

Carolyn Jagger: City Treasurer Jeff Nichols.

Jeff Nichols: Here.

Carolyn Jagger: City Auditor Sharron Walker.

Sharron Walker: Here.

Carolyn Jagger: And the City Clerk is present.

Mayor Lane: Thank you. A couple of orders of business. We do have cards, if you would like to speak on any of the items on the agenda, it's the white card that the City Clerk is holding up over her head to my right. And if you want to write some comments down through the meeting for the same purpose, she has the yellow card over her head and that white card is also for public comment for non-agendized items. We have two police officers here. And the areas behind the dais are for staff and Council use only. And we do have facilities over here to my left for your convenience and for your use.

**PLEDGE OF ALLEGIANCE**

[Time: 00:01:32]

Mayor Lane: We are going to ask that Councilman Robbins lead us in the pledge this afternoon.

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.

**INVOCATION**

[Time: 00:02:01]

Mayor Lane: In place of an invocation, I would ask that we just take a couple of moments of silence, just to consider all of the issues of the day, as well as a prayer for our country and our state and our city. A prayer or a thought. Thank you.

**MAYOR'S REPORT**

[Time: 00:02:30]

Mayor Lane: We were honored again. We are getting used to this and I think it's all well-deserved but I was recently honored by the Center for Digital Government, a top tech savvy city after responding to the 2013 digital city survey, Scottsdale earned a spot in the top ten for cities of our population category. This distinction recognizes Scottsdale city government for using technology to eliminate waste, enhance service levels, improve transparency and engage with our citizens in the digital world. I want to congratulate all of the staff across our organization for earning this honor and thank you as well to Councilman Guy Phillips who accepted this on behalf of the city at this year's National League of Cities Conference. And certainly to Brad Hartig and his crowd as well and bringing it all to us. So this is another beautiful indication, really, of exactly the recognition that our city, staff, and I.T. department are getting recognized for, being a digital city, not unlike the Google's E-City designation for 2013. So we are racking these up in this category and I think that's a great credit to us all. So congratulations to all. Mr. City Manager, Mr. Behring, I'm presuming there's no indication here, no report? And it doesn't look like we have any public comment cards.

**ADDED ITEMS**

[Time: 00:04:08]

Mayor Lane: And we've got the supporting materials for item number 1 were added to the agenda less than ten days prior to the Council meeting and in view of that, I need to have a motion to either, well, to accept the agenda as presented or to continue the added item to the December 9<sup>th</sup> Council meeting. Do I have such a motion?

Vice Mayor Korte: Mayor, I move to accept as added.

Mayor Lane: Motion to accept as added.

Councilman Robbins: Second.

Mayor Lane: And seconded. We are then ready to vote on that. All those in favor, please indicate by aye and register your vote aye. It's unanimous on the tally, 7-0. So that item is accepted as presented.

**CONSENT AGENDA**

[Time: 00:04:55]

Mayor Lane: Next item we have are the consent items, items 1 through 2a. We have no cards on any of that. Are there any questions or any considerations from the Council that they would like on those items or otherwise I will accept the motion to accept those.

Councilman Littlefield: Move to approve the consent agenda.

Mayor Lane: A motion to approve the consent agenda items 1 through 2a and seconded. I think there's no further comment on that. We are then ready to vote. All of those in favor, please register your vote. And we have a unanimous tally on that, 7-0.

**REGULAR AGENDA**

[Time: 00:05:36]

**ITEM 3 – 2014 STATE LEGISLATIVE AGENDA**

[Time: 00:05:40]

Mayor Lane: We move along to the regular agenda items 3 through 5 and we'll start with number 3, which is our 2014 State Legislative Agenda. And we do have Mr. Lundahl here from Government Relations to give us that report. Mr. Lundahl.

[Time: 00:05:53]

Government Relations Director Brad Lundahl: Thank you, Mayor. Good evening, Mayor, members of the Council. Once again, I'm here to go through our state legislative agenda for 2014. If you remember, each year I come before you, and present you with the ideas that are gathered from our city leadership, our department heads and from yourselves, and this is the night we go through this and approve this legislative agenda. So getting right into it, the legislative session will begin this year on Monday, January 13<sup>th</sup>. A little later than normal, but still within the constitutional parameters, and once again, our current leadership is president Andy Biggs on the Senate side and Speaker of the House is Andy Tobin who is from Prescott Valley. As I mentioned, I gather ideas for the legislative agenda from our city leaders, our staff and our elected officials. I take those ideas and I break them down and put them in this report and break it down into three sections. And these are the core principles, policy statements, and new this year, I created a new section of proposed legislation, which I will get to at the end of this. I also try and incorporate our general plan elements wherever I can and

so you will see some of the groupings defined under the general plan element. So feel free to stop me along the way. I will just keep moving, if you have questions, just raise your hand and I will try and answer those. For tonight, as I mentioned, this is your opportunity to add, subtract, amend, and make this document really your document. This will be my marching orders for the legislature this year. So this is our chance to define what it is you, as a Council, what your policy directions are, and what you would like me to be working on at the state legislature. So, I will jump right into the core principles.

These remain unchanged from last year. First and foremost, quite obviously, is protect Scottsdale quality of life. Scottsdale as we know is a unique city. It's unlike any other city in the country or in the world, for that matter. There are certain things that make Scottsdale unique and we want to protect that quality of life. We want to make Scottsdale unique. In addition, we do receive quite a bit of funding, either self-generated or that comes through the state. We would like to preserve our local funding and in addition, since you are the policymakers for the city and local government is the government closest to the people, we would oppose preemption of our local authority. Getting into our policy statement section, again, these are just statements, kind of my guiding principles for when I'm down at the legislature. No real action, but it just tells me things I should be watching for or advocating.

First, this one is leftover from last year. Support and working with the state, other governments and private enterprises to identify sustainable economic growth opportunities, just kind of a general statement. Next one is actually new this year, and that support policies that promote and encourage a positive business climate to enhance Arizona's competitive edge and attract and retain high wage jobs and encourage capital investment. A little bit bolder than we were in the past but I thought it was important that we convey to our legislative members that Scottsdale is very serious about economic development and economic vitality.

[Time: 00:09:56]

Next one is also new. Support policies that reduce costly administrative burdens on the small and medium-sized businesses. The majority of the jobs created are the small and the medium-sized businesses to encourage a business environment that can capitalize on the decision and the skills of Arizona's entrepreneurs. We want to send a pro-business message to our legislators. Next one, oppose efforts that would create administrative regulatory hurdles to our economic engine. This year it remains unchanged.

The next two are in recognition of our Scottsdale airport because it is such an important part of our economic engine here in Scottsdale. I definitely wanted to call that out and bring more attention to it, and get our legislators more informed on what's going on and not only the airport, but the air park area. And then finally, we have support research and development state tax credits to encourage business innovation. And this was designed to promote the tech and innovation businesses that are now starting to move into Scottsdale.

Next up is the HURF for the highway user revenue fund. If you recall, this is the gas taxes that we pay each time we fill up our cars and there's various things that go into the HURF. Those monies over the

years have found their way away from road construction which is their intended primary use, and have been used to fund the department of public safety. That is allowable by law, but that number, especially when the economy dipped several years ago, the amount of funding from the HURF fund was ramped up to pay for department of public safety to the tune of \$123 million from a previous amount of \$12 million. So a fairly significant change there. What we are going to be asking the legislature this year is can we start to ramp down the amount of funding that the department of public safety receives so that money can, in turn, come back to the cities and counties and the other funds so that we can use that for road maintenance, not only here but around the rest of the state.

Next one, tourism as we know, is very important to the City of Scottsdale. We are emphasizing this by supporting efforts to increase the visibility of Arizona, Scottsdale and other cities and towns as being tourist destinations. We felt that the more Arizona promotes, the more tourism comes back to Scottsdale itself. And then a new one, support restoring funding for the Arizona Office of Tourism and then encourage them to collaborate with the Arizona Commerce Authority.

Over the past several years, funding for the Office of Tourism was swept, again, during the budget crisis at the state level and those monies have not been replaced back to the levels they were before. In fact, they were funded through a formula before, and now they are just receiving part of that money through a General Fund appropriation each year. So we are looking for something that's a little more stable, something that we can use for forecasting and help again promote tourism.

[Time: 00:13:40]

Mayor Lane: Brad, if I might, we had a situation this last year where there was much heralded ado about \$7.5 million that would be dedicated to international tourism. The Governor actually came here to the City of Scottsdale and made that announcement. But it ended up that there wasn't anything there. It was used to fund the department itself. Do we have any idea as to what the budget holds for the department versus any constitutional initiative?

Brad Lundahl: Mayor, I don't have that answer. I know the department; their budget is about \$6 million short of where it was prior to the budget crunch. So I assume there's \$6 million somewhere in there that they may be trying to backfill. That may be some of that funding that you mentioned.

Mayor Lane: So that effort of \$7.5 million got dumped into the overall funding for the department, but right now, it's a matter of whether or not the department gets funded and then whatever else they might do on any kind of special initiative, but we are just talking about maintaining some level of funding for the department so that it's effective?

Brad Lundahl: That's correct.

Mayor Lane: Okay. Thanks.

Brad Lundahl: Next, you probably all remember the TPT battle that we had last year, the Transaction Privilege Tax. There was quite a struggle with the bill that was introduced, that was House Bill 2111

that was, the aim of it was to simplify how sales taxes are applied to the construction trades. The bill went through many iterations and it was a long, drawn out battle. Essentially only half the bill that was initiated, half the bill that was created at the beginning of the session, only half of it ended up passing. They could not get support to pass provisions relating to the prime contracting for TPT. We have heard two things, that there's no interest in doing anything on prime contracting this year, but we are also hearing whispers that somebody may make another attempt at it. In lieu of the fact that the very first half of the bill will end up costing the City of Scottsdale approximately \$4 million once the bill is implemented, we feel that to go for the, for the legislature to go after the rest of the bill would be very, very expensive and cost the city tremendous amounts of money. So at this point, I would like to come right out of the chute and be strong and aggressive and just say we are not going to support any changes to the prime contracting, especially if it's going to end up costing us more money than what the first half of the bill did.

Next up, under neighborhoods, we have some public safety measures. Several years back, the legislature legalized the use and sale of fireworks but left it up to cities, whether they could allow the use. We have to allow the sale, but we can ban the use and we would like to keep it at that level. Any attempts are made to switch that right away, I would have the authority to go and oppose that. There were also several attempts to change our fire code. I think directly in response to our sprinkler code, and we haven't heard anything last year or this year. So at this point, we are just going to monitor that legislation, and if anything comes up, I would definitely come right back to you and get your direction on that.

[Time: 00:17:55]

Not too long ago, the Council passed the Public Safety Plan Ordinance. This is in response to safety issues in some of the bars. Almost right away, we began hearing rumors that some of the members of legislature were not happy that we had done this, and were going to try and change it or amend it or prevent us from having such an ordinance on our books. So, again, I want to come right out of the chute and say we would oppose that and my counsel has given me authority to do that.

Okay. This is getting over into the preservation side of the business. Salinity control. This has been in our plan for a couple of years now, and it's actually starting to get more talk amongst other cities, as they figured out the costs of treating their water systems and the cost of eliminating the saline or the brine or the waste product. A large part of that comes from water softeners. So there have been discussions stakeholder meetings about what to do about that. And as I said, more and more cities are starting to key in on this, where I think we were probably the first ones to start talking about that. So this would, this item would give me the ability to support some legislation if something came down the pike that would address that.

Next, forest restoration. This one I actually love to talk about, especially with rural legislators because they always ask me, why, you know, why does a city like Scottsdale care about forest restoration and my response is, water flows downhill. The cost of treating water after a major forest fire is very expensive. In addition, we lose tourism capabilities and we also lose our valuable watershed. So even though we are downstream and pretty far away from the actual forest, there is a direct impact to a city

like Scottsdale from poor forest management. So, again, we are going to support something that the legislature would do to help make our forests a little bit healthier.

Last year, we ran a bill, street light improvement districts. Remember, I came before you and spelled out the details and why we needed it. We got a sponsor. It was Representative Michele Ugenti and we introduced a bill and the bill started to move and then got caught up in the minutia of the legislative process, and the bill died. Not for really lack of anything in the bill. It was just a victim of the process. In the meantime, I had several cities come up to me, cities and towns come up to me and say, you know, we have the same problem with our street light districts where the utility is no longer providing the maintenance and now we're paying for it out of our General Fund. We like your idea. Are you going to run it again? That got me thinking that this is more than just a Scottsdale issue. So I actually brought this to the League of Cities and Towns and had it introduce a League resolution, which it passed this year. And the League of Cities and Towns is actually going to take the lead on this. We can step back and support the bill instead of seeking and running the bill. I expect we will still be pretty heavily involved because I think they will look to us as the experts, but, again, I think it shows that there will be more support this year than there was last year.

[Time: 00:21:49]

Next piece is our water. This is what I referred to as the Marshall Brown memorial act. A couple of years ago, I asked Marshall Brown, our former water resources director, to provide me with a bullet on, you know, what is it that you want me to protect in terms of water resources and those of you who know Marshall know that a two-page dissertation from him in response was not out of the ordinary. So I took what he gave me and boiled it down as small as I could and this is what we were left with. But I think it's actually pretty good stuff, and I think it covers all of our water needs very, very well. And so I saw no need to change it. Again, I think it covers all of our water needs and demands and worries very well in this statement.

Now, getting to the final portion, if you remember, we had three parts and the last one was going to be proposed legislation. The first one is a proposed bill that the City of Scottsdale would run to try and address the issue of traffic congestion in parts of the city where we have heavy taxicab and motorized cart traffic. We have instances where on certain nights, because of the traffic from these taxicabs and motorized carts, it is very difficult to get public safety personnel into these areas because of the backup and the congestion. So we would like to run a bill that would give the City Council the authority to establish essentially traffic safety zones, and in these zones, the Council could control the ingress and the egress of taxicabs into these areas, possibly by setting up taxi stands, or areas where they could drop off or pick up. It's the hope that that would alleviate some of the traffic and allow public safety personnel to get into these areas much quicker. We have come up with some draft legislation ready to go if the Council would approve it, and I can provide more detail about the plan if that was felt necessary. But at this time, we are just looking for permission to kind of move forward and get the bill rolling.

[Time: 00:24:30]

Vice Mayor Korte: Mayor?

Mayor Lane: Vice Mayor, did you have.....

Vice Mayor Korte: No, I didn't.

Mayor Lane: Yes, Vice Mayor?

Vice Mayor Korte: Thank you, Mayor. Do you think that we're going to get some of the municipalities on board with this particular bill?

Brad Lundahl: Mayor, Vice Mayor, we have had some informal discussions with some other cities who have similar, not exactly the same but similar problems with heavy taxicab traffic on certain nights and in certain parts of their cities, and the idea that we are looking at is we wouldn't make it citywide. It would just be confined to fairly small areas.

Mayor Lane: Thank you, Vice Mayor. We might mention the fact that some of the opposition early on with this was whether or not the city was trying to regulate the taxicab industry and we're certainly not looking to do that. As Brad has indicated, our primary approach on this is public safety and designated public safety areas so that they get access for emergency vehicles in the areas that are likely to be congested with taxicabs and other vehicles in almost a gridlock kind of thing. So I think that it would be a difficult thing for us, difficult for someone to try to defeat this and I think we probably, by virtue of the way we are going about it, we will be able to enlist a reasoned acceptance and probably even, you know, in those cities that are faced with a similar kind of thing, be on board with us, whether they would co-sponsor it or not, that may be something else again. But this is really, as has been clearly stated, a public safety situation and we have some design criteria's on it that really go to exactly what the problem is, and what we're trying to designate.

[Time: 00:26:32]

Mayor Lane: I think it probably has a good prospect of not only being accepted but passed if we have it in the kind of form that I know that it's in right now. So, but it's, it's a valid concern. I mean, I think everybody probably knows that the area of concern, where we are actually doing some traffic flow issues and the entertainment district, is just the gridlock situation with vehicles in that area. So if an emergency does occur, it's nearly impossible to get somebody, get a vehicle in there. So I'm sorry, I just wanted to add that to it, Brad.

Brad Lundahl: So that would be the first bill that we are proposing and if I could quickly thank both the police department staff and our city attorney staff for helping on this bill. They did a great job on coming up with the concept and getting this thing kind of put in place.

The next bill is the nontransferable liquor license. The request for this bill came from the concept that some restaurants here in Scottsdale who have a liquor license, I believe it's a series 12, cannot meet their minimum food requirements and are having trouble operating under that existing license.

The next license of the full bar license, I believe is a series 6, is much more expensive. It's harder to come by. So the thought was let's create kind of an in between license for restaurants that just can't meet that 40% threshold, but would allow them to stay in business, but the license itself would be nontransferable. Essentially a one-time use. So if the owner of that restaurant obtained one of these licenses and decided after a year or two years, no longer wanted to be in that business and sold the restaurant, the restaurant would only have the original restaurant license, not the expanded nontransferable license. So that's the thought behind that. And, again, the license could not be transferred or sold to another party.

Mayor Lane: All right, what was the initiation on this and what is it attempting to accomplish?

Brad Lundahl: Mayor Lane, I believe there was concern that restaurants are operating, essentially as bars and we don't want to make them criminals so let's try to find something that allows them to operate but does not make that new license permanent. So that the next person then comes in and has a bar already established in that area. I believe that was the reasoning.

Mayor Lane: So the idea would be that they would pay a one-time fee for a potentially limited period of time to use a liquor license versus buying a liquor license and if they could not comply with that series that is within, food and liquor sales, that they could not sell it to somebody who would attempt to do that, the same series.

[Time: 00:30:02]

Brad Lundahl: That's correct.

Mayor Lane: And I guess the thing, without simply mentioning the series 12 is where this comes up an awfully lot. I know it happens in other places too, but the series 12 where they are not able to comply with the 60/40 rule on food and alcohol and so this license would be, could be on a similar level but if they couldn't comply, it would just go away. They would have no asset.

Brad Lundahl: Mayor, I don't think we have gotten into that much detail yet.

Mayor Lane: If it's nontransferable, it has no value beyond theirs. So once they are determined to be noncompliant, their license expires.

Brad Lundahl: Yes.

Mayor Lane: I realize you are in the early stages of it. I think it's an interesting concept, but I wonder how well it will fly. I mean, I just think right now that the series 12 is if we enforce it, even to the point that we don't allow them to move to another series of license, it effectively could do the same thing, it's a different way of handling it. This is a whole different ball game. It would have to be priced differently. It would have a, a period of time that up until you got audited, as to whether or not you retain it. I don't know that I have any real problem with it. I just wonder whether or not this is something that is viable and it really answers a mission here. Vice Mayor Korte.

Vice Mayor Korte: Thank you, Mayor. A couple of questions, do other states have different structures to where we can learn from the wheel, so to speak?

Brad Lundahl: Mayor Lane, Vice Mayor, that's a very good question. If this is approved tonight, I intend to do quite a bit more research. I have been trying to become a little more updated on liquor laws in just preparing for this. That one I don't know off the top of my head.

Vice Mayor Korte: And we know there's quite a business around series 6 licenses. You know, as far as people holding on to those and selling them and reselling them and reusing them. Is there a potential negative impact on that industry with this?

Brad Lundahl: Mayor Lane, Vice Mayor Korte, I don't know the answer to that.

Vice Mayor Korte: Yeah, I would think so.

Brad Lundahl: I would have to ask maybe an economist who specializes in that area to spell that out a little bit further.

Vice Mayor Korte: Thank you.

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

[Time: 00:32:49]

Councilmember Phillips: Thank you, Mayor. Well, I would think that, you know, if you are a restaurant in, at night time you are a bar, then they are really getting away something if they only have the restaurant and not the bar license. And correct me if I'm wrong but didn't the state try to do this in the past?

Brad Lundahl: Mayor Lane, Councilman Phillips, yes there was a bill, I'm going to say five, six years ago, I think it was called the grill license that attempted, I believe it bumped up the 40% number a little bit and it was my understanding the grill license did not work the way they intended it to, and it has been repealed.

Councilmember Phillips: Okay. Well, I think it's a good idea because, you know, you've got one or the other and everybody is kind of operating in the gray area in between right now. I would go along with it and see what you find out.

Mayor Lane: Thank you, Councilman Phillips. The grill, the attempt to have a separate license, it still was transferable. It was still a license you purchased, and if you continued to operate within the guidelines, you are able to transfer it. What I understand from the way this is worded, this is some kind of very different kind of license, that is not transferable under any circumstances.

Brad Lundahl: Mayor, that's correct.

Mayor Lane: I mean, I just think in valuing it and in fairness on an asset or something, it might be very difficult to enforce or to get allies on this, but nevertheless, looking to see what other communities are doing, isn't necessarily going to tell us which way we would want to go. It would be interesting I suppose to see if there is some other methodologies that are being employed to somehow respond to whatever this question is here. So, okay, so I mean from my perspective. There are no further questions on it right now.

Brad Lundahl: Mayor, I believe that's it for my presentation. So, again, we have the legislative agenda before you. In that agenda, we have policy items and we have two requests to run two separate pieces of legislation. I don't know how you want to handle the approval of this, if you want to talk about each of the bills or the whole package, I will leave that up to you.

Mayor Lane: Now, I'm sorry, are you suggesting whether or not we want to vote on each of these items?

Brad Lundahl: You could handle it as a whole package and just say good or you could say, we like this part, we don't like this part.

Mayor Lane: I think, and I will look around when I say this, but I presume there's a certain amount of agreement that this package just subject to the questions we raised is accepted. So I think as a group we probably have accepted it. Is that.....

[Time: 00:35:58]

Vice Mayor Korte: I would think that we would need a formal motion on it.

Mayor Lane: To accept the full package?

Vice Mayor Korte: Yes.

Mayor Lane: Versus going through individual items.

Vice Mayor Korte: For which I was going to just make that motion.

Mayor Lane: Let me just ask and I know Councilwoman Milhaven, I don't know if you have any questions other than what's already been asked or answered or if you have any other comments.

Councilwoman Milhaven: Thank you, Mayor, no.

Mayor Lane: All right Vice Mayor.

Vice Mayor Korte: Thank you. I move to approve the City of Scottsdale's 2014 State Legislative

Agenda as presented.

Councilmember Phillips: Second.

Mayor Lane: Motion has been made and seconded. No further indication of any other questions on this. So I think then we are ready to vote on that. All those in favor please indicate by aye and register your vote. The tally then is unanimous, 7-0. Thank you very much, Brad. I appreciate it.

Brad Lundahl: Thank you.

#### ITEM 4 – MONTHLY FINANCIAL UPDATE

[Time: 00:37:00]

Mayor Lane: Next item tonight is item 4, which is the Monthly Financial Update and we have Mr. Nichols our City Treasurer to give that report.

City Treasurer Jeff Nichols: Good evening, Mr. Mayor, City Council. The first presentation I have tonight is the monthly financial update as of October 31<sup>st</sup>, 2013. So, for the first four months of our fiscal year the first slide is talking about operating sources. Fiscal year-to-date, and you will notice the first thing is the sales tax, the 1% general purpose, and the .1 of 1% public safety and you will see positive variance of approximately \$700,000 year-to-date.

Go down a little bit further and you get to the franchise and in lieu tax and you see \$200,000 positive variance about the middle of the page. The majority of that variance is due to payments from utility providers that were greater than budgeted. So people using more utilities and we're getting more fees for that. Go down a little bit further and you will see under fines and forfeitures and I'm trying to hit the larger percentages. They may be smaller dollar amounts but about a \$200,000 unfavorable variance in fines and forfeitures and that's driven by a 48% decrease in the photo enforcement citations. I can only speculate why there's a decrease there. Maybe it's because people are driving more cautiously in the City of Scottsdale. And finally, the largest dollar amount variance you will see is a \$1.8 million favorable variance in the building permits and, again, the activity, people actually pulling their permits for projects greater than staff anticipated so construction is ramping up.

My next slide, what I would like to show you is dialing in on the 1% sales tax category and point out some things to you here. The first under miscellaneous goods and services, a positive variance of about \$300,000, and that's being driven from what we can tell right now by the sale of new and used computer hardware and software. Also going down a little bit further, there's a \$100,000 favorable variance in auto sales and maintenance, and, again, it's just due to increased sales in those categories at this point in time. Whether that will continue through the fiscal year remains to be seen.

[Time: 00:30:46]

Mayor Lane: Mr. Nichols, if I might and I'm sorry to go back to the original slide, but we had, you

mentioned the building permits. So has, is it fairly significant percentage-wise but even in dollar amount favorable position, is that more a product of timing or is it some unforeseen ramping up of building permits?

Jeff Nichols: Well, again, speculation on my part, I would defer to those people, but my understanding of the process is that you all issue the ability to pull a permit, and then the timing of when that permit is pulled and the people pay the fees related to that permit is based on when they are ready to do the project. So we probably have some projects in the pipeline and staff tries to estimate when they think those projects will come forward and actually pull the permit for those and it's just happening quicker than staff had anticipated.

Mayor Lane: And that's exactly what I meant, from the standpoint of whether it's a timing issue, forecasted versus what actually happened.

Jeff Nichols: Yeah.

Mayor Lane: So we may have a spread throughout the year that incorporates these amounts but it may be that it hit a little earlier. Through this period of time, in the fiscal year, this may not be trending this way. It may be just a matter of a sort of a blip on the screen because it hit.

Jeff Nichols: Sooner than expected. Yes, sir, Mr. Mayor. I wouldn't speculate that for this four-month period that then we'll see a \$6 million variance by the end of fiscal period. No, I wouldn't do that. Good point.

[Time: 00:41:31]

This slide, and the last time I was here, a few years ago, I liked to see the trend that we're seeing now and that's everything above the line in green and in color because it got rather old with it always being red and being below the line. So what I would point out here is that fiscal year '14 actuals to date are about 8% above fiscal year '13 actuals for the same period. So, again, as you can see with the dotted line, the 4% forecast that we forecasted, the increase that we forecasted in each of the four months so far, we're doing better than forecast. So I would kind of caution you on this one as well, though, because when I go back and look at last fiscal year numbers, for revenues, I mean, they really dialed in on a lot of revenues. We did finish the year better than we thought but especially in the areas of the general sales tax, the 1% on almost \$100 million of revenue, they forecast within \$400,000 of what actually took place. So again, are we just seeing season variables, variations, I don't know at this point in time. But we'll have much better information as we get through the tourist season, which is a great season for us here in Scottsdale.

I get to the operating uses by category and the first thing you notice is a \$600,000 unfavorable variance in the overtime category this is being driven by approximately \$420,000 unfavorable variance and police overtime and a \$200,000 unfavorable variance in fire overtime. I think you heard the reasons, the full-time staffing and station in 602, in relation to Fire with the second truck. I would point out, when you look down at the contractual commodities and the capital outlay category, you

see a \$1.4 million favorable variance in that category.

And some of the things that we are seeing that is affecting us at this point in time, is jail services for September and October, and so those have not been paid. That's strictly a timing issue. There's also one issue, one invoice out there for photo enforcement that we haven't received to date, which if paid would have brought this favorable variance down and also, finally admin services is currently in negotiation with the vendor, a software vendor. They haven't completed those negotiations. I assume they are trying to negotiate us a better price and so that invoice that we have remains in dispute and until that's settled we won't see that. So, again, just at timing issue on the expense side.

Again, General Fund operating uses by division. You will notice down in the Public Safety Fire, where it stands out, the \$200,000 unfavorable variances related to the overtime, however, in the Public Safety Police line, you notice there it's a \$100,000 favorable variance and that's because of the differences between the invoices we haven't received and paid to date, the timing issues and the overtime. So bottom line is citywide, we're seeing a \$1 million favorable variance in our uses to date in the General Fund and this slide kind of depicts the culmination of both the sources and the uses, \$2.4 million favorable variance in revenues, \$1 million favorable in uses for a total of about \$3.4 million through the fiscal year, favorable variance.

I know you have additional slides. They all relate to strictly the month of October and the month of October is embedded in these figures and so I didn't see a reason to go through them at this time. I'm ready to answer any questions on what I have presented to this point.

[Time: 00:45:46]

Mayor Lane: It doesn't look like we have any questions.

Jeff Nichols: Okay. Thank you very much.

Mayor Lane: Thank you, Mr. Nichols. Always enjoy relatively positive information.

## **ITEM 5 – COMPREHENSIVE FINANCIAL POLICIES AND GOVERNING GUIDANCE**

[Time: 00:46:08]

Mayor Lane: So you are going to be standing right there and moving on to the next, the Comprehensive Financial Policies and Governing Guidance, item 5. So we'll move from there.

Jeff Nichols: Mr. Mayor, members of the Council, again, bringing forward the Comprehensive Financial Policies is the kickoff, if you will, to our budget. These financial policies, gives us some background were first adopted in 94/95. We believe they promote found financial planning and the management of public funds. They insist on making fiscal strategy and policy decisions and they definitely contribute to our bond ratings being so favorable. Bond rating agencies look very favorably upon these policies.

We have them broken down into five categories, operating management, capital management, debt management, reserve management and financial reporting. And within those categories we have several policies. The ones I'm bringing forward tonight for your consideration, I consider them, most of them cleanup, in that some policies I'm recommending that we do away with because we no longer follow them for various reasons. Other policies have changed a little bit on the operating side, the way we capture funds related to replacing computer equipment, for example. So let me walk through each one of those.

The first change getting rid of operating management policy number five, we are simply doing it because the Budget Review Commission was decommissioned on August 29<sup>th</sup>, 2011, per Ordinance 3961. So we are asking to take that policy out of our financial policies because it still currently remains in there.

[Time: 00:48:00]

Operating management policy number 11, and, again, you can see the line outs through here, but state law currently prohibits the recovery of indirect costs and the development impact fees. We don't want to mention that. We can't do it per state law and so we want to clean up the policy and take that reference out and that's simply all that is doing is we can only recover direct costs in the impact fees.

Operating management policy, number 12, rationale is we're modifying the use of a direct or a rental rate structure for equipment replacement. So this is just to clarify the intent of the policy and actually clarify what we're actually doing in practice. We are adding, if you see fleet and information technology, the PC phones and copier systems. Previously years ago, when I was here, that was a capital item. We had it as a capital project, the GFOA came out and said that's a no-no. That's not a really capital. We are cleaning up the policies to show how we are capturing the funds and have a replacement fund for fleet and PC equipment.

Operating management policy number 16, just, just, again, to provide clarity on how we go about collecting uncollectible accounts. One half of 1% on an annual basis, that's been a goal of ours for a long time and it's been one that's been achieved. So just trying to clean up the wording in the policy to state more briefly exactly what we are doing.

Operating management policy number 20.....

[Time: 00:49:50]

Mayor Lane: Excuse me one second, Mr. Nichols. On the uncollectible accounts, it will be no more than .5 of 1% of revenue on annual basis unless otherwise approved by City Council. How do we, are we talking about write-offs or what, I mean, collectible accounts how do we, how do we sort of dictate that it's going to be less than .5 of 1%?

Jeff Nichols: Well, fortunately, a lot of the accounts that we collect as a municipal government, we

have quite a bit of leverage in collecting those accounts.

Mayor Lane: Like laws?

Jeff Nichols: Like laws or when you can turn someone's off or you can put a lien on their property, you can entice people to pay their accounts. However, every once in a while, we may have an uncollectible account and I do believe, but I will refer to staff as well. I do believe we have a methodology whereby if we are going to write off any accounts, that we come before Council and we bring them before Council to write off accounts. Do we do that or have we not done that in the past? We do that.

Mayor Lane: Okay. A number of years ago, we ended up with a fairly substantial amount of potential write-offs for, I forget what area it was in but it was several hundred thousand dollars that had sort of been lingering out there. And I think we ended up writing it off because we didn't have enough documentation to support trying to collect it. But that's, that's probably neither here nor there. I guess my point was, I guess in the private sector, we don't have the kind of leverage that we have here in the city, and if we could just dictate, hey, we are only going to have .5, 5 of 1% write-offs or uncollectible items, that would be a great thing for us to be able to say, but sometimes things get away from you on that. So I'm presuming you are saying the additional policies that are involved here are the collection methods available to the city to require and dictate that uncollectible amounts, not necessarily write-off amounts but the uncollectible amounts as they are indicated from, within the year are going to stay within .5 of 1%.

Jeff Nichols: That's correct, Mr. Mayor and from what I remember, again, from my previous experience here, that was what we were achieving. So it's not like it's unachievable for us to reach that threshold.

Mayor Lane: Okay.

[Time: 00:52:29]

Jeff Nichols: Operating management policy number 20, again, modifies the property tax levy policy to ensure accuracy and clarity on City Council authority to increase taxes in alignment with state statutes. You notice there that we, we will recover the G.O., the general obligation debt service, the requirements for the General Fund to equal the prior year's revenue, plus the prior year's tort liability payments as approved by Council, and we also go on to note that Council may also approve the legally allowable maximum over the previous year's primary levy. Again, only you can take that action to tell us to do that. There's one small part on here that can be included and that's growth, at decision to tax rolls that's added from year to year. But just trying to make it more clear on exactly what we're going to bring forward and ask Council as we go forward in the budget process.

Mayor Lane: Okay.

Jeff Nichols: Debt management policy number 28, modifies the policy on the G.O. debt issuances to exclude Preserve general obligation debt and we issue G.O. debt and most people think that's backed

by the secondary property taxes, however, we do issue G.O. debt related to the Preserve purchases and that debt is retired by the voter approved sales taxes that the two tranches that were approved by voters, I believe in '97 and in 2004. I may have the years incorrect, but it's still general obligation debt but it's not the same as G.O. debt for voter authorized bonds. So we are just trying to make that distinction.

Reserve management policy number 41, just modifying the self-insurance reserves policies to provide clarity, and, again, just covering our loss exposure, bringing in an independent actuarial firm, you know, to give us that, to develop the appropriate levels for coverage, and that we'll consider those when we are establishing reserve levels.

Mayor Lane: Excuse me one second, Mr. Nichols. We do have a question or a comment from Councilman Littlefield.

Jeff Nichols: Okay.

[Time: 00:54:59]

Councilman Littlefield: Yeah, you moved a little too quickly there. Going back to debt management policy number 28, am I correct here that before, if we, the current policy includes Preserve G.O. debt, okay, but that actually can't have any impact on the property tax because it's not property tax.

Jeff Nichols: That's correct.

Councilman Littlefield: So the 150 limitation is the same whether Preserve debt is included or not?

Jeff Nichols: And the 150 limitation would apply to just the G.O. debt that's supported by the secondary property tax.

Councilman Littlefield: But that's the same as it currently is because the Preserve debt is not included in that.

Jeff Nichols: Yes, sir. That's correct.

Councilman Littlefield: And correct me if I'm wrong, the current rate per assessed values about 86 cents, isn't it?

Jeff Nichols: I think the total primary and secondary is approximately \$1.29 but, again, I would defer to Lee Guillory.

Finance Director Lee Guillory: Mayor Lane and Councilman Littlefield, the \$1.29 is the combined primary and secondary tax rate for fiscal year '13/14. The secondary rate is probably, I think it is 79 cents.

Councilman Littlefield: Okay. Thank you.

[Time: 00:56:32]

Mayor Lane: Councilman Robbins.

Councilman Robbins: Mayor just a quick follow-up on this policy, as well. Isn't it true that the Preserve sales tax, the bonds are secondarily backed up by our property taxes? So if the sales tax went away, those bonds are also backed by citizens' properties?

Jeff Nichols: I believe, you know, they have the City of Scottsdale's name on them. So if the sales taxes that were generated by those two tax rates were not enough to retire the debt, yes, that we would have to find other funding sources, be they property tax rates or sales tax or some other form of revenue, but, again.....

Councilman Robbins: I think the bonds were sold on that basis.

Lee Guillory: Mayor Lane, Councilman Robbins, that is correct. They were sold as property tax supported bonds. So the backup, if the Preserve tax wasn't sufficient, as Mr. Nichols indicated, would be some other revenue source, if needed a property tax rate could be implemented to cover their debt service.

[Time: 00:57:35]

Councilman Robbins: So does that change this policy or does that implicate this at all or is this still valid in your estimation?

Jeff Nichols: I believe the policy is still valid. I believe at this point in time, what we're showing that we are going to collect to retire the debt that's been issued by land and the Preserve that the sales tax that will be generated will be sufficient to do that.

Councilman Robbins: Right, you're saying in this policy that general G.O. debt issuances excluding Preserve will be managed this way but you can't really exclude the Preserve on a global basis, can you? It still has to be, if it's back stopped by that, it has to be included in this calculation.

Jeff Nichols: Well, I would have to, what I would have to do, excuse me, Mr. Mayor, Councilman Robbins, I would have to go back and look at the numbers because I just don't know what assumptions we would make to calculate the impact on the secondary property tax rate should we feel that there's going to be inadequate funding coming from the sales taxes. And as I said right now, the primary and the secondary were the \$1.29, that gives us another 21 cents to, you know, factor in before we reach the \$1.50 threshold and I don't know what the impact of factoring that back in would be.

Councilman Robbins: I guess part of my worry or care about this is because as we get to the end of our Preserve program with the money, if it runs out or when it runs out, and then we hit another

downturn and the sales taxes aren't enough to pay for what we have maximized, then this would come into play or something along these lines would come into play. So.....

Jeff Nichols: Well, and as I said, I'm, and I, correct me if I'm wrong Ms. Guillory, but while the bonds might have been sold on the basis that they could, that we could go to the secondary property tax, I don't know if we were limited to that or if we could have used other revenue sources, i.e., just the general sales tax and, again, that would have ramifications on the operations of General Fund.

Councilman Robbins: Ms. Guillory, do you know? When the bonds are sold, the primary repayment method was through property taxes but we replaced that with the sales tax?

Lee Guillory: I'm sorry, could you restate that question, please.

Councilman Robbins: So when we sold the bonds for the Preserve, what was the primary repayment method?

Lee Guillory: It was the city's intention that the Preserve taxes would repay the Preserve general obligation bonds so the voter pamphlet stated that, that it was the intention that the Preserve sales tax would be utilized. The backup is the property tax.

[Time: 01:00:44]

Councilman Robbins: So we don't have any wiggle room if the sales tax is insufficient, we would go to the property tax?

Lee Guillory: Mayor Lane and Councilman Robbins, you always have the option to find other funding sources to pay the general obligation bonds so even the property tax supported ones, if there was an additional revenue source you wanted to dedicate to it, you could. The bondholders, they have the right that if you did not pay them from any other revenue source, they would have the right to enforce a property tax.

Councilman Robbins: Okay. Thank you.

Mayor Lane: Thank you, Councilman. Councilman Phillips?

Councilmember Phillips: Thank you, Mayor. So going along with what Councilman Robbins was saying, you think the bond market-raters would look at that the same way then? They would want to know how we are going to be able to include the general obligation debt if the money isn't there later.

Jeff Nichols: Well I.....

Councilmember Phillips: I think the same thing will go through their head.

Jeff Nichols: Mr. Mayor, Councilman Phillips, I think they would fully expect us to do what we said we

would do when we sold the debt. So if we said that we would, that the second option was going to the secondary property tax, they would expect us to do that or, again, just the full faith and credit of the city government. And so we could, we could pay it some other way, but as Lee just indicated, that the bondholders could actually legally force us, if we didn't, couldn't find another way, another revenue source to pay the debt, that they could say you have to increase the secondary property tax to pay this debt. You don't have a choice. So to, again, to Councilman Robbins' point, I think what he's making is should, should we exclude the Preserve general obligation debt from this policy? Or should it be included? And then to me, the policy gets more speculative. I mean, staff needs to speculate what portion of the debt that's already been issued for G.O. debt for the Preserve purchases may fall back on the secondary property tax. And should that be included in the calculation. I believe that's your question.

Councilmember Phillips: But if you are taking it out and you have no policy for that or is there somewhere else we haven't come to yet?

Jeff Nichols: Well, what I see, again Mr. Mayor, Councilman Phillips, what I see could happen in the worst case scenario, let's say is that our current rate is \$1.29, primary and secondary rate and let's say we issue more G.O. debt issued and authorized by voters and that rate gets higher and it approaches \$1.50 and then down the road we see that we are not going to have the ability to retire the G.O. debt that was issued for Preserve land purchases with the sales tax that is being generated for purpose, that we could actually exceed then our policy of \$1.50 per assessed value, \$100 of assessed valuation. I mean, if the perfect storm happened and all of those things happened and I was currently in my position, I would come back and I would recommend, you know, that we waive this financial policy, that we, if necessary, if there were no other revenue sources, that we would actually increase the secondary rates such that the total rate would be above a \$1.50, \$1.50 per \$100 assessed valuation and we would hold that until we got the debt paid.

[Time: 01:04:25]

Mayor Lane: Thank you, Councilman Phillips and thank you, Mr. Nichols.

Jeff Nichols: You're welcome. And thank you, Lee. Again, reserve management policy 41, just modifies the self-insurance reserves policy to provide clarity. We do add in there that we will get an independent actuarial firm to come in and tell us on annual basis to, what the appropriate reserve levels were, and, again, we have a board that will deal with regarding this, what we feel needs to be established for such a reserve. Reserve management policy number 42, again, it adds, it just adds the pc replacement fund to the policy related to internal service funds i.e., the fleet fund and the way that we are going to collect a rental rate, if you will or revenues in order to replace fleet vehicles and pc replacements. And by PC, I think it's larger than that, it's probably servers and other types of information technology equipment.

Finally, one thing that I heard at the last time the financial policies were brought forward to City Council was about the reserve management policy was any draw down of reserve funds requires a Council approval. The reason it says any potential draw down of reserve funds requires Council

approval goes back to the property tax. We set the property tax rate the majority of time we collect that and it might not be a certain fiscal period or fiscal year. We normally collect 100% of it, but people do have the ability to protest their property tax rate. And so there may be cases unintentional on our part where someone wins a tax protest and so we don't collect everything that we said we were going to collect and it would have the effect of drawing down the reserve and the fund but it wouldn't be intentional on our part; if there was any intentional draw down, we would come back before Council to request that.

Mayor Lane: Mr. Nichols, I just, going back to reserve management policy number 41. I don't mean to be too picky about this, but when you cross a term like a qualified actuarial firm and replace it with an independent one, isn't there some certification that we might be, a certification or a qualification designation that we could go to other than independent?

Jeff Nichols: Certainly in my .....

Mayor Lane: There's an assumption if you get rid of "qualified" now we are okay with "unqualified."

Jeff Nichols: Well, Mr. Mayor, I'm not okay with unqualified. Actuarial firms do have designations the same as certified accounting firms. We would look for an independent actuarial firm that is accredited.

[Time: 01:07:34]

Mayor Lane: Even if that language, accredited, and I'm not sure if that's the appropriate, you mentioned certified or accredited. I mean, again, it's a small point, but simply, an independent actuarial firm doesn't do it for me when we are talking about policy on this.

Jeff Nichols: All right, I would be looking personally, I would be looking for a firm like Anon, a firm that's nationwide firm and does actuarial studies for pensions and all other matter of things.

Mayor Lane: And they are probably accredited, licensed and qualified.

Jeff Nichols: Yes, they are, very much so.

Mayor Lane: Yeah and I understand that and in reality, that's what we do but when we are talking about our policy, I suppose we are looking for somebody who is licensed to do it and is qualified. I just caught on to the idea that we are crossing a qualified one and replacing it with simply an independent one. So I, I would opt to, when we are talking about policies, just making the notation.

Jeff Nichols: Okay. I will certainly make note of that, as I'm sure staff already has. Mr. Mayor, I think the intent here is we were not going to get a qualified not independent firm. I mean, so someone that we have a relationship with and good intentions.

Mayor Lane: Yeah. All right.

Jeff Nichols: That's the last one. And so what I would like to do is ask Brian, if he would, to give me the Elmo. Let me flip it on here for you all to read it.

We had sent you some materials regarding the reserve, the current reserve in the General Fund and the reserve that's currently in the General Fund is made up of the total, 10% of the total expenditures in the General Fund and 10% of the total expenditures in the transportation fund. And so what we are recommending is, and that goes back sometime to when the General Fund actually used to subsidize the transportation fund. That's not happening now. So we're going back and we're saying really the reserve for the transportation fund should be in the transportation fund. So what we're recommending is, the 10% reserve of the General Fund, relate only to the General Fund expenditures. I had mentioned in an earlier email to you all today that it was about \$2.5 million, 2.4 something million dollars. I rounded up. So what that would do is decrease the reserved fund balance in the General Fund by approximately \$2.4, \$2.5 million. It would increase the unreserved fund balance in the General Fund by that same amount and right now, we have no reserve in the transportation fund, the fund balance in the transportation fund is all unreserved. We would take \$2.4, \$2.5 million of that unreserved fund balance, designate it as reserve. So with the two funds together, the sum is zero between the two funds. We're just getting the reserve of the transportation fund balance in the fund that it really belongs in. And that's why I'm recommending this alternative motion language if you will to include that, because it was not something that was contemplated at the time that we submitted this to the City Clerk. But it was something that was caught and that we thought needed to be corrected.

[Time: 01:11:22]

Mayor Lane: So the recommendation then is to adopt Resolution 9570 with, as it reads here, but also with this amendment or add to it?

Jeff Nichols: Yes, sir, Mr. Mayor.

Mayor Lane: Okay. Well, I don't see, and that completes the presentation to this point?

Jeff Nichols: Yes, sir, it does.

Mayor Lane: Okay. Then I think that, Councilman Robbins?

Councilman Robbins: I will make a motion, Mayor, that the Council adopt Resolution Number 9570, regarding the comprehensive financial policies and in addition amend financial policy number 35 to read as Mr. Nichols has presented to the Council.

Councilwoman Klapp: Second.

Mayor Lane: A motion made and seconded. Councilwoman Klapp. Seeing that there's no further comment on this, I think we are ready to vote. All those in favor of the motion as it's been outlined,

please indicate by aye. And nay if you are opposed.

Mayor Lane: All right. It's unanimous. Tally 7-0. So that completes that item. Thank you very much, Mr. Nichols.

Jeff Nichols: Thank you, Mr. Mayor.

Mayor Lane: That completes our regular agenda items and there are no public comment items. There are no Mayor and Council items.

**ADJOURNMENT**

[Time: 01:12:49]

Mayor Lane: So I would accept a motion to adjourn. Moved and seconded. All those in favor, please indicate by saying aye. We are adjourned.

Councilwoman Milhaven: Good night, everybody.

Mayor Lane: Good night, Councilwoman. Thank you.