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CALL TO ORDER

[Time: 00:00:03]

Mayor Lane: Good afternoon, everyone. Thank you for being here. I would like to call to order the October 20th, 2015, city council meeting. It is approximately 5:05. Start with the roll call.

[Time: 00:00:14]

City Clerk City Clerk Carolyn Jagger: Mayor Jim Lane.

Mayor Lane: Present.

City Clerk Carolyn Jagger: Vice Mayor David Smith.

Vice Mayor Smith: Present.

City Clerk Carolyn Jagger: Councilmembers Suzanne Klapp.

Councilwoman Klapp: Here.

City Clerk Carolyn Jagger: Virginia Korte.

Councilmember Korte: Here.

City Clerk Carolyn Jagger: Kathy Littlefield.

Councilwoman Littlefield: Here.

City Clerk Carolyn Jagger: Linda Milhaven.

Councilwoman Milhaven: Here.

City Clerk Carolyn Jagger: Guy Phillips.

Councilman Phillips: Here.

City Clerk Carolyn Jagger: Acting City Manager Brian Biesemeyer.

Brian Biesemeyer: Here.

City Clerk Carolyn Jagger: City Attorney Bruce Washburn.

Bruce Washburn: Here.

City Clerk Carolyn Jagger: City Treasurer Jeff Nichols.

Jeff Nichols: Here.

City Clerk Carolyn Jagger: City Auditor Sharron Walker.

Sharron Walker: Here.

City Clerk Carolyn Jagger: And the Clerk is present.

Mayor Lane: Thank you. Just a couple of orders of business. We do have cards if you would like to speak on any of the items and/or for public comment. They are the white card the city clerk is holding up over her head to my right. And if you would like to give us some written comments on any of the items on the agenda that is there for your convenience. We do have this evening is Scottsdale police officers Jason Glenn and Dave Schurr, almost here in front of me, if you have need for your assistance. If there are any medical emergencies please see the Scottsdale fire representative who I saw just a little while ago. Straight back. Straight back right in front of me if you have any need for his assistance. The area behind the council dais are reserved for staff and council access only. There are restrooms over below the exit sign for your convenience.

PLEDGE OF ALLEGIANCE

[Time: 00:01:35]

Mayor Lane: We do not have any Girl Scouts or Boy Scouts for the Pledge of Allegiance. So we fall back to an age old tradition of those, the person on the dais who happens to be having a birthday today. They will lead us in the pledge. So I would ask Councilwoman Littlefield to please lead us in the pledge.

Councilwoman Littlefield: Thank you, Mayor. >> 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: 00:02:19]

Mayor Lane: The invocation will be rabbi Arielle Shoshan from the Scottsdale Center. Rabbi.

Rabbi Ariel Shoshan: Instill within our mayor and the members of city council the deep understanding of the potential that this day holds, as they work fought -- together for the good all people. Open their hearts to those who hunger for justice and equality and opportunity. Give them the strength and the wisdom to ensure the security of this great city and to strengthen the hand of our distinguished police department, fire department and first responders who care for our lives as they are called to risk their own. We ask you, God, to bless each and every member of this body with the same courage that has been exhibited by the leaders that have preceded them, in order to fulfill the vision and the purpose of this great city for us and all who will follow in the future. Bless us all with the life of peace goodness, safety, physical health, mental health, a life without shame or disgrace, a life with honor and dignity and a life in which our heart's desires or fulfilled for good. Amen.

Mayor Lane: Amen. Thank you, rabbi.

MAYOR'S REPORT

[Time: 00:03:56]

Mayor Lane: Just one order of business that I would like to report today. We are going to have a -- we have a proclamation honoring and noting and recognizing, I suppose, the importance of our Arizona cities and towns to all of our overall wellness and prosperity of the state of Arizona. And this happens to be tied to an organization that the city has been a member of for many, many years and that is the league of Arizona cities and towns would works on our behalf with regard to those things that are of importance and interest in best practices, and frankly in any form or fashion that they can help us with the state and local regard, with regard to the operation of our great cities in the state.

This is a resolution and a proclamation and it reads, Whereas the citizens of Scottsdale rely on the city to experience a high quality of life in our city; and whereas, it works 24 hours a day, seven days a week to deliver fire, police, emergency medical response to ensure safe communities; and whereas, cities and towns in Arizona also provide services and programs that enhance the quality of life for residents

such as parks, utilities, street maintenance, sanitation and recycling services, community centers and recreational programs; and whereas, it's important for Scottsdale to continue to provide the excellent delivery of services and programs that our citizens have come to expect in our community; and whereas, one of the responsibilities of the city of officials to ensure open and accessible government through frequent communication with citizens using various avenues and means; and whereas, through cooperation and participation, citizens, community leaders, local businesses and municipal staff can work together to ensure that services provided by Scottsdale can remain exceptional elements of the quality of life in our community. Now, therefore, may it be resolved that the city of Scottsdale joins with the league of Arizona cities and towns and fellow municipalities across the state of Arizona to declare October 18th through the 24th of 2015 as Arizona Cities and Towns Week.

So thank you very much for maybe a level of appreciation that we hope we all share with regard to what our cities and towns do for us as a community on the overall. So I think we have Brad Lundahl, I will go ahead and present that to.

PUBLIC COMMENT

[Time: 00:07:01]

Mayor Lane: Okay, it's now time for some public comment. And public comment is reserved for citizens comments regarding non-agendized items with no official council action to be taken on these items. Speakers are limited to three minutes each with a maximum of five speakers. We only have two requests at this point in time. So we will go ahead and start with Darlene Peterson.

Darlene Peterson: Darlene Peterson, Scottsdale, Arizona. 7327 East Wilshire Drive. Mayor Lane and members of the council, I really come here tonight to congratulate the past all the mayors and councils for ruining the character of our city. It looks very claustrophobic riding down the streets now because all these condos and apartments and whatever are put right on the street. I thought it used to be 40 feet at least. It doesn't look like 40 feet to me! Well, the other day, I saw in the paper that Paul Basha was -- they were talking about narrowing Scottsdale road to one way each way. And of course, the fire called Paul Basha and he said, well, we want to widen it so that they can put in a bicycle path and golf carts and I said, golf carts? He said, yeah, you know what golf carts are. Now, this is on the phone and I'm sure he could tell the sarcasm. And I said, you mean bar carts, and he said, no, Darlene! Golf carts. And I said, no, you mean bar carts. I said, those carts are not going to a golf club! They are going to a bar! And I said, that's not what we want. We don't want to narrow our street. And then he had said that they are going to take out two sides of Chaparral to widen the street. Well, you are trying to pass a bond. Where in the heck is the money coming from to buy out, like 50 homes and relocate them and tear up the street in the middle of Scottsdale road that doesn't need to be torn out? Now, it's hard to pass a bond when you are going to plan this stuff that we fought over several years ago, about widening Chaparral. So anyway, that's all I wanted to say. And good luck to you all.

[Time: 00:10:32]

Mayor Lane: Thank you, Ms. Peterson. Next is Fred Unger.

Fred Unger: My name is Fred Unger and my address is on file. Mayor and city councilmembers, I don't need to tell you that there are a lot of things that people disagree on these days. I wanted to bring something to your attention that I hope we all can agree on. When we drive or walk around our city, from Pinnacle Peak to SkySong and from our western border to our eastern border, we find beautiful works of art. From the love statue to the pony express riders, from the doors to impulsion, we celebrate the arts and culture of our city. I believe art differentiates us from other communities. Scottsdale public art has brought to our citizens and visitors alike over 100 permanent art installations. Did you know that forest floor, the exhibit at the library drew over 26,000 visitors or that canal convergence, now in its fourth year is anticipating 50,000 attendees? Currently, slightly colossal is on display in the library and the highly anticipated Bruce Monroe exhibit is joining 12 other artists for next year's canal convergence that activates both sides of the canal, all the way from Scottsdale Road to Goldwater. And I just want to take a moment and congratulate Donna Isaacs and her staff for out-of-the-box thinking. I took my grandkids to Chihuly at the Garden, and I took them during the day and I took them there again and the Phoenix botanical garden said what can we do to continue this. They brought Bruce Monroe to our city and state and Donna and her staff took advantage of that to grab him and make him part of the canal convergence, otherwise we couldn't attract someone of his stature and cost. A real shout out to Donna and her staff. As a member of the advisory board of Scottsdale public art, I wish to thank you, this city council and the many previous city councils that supported the cultural council and the Scottsdale public art these past 30 years of our existence. Yes, we will be celebrating 30 years coming up. We hope that you take the time to enjoy the many offerings available. Thank you very much.

MINUTES

[Time: 00:13:24]

Mayor Lane: Thank you, Mr. Unger. That completes our public comment cards at this time. Next order of business would be the approval of the minutes and I would request a motion to approve the special meeting minutes of September 21st, 2015, regular meeting minutes of September 21, 2015, and work study session minutes of September 21, 2015. Any questions and/or a motion?

Councilmember Korte: So moved.

Councilwoman Klapp: Second.

Mayor Lane: A motion made and seconded. Seeing no further requests for comments, we are ready then to vote. All those in favor of the minutes as indicated, please register by aye and register your vote. It's unanimous approval of the minutes. Thank you.

CONSENT AGENDA

Mayor Lane: I move on to the consent items which are items 1 through 13. And we have a request

to make a comment on item 10. Councilwoman Littlefield, if you would like?

Councilwoman Littlefield: Thank you, Mayor. I would just like to request as per the consent items suggest that we, the council receive a review and presentation of the event after the fact. Thank you.

Mayor Lane: Thank you, Councilwoman. And we do have a request from Councilman Phillips to pull -- well, to actually have consent item 4 removed for a separate vote. Is there a presentation or anything requested, Councilman?

[Off microphone comment]

Mayor Lane: So you want to pull not just for a separate vote but to regular? From consent, all right. So item 4 will be pulled from consent and moved to the regular agenda. I have a notation that item 13, Murray vs. the city of Scottsdale settlement was reworted. Is that subsequent to the issuance of the council report? The rewarding of item 13?

City Clerk Carolyn Jagger: Your Honor, the item was reworted from when it was first published a week ago. The language that's on the agenda in front of you should be correct.

Mayor Lane: Okay. And that's been issued to the public as well?

City Clerk Carolyn Jagger: That's correct.

Mayor Lane: Very good then. So then we just have the remaining items 1 through 13, absent item 4 for a consideration for a motion to approve.

Councilmember Korte: Mayor, I move to approve consent items 1 through 13, with the exception of item number 4.

Councilwoman Littlefield: Second.

Mayor Lane: The motion has been seconded. Seeing that there's no further comments on these items, we are then ready to vote. All those in favor aye and register your vote. Aye. Okay. We are completed the consent items with the exception for item 4. If you are here for any of those items, you are certainly free to leave, or stay with us for the rest of the evening.

ITEM 4 – CAKE NIGHTCLUB IN-LIEU PARKING CREDITS (2-IP-2014)

[Time: 00:17:22]

Mayor Lane: Moving on to regular agenda items 14 through 17, but we now have the added item of item 4. And item 4 is specifically the cake nightclub in-lieu parking credits 2-IP-2014. This is approving a request to participate in the in-lieu parking program for ten in-lieu parking credits.

Senior Planner Dan Symer: Thank you, mayor and members of council. Dan Symer. This is to participate in the in-lieu parking program for Cake Nightclub. This case was previously heard by the council at the beginning of last September and was continued to allow the applicant to resolve some outstanding issues with the building permits and the owner. Those issues have been resolved. The building officials is satisfactory. It's located on the northwest corner of Indian Plaza and Saddle Bag Trail, south of Camelback Road. In the other for 24 hour spaces, this is the site here, we have approximately 400 spaces, and approximately 325 additional at night. So it comes down to about 726 in the evening, with an additional approximately 100 spaces outside of that 600-foot walking radius. In general, this is a request for in lieu parking and I'm happy to answer any of your questions, and the politic is here to answer any additional questions.

Mayor Lane: Thank you, Mr. Symer. Councilman Phillips.

[Time: 00:18:57]

Councilman Phillips: This is more about the in-lieu parking credits and how that's going along. And I guess to start it out, I would like to ask, if you know when this started and what was the original intent of this?

Mayor Lane: Excuse me, I don't believe we are agendized for a discussion of the in-lieu parking program. It goes to the specific item. Could I get some clarity on that, Mr. Washburn?

City Attorney Bruce Washburn: That's correct. The councilmember needs to have the information in order to make his decision on the specific item, then it would an allowable question, but the general discussion of the in-lieu parking credits would have to be agendized separately.

Mayor Lane: So councilman, if you want to rephrase that in order to make a decision on this question that you want the history of the in-lieu parking program.

Councilman Phillips: I'm not so sure I want to go along with in-lieu parking credits, to help me understand it, can you tell me when it began and what it was originally intended for?

Senior Planner Dan Symer: It was adopted in 1985 as part of the original downtown ordinance. It was intended to assist property owners to meet their parking requirements, set particularly on small properties, and larger properties for that matter. And to intensify their development. This was an acknowledgment that the zoning district and the development could not meet all of its requirements, and the program was established to establish new parking structures. 3500 parking spaces have been added to the downtown approximately 4% has been paid out of the in-lieu parking fund and the rest has been paid out of other city finances.

So the at hand is -- that we normally get, are these phantom spaces? No. They do exist. The issue at hand is you just can't put your finger on them and say that's my parking space. Are they out there? Yes. But the intent was to provide public parking for those developments that were tight, meaning both development standards and additional uses.

Councilman Phillips: Thank you. Well, I think we have reached the point on the in-lieu parking credit, the saturation of it. You can say, well, you have a space over here, during this time and this time, yeah, those two together and we have enough spaces in order to make up for it, and make it credible. But the reality is, we have no parking downtown. So I think in the future, we need to look at it a different way of doing this in-lieu parking. The last parking garage was on the west side over there. I think that's where this came from. It's just not working anymore. And I guess we'll -- I don't want to get off on a different discussion, but I think we are going to have to come back and look at a different way of doing this in the future.

But to Cake Nightclub's credit, I will make the motion to adopt resolution 9834 approving their request to participate in the in-lieu parking program.

Councilwoman Littlefield: Second.

Mayor Lane: The motion has been made and seconded. Any further comment on the item? By the second? Okay. All right. Then I think we are ready. We have a motion and a second. We are then ready to vote on item 4 as has been moved. Motion passes unanimously, 7-0. Thank you, councilman and thank you Mr. Symer.

ITEM NO. 14 – VIDEO SERVICES RIGHTS-OF-WAY LICENSE AGREEMENT

[Time: 00:22:41]

Mayor Lane: Next item on our regular agenda, regular agenda is item 14, the video services right-of-way license agreement, it's a request here, that's a presentation, public hearing and consideration of adopting resolution 10217, authorizing agreement number 2015-199-COS with Google fiber Arizona LLC to install, operate and maintain a communications infrastructure providing video services and high-speed Internet services. We have Mr. Hartig here. It's our director of -- our chief information officer, I'm sorry, the C. I.O. Mr. Hartig.

Chief Information Officer Brad Hartig: Thank you, Mayor. I have a brief presentation this evening. I have been leading Google's efforts to bring them here to the valley, and to Scottsdale. This is related to their video services license agreement. I have a brief presentation if you have any questions from there, I would be happy to answer them. So Google started into this business back in 2011. Their first entry was in Kansas City. It was to provide TV and gigabit Internet services. Right now, they have about 20 cities in that region that are benefiting from this service. 2013, they implemented in Austin, Texas, and Provo, Utah. And then in 2014, and this is something that Scottsdale was involved in, they announced 34 cities in nine metro areas. One of those metro areas was here in Phoenix, and it included Phoenix, Tempe, and Scottsdale.

Trying to give you a landscape of where we are at in Scottsdale with land line, TV, and Internet services. We have two providers here and that's Cox communications and CenturyLink. Cox communications has approximately 66,000 subscribers. And CenturyLink has approximately 3,500

subscribers. This generates a license fee to the city of about \$3.7 million per year annually.

And as we see CenturyLink making their way or inroads into the city, we do know that there's others and Google is one of them that has shown interest. And in general, the city and the citizens have felt that that's a good thing related to competition and driving down prices. You can say that those areas that competition has come into place, whether it be AT&T, Verizon, Google, the speeds have typically gone up and the prices have gone down. So that definitely is an accurate statement.

So Google will install a fiber network to the home. It's going to provide TV services and also gigabit ethernet services. The way they have their deployment is through what are called fiber hoods. We -- they will go out into particular neighborhoods. They will judge the level of interest. From there, they will decide whether they are going to build in that mar area. They are looking for a certain amount of density for that build out. Another part of their whole strategy is to work with the various cities that they go into related to digital inclusion. This is associated with the unserved and the underserved portions of our population they are really trying to make a difference in that area and committing a lot of resources to it.

So as I said before, in February of 2014, they announced that they were going to be coming to the Phoenix metro area. In April of 2014, we brought forward to council for consideration and it was approved a fiber hut license agreement. This is basically the backbone of how they build their network. They are looking at probably six to eight of these in the city and it would be on city property. From there, they build out concentration points to their various customers. As part of this process, Google -- Tempe approved an agreement with Google in July of 2015, and Phoenix approved theirs in September of 2015.

This agreement allows Google to install and operate cable equipment in the right-of-a wasn't offer TV and Internet services. And the way our agreement has been constructed, there's really about four pending areas, in protecting the city's interests it has to do with right-of-way management so basically our planning process, our permitting processes, our inspections, our traffic flow, all of those are included in the agreement. Insurance indemnification, those are all covered in the agreement that we have with Google, getting reasonable compensation for the use of the right-of-way. It's 5%. So we're not sure what we are getting from CenturyLink and from Cox.

And then there's a security bond for if there are issues within the right-of-way and the city needs to resolve those, we have a cash source to be able to go to and resolve them. It's important to note that this is a requirement for Google to consider to come to Scottsdale. I also want to note that this is one more step towards this process of bringing them here.

It does not mean that Google will be coming to Scottsdale with certainty. They do have some additional vetting that they would like to do within each one of the cities but this is a critical step for their consideration in coming. We do feel it promotes competition and both in the Internet and television environment. And as I said before, in those areas where they have come -- competitors and not just necessarily Google, it typically does drive down prices and increases speeds. The license was based on existing licenses with both Cox and CenturyLink, as a starting point and then we did

modify those. More specific towards Google, and their implementation and their needs. And one of the things that we have talked about with both Cox and CenturyLink, when Google does decide to come to the valley that, we would be willing to talk to them about those points and work with them on them. So that's the end of my presentation. I don't know if you have any questions.

Mayor Lane: Thank you Mr. Hartig. We may have some questions. We have a couple of requests to speak. If you want to stand by on that. So we have Mr. Chuck Schmidt.

[Time: 00:29:26]

Chuck Schmidt: Mayor Lane, members of the council, my name is Chuck Schmidt, 52610 North Seven Springs Road and depending on who you talk to, it's Scottsdale, Arizona, Cave Creek or Rio Verde. It's a little inside joke, 85267. I'm here on behalf and in support of this opportunity, as a recent entrepreneur and a Scottsdale person I truly believe this is good for Scottsdale business. But why I'm here is on behalf of education. I am here representing myself and as a recently appointed member of the Arizona State Board of Education, and having been in education for over 20 years, I have seen the need for increased technology for our students, whether they are at home, and the changing environment, whether it's home schooled students, charter school students, public school students, or private school students. What Google fiber is offering and bringing to Scottsdale is truly an opportunity to increase our technology base for science, technology, engineering and math, as well as computer sciences. This is something that we truly need not only in Scottsdale, but throughout our state. And as a current state Board of Education member, I can tell you that this is something that I hope Scottsdale will lead the way in, not only for our schools but for our homes, where kids are doing a lot of work. And it is there that I think that Scottsdale can lead the way for the state, and help us move forward and with that, I would like to answer any questions that you may have.

Mayor Lane: Thank you, Mr. Schmidt. We don't engage in questions, but thank you very much.

Chuck Schmidt: Thank you.

[Time: 00:31:30]

Mayor Lane: Next is Trey Brennan.

Trey Brennan: Mr. Mayor, Councilmembers my name is Trey Brennan. I'm the owner of the Brennan Gallery, a second generation gallery owner. We have been in the same building for 26 years. And I'm the owner of a commercial real estate marketing platform. We are designing it as we speak, but my most prominent and most proud accomplishment is my three and a half-year-old who is more technologically savvy than I was at 16 years old. I'm here to support and to -- excuse me, I'm here to -- I'm freaking out here. I'm here to offer my support for Google Fiber. When traveling around the country, in the art market, our reach is far greater than phone used to be, but emails and technology, it's vital for both of my businesses to succeed to grow. And I simply wanted to come here and support Google fiber as a resident, as a business owner of the city of Scottsdale. Thank you.

Mayor Lane: Thank you, Mr. Brennan. That completes the public comment on this item. So we have before us, item 14, and that's the consideration of resolution 10217. And agreement 2015-199-COS Google fiber. We have a couple of requests to speak and direct questions likely to you, Mr. Hartig. We'll start with Vice Mayor Smith.

[Time: 00:33:12]

Vice Mayor Smith: Thank you, Mr. Mayor. I know many of the citizens will be interested to know the timing, not caring about the details but might I actually see Google fiber. I know they haven't made a decision. Can you talk about the timeline. When will they make whatever the next decision is and then assuming everything goes in an affirmative path. When could they be an available technology in the city?

Chief Information Officer Brad Hartig: I am not in a position to answer that. There is a representative from Google here in the audience, that -- that could potentially shed a little more light on that. I can say that there are additional steps that they are going through their process and evaluating each one of the cities that they come into. And the valley in particular, so there are some additional steps that at the need to go through and then from a business decision, they need to make that. Once that is made and I'm saying this from a technology standpoint, the fiber doesn't get installed overnight. I mean, there's a tremendous amount of infrastructure that will have to be put into place and I would venture to say -- and I'm going out on a limb here. I will have Brian answer that, but I would venture to say at least a year in the deployment of the fiber. So Brian bell here from Google. Do you want to take a stab at that one.

Vice Mayor Smith: Before you yield the floor to Brian, but another question that he may be able to answer, would be to expand on this notion of neighborhood determination. I forget what your verbiage was but they will go into the neighborhood and determine the interest and if there's enough interest, cable will be put into that neighborhood. Perhaps you can explain better for the public what that process really is.

Chief Information Officer Brad Hartig: You want to take that one too?

Google Expansion Lead Brian Bell: Mr. Mayor and Council thank you for having me here. I'm Brian Bell, I'm the Google Expansion Lead in the western half of the country and I have been working with the city staff for well over a year, towards this license agreement. I appreciate all the effort that's gone into it. So on the first question, on the timeline for deployment; I think it's too early to say. A lot of the effort to date has been focused on this license agreement. It really is the threshold issue. Without the legal authorization, it makes no sense to be far along in the planning -- you know, the network design and deployment planning. But rest assured that is going along in parallel. So we are ready and excited to engage in the next steps as soon as we cross this hurdle.

I think you can just look at some of the other markets where we are building, for example, we don't like to waste time, but it also is a massive infrastructure project. It's because of the nature of the

work does take time. So I think publicly, we have said in other markets and it will depend on the size of the city and the metro area but on the order of 18 to 36 months is somewhat -- the timeline that we like to look at for a metro wide build. And on the second question, the cyber hood qualification, the fiber hood model. So, of course, if we are a year or two away from construction, things can always change but the way we approached this in Kansas City, Austin, and Provo, we do an intensive marketing blitz and campaign to get residents aware of and interested in the service. And then based on that, we offer a sign-up window and that allows us to figure out what neighborhoods have enough interest to support the installation of fiber and then we concentrate our deployment in that area. So we can do the construction in one area, and minimize the disruption because then we can move on into the next neighborhood so that we are not building out the same neighborhood over and over.

Vice Mayor Smith: Thank you. Thank you both.

[Time: 00:37:19]

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

Councilman Phillips: Thank you, Mayor. You might need to answer this. We'll see. My first question was: How is it working in other cities and what does Scottsdale have to look forward with this? What is the advantage in what are we going to get out of this? I know my kids want to know.

Google Expansion Lead Brian Bell: Sure. Thank you for the question. We're thrilled to be in this business and we think it's working really well. It's hard work. It takes a lot of time and effort to build a network like this, but, you know, we are excited about the things we are seeing in the markets where we are and where we are building. The speeds are going up. The prices are coming down. A lot of people are getting online, a lot of times for the first time. So in addition to the gigabit, we have the basic broad band and that has no recurring fee after a construction fee is paid, there's zero ongoing costs. And so we are really trying to get more people online and interested in the next generation of web services and we think it has been really successful to date.

I think another area where we think things are going well is in customer service. So we recently highlighted on our blog the fact that our residents seem to be delighted with the service they are getting and we do spend a lot of time and effort on making sure that we are responsive to customers, addressing any issues they may have and just making themselves available as best as we can.

Councilman Phillips: Okay. So I'm just not that computer savvy, but just so I understand, like right now, regular cable, you have your remote and you go to a channel and it comes on. With yours, is it -- you go online and you find a show you want and you do it that way? Is it different than --

Google Expansion Lead Brian Bell: Not over the Internet. So we obviously offer an Internet connection that lets you get on to the Internet, but our TV service is delivered as an I.T.-based TV service and so that's using Internet protocol technologies. So that's how it differs from some of the more traditional television providers, say satellite or cable. And the way that works is when you request a channel with your remote control and similar to what you would do today, we are -- our

network will immediately instantaneously send you that programming screen. So it's a fully two-way interactive system that sends the programming using I.P. technology, but only after a subscriber has requested it.

Councilman Phillips: All right. Still over my head but it sounds exciting. This is a little bit tougher question and that's, you know, there's been some talk about, well, you know, if we didn't agree to this, then -- or if there's some kind of delay, that you might go elsewhere, you are not going to sit around and wait for us to decide. Would another company causing a delay, suing the city cause you to leave also? That wouldn't be -- that wasn't within our power or whatever, would you still continue to work with us?

Google Expansion Lead Brian Bell: Yes, it's difficult to speculate in the abstract, obviously the details matter. We have had great partners here in the valley and with Scottsdale and, you know, we are eager to move on to the next step. We don't foresee any obstacles moving on to the next steps.

Councilman Phillips: I have gotten a lot of email and everyone seems to be excited about it. Three to five years, that will come like that. I can't wait.

[Time: 00:40:57]

Mayor Lane: Thank you Councilman, Councilwoman Korte.

Councilmember Korte: How large are your fiber hoods? When you say a neighborhood, is that a square mile? Help me -- help me get a feel for what a fiber hood is.

Google Expansion Lead Brian Bell: I'm looking to one of my colleagues who may know. I don't know off the top of my head they tend to be neighborhood based. The way we do, it it's based on the network architecture. So basically the infrastructure that can light up using fiber optic technology, one set of homes would be considered a fiber hood. So I think it's -- I don't want to guess wrongly. So this is my colleague, Angie welling, who may know.

Councilmember Korte: Thank you, Angie.

Google Public Policy and Government Affairs Manager Angie Welling: So unfortunately I don't have the exact answer, but it is based on population. It's a mathematics formula. So it's based on how many homes can be served by a particular cabinet. So it's not one neighborhood or there's not a mileage -- exact corollary, but it's based on our engineering.

Councilmember Korte: So what is -- how many households does one cabinet serve? And you are talking about huts here or cabinets?

Google Public Policy and Government Affairs Manager Angie Welling: So this would be at a much smaller level than our network huts. I think our latest engineering, the network huts we publicly said can everybody about 40,000 homes and these cabinets, we are talking in the hundreds but don't quote

me on that, but it's a much smaller order of magnitude and it's a neighborhood.

Councilmember Korte: That helps me. Thank you.

[Time: 00:42:38]

Mayor Lane: Thank you, Councilwoman. Brian, if I might ask, is there a -- are you regulated under the F.C.C.?

Google Expansion Lead Brian Bell: Yes. But -- yes. We are a multichannel video provider. We are a broadband provider. So there are different levels of regulations that do apply to us.

Mayor Lane: Very good. I would like to say to staff who has worked on this, as well as with Google, I'm appreciative of the effort to make sure that we maintain an even playing field all the way along but at the same time, looking for the market innovation and growth. So we are looking forward to seeing something happen here sooner rather than later basis. That's why some of the emphasis on the timetable we are talking about. So with that, I don't see any further questions. And thank you very much, all for your comments.

Google Expansion Lead Brian Bell: Thank you.

[Time: 00:43:34]

Mayor Lane: So if there's someone who would like to make a motion.

Councilmember Korte: Mayor, I would like to make a motion to adopt resolution number 10217, authorizing agreement number 2015-199-COS with Google Fiber Arizona LLC.

Councilwoman Littlefield: Second.

Mayor Lane: Motion -- the motion has been made and seconded by Councilwoman Littlefield. Would you like to speak to it at all?

Councilwoman Littlefield: I think this is a great thing for Scottsdale and I think we ought to move forward with it.

Mayor Lane: I think then we are ready for a vote. There's no further comments on this. All those in favor, please indicate by aye and nay if you oppose. Motion is 6-1 with Councilwoman Milhaven dissenting. Thank you, again, for the presentation and the testimony that was given by the public.

ITEM 15 – SCOTTSDALE REVISED CODE SECTION 2-221

[Time: 00:44:31]

Mayor Lane: Our next item is item 15, and it's Scottsdale revised code Section 2-221 and this is a presentation, discussion and possible direction of staff regarding the use of Section 2-221 (B) (1) and (5) of Scottsdale revised code for the disposition of city-owned real report or interest. And we have Dan Worth standing here in front of us ready to go. So Mr. Worth, thank you very much.

Public Works Director Dan Worth: Thank you, Mayor. Good evening Mayor and Council. As the Mayor mentioned, I'm here as a result of a motion that you passed in August to direct staff to agendize the discussion and possible direction regarding amendments to Scottsdale revised code 2-221, that's the section of the code that deals with disposition of city-owned real estate and in particular, there are two exceptions that were identified when you pass the motion in August, that you want to explore in some depth. This slide is a summary of Section 2-221, there's three sections. Section A says if we sell city real property or an interest in real property, we go through a competitive process. Section B is a list of exceptions to this first section and then Section c is a -- a provision that allows for us to dispose of a temporary use of real property and interest in real property.

If you look at the exceptions, I won't read through all of them, but there are two that are highlighted as the mayor mentioned, Section b, sub paragraph 1 allows us to exchange city real property with real report owned by someone else. Section b, subsection 5 allows us to sell or exchange real property to someone who has an interest in adjacent real property and I will show you a slide with a little bit of detail on each of those exceptions.

This is the one that deals with exchange, and in both cases, there are some rules that we have to follow. Some restrictions. This isn't much of a restriction but it's spelled out in the code if we are going to exchange real property, we have to maintain written records of the exchange, including appraisals, open to public inspection for at least three years. We generally do that anyway.

This is the second exception, the one that allows us to sell real property or an interest in real property to an adjacent property owner. This has a little bit more of a restriction on it. You look at the bottom half of the slide. In order for us to use this exception, we have to have a determination and the code says the city manager determination that the public benefit will be served by uniting ownership of the two parcels and that determination may take into account a range of things that are listed on the slide, possible uses, size, configuration, existing or proposed development restrictions, the value of the property, et cetera. That's what's currently written into the code. We have to make that determination.

The public benefit will be served and it can take into account all of those different things in the last bullet. This is the chart that shows the 13 different cases over the last five years in which we have sold real property, using one ever these exceptions in the way of summary, out of the 13 different instances, 11 of them have been using the provision that allows us to sell real property to an adjacent property owner. One time we used the exchange provision that happens to be the most recent one, at the bottom of the chart and then one time we used one of the other provisions, the ability to sell property directly to another governmental entity. I have also included in this chart in the right-hand columns, the details on the size and the amount of money or -- or other consideration that we received in exchange for the parcel in ex-case. You can see that the sizes range from a tenth of an

acre, up to over 1,000 acres. The dollar values range from basically not having to take out our water well equipment, in one case, a payment of \$17,000 in another, up to payment of over \$9 million. And I include this information because I believe that what we are going to consider is using the size and/or the appraised dollar value of the parcels to potentially put some sort of a limitation on the use of either of these two exceptions in the code. Under the exchange and these are -- we didn't -- we didn't establish a proposed dollar value to use. We thought it would be best to discuss that.

We can refer back to the previous chart to determine which of those would have been ruled out or not ruled out, under various potential thresholds but the thought is that for an exchange, we could establish a minimum amount that the parcels could vary. Higher priced parcels should be within 20% of the lower priced parcel, however we wanted to establish that for a sale to an adjacent property owner.

There are two different ways you can approach it. You can put a limitation on the size of the city parcel that you would dispose of under this provision. You can also put a minimum on the size of the adjacent parcel, and I will throw a situation out. We have 80 acres of land, and will we use this option if someone has a house on a 2-acre lot? Unlikely. As an example, you might want to limit the size of the adjoining parcel or the city-owned parcel. And with that, I would be happy to entertain any discussion.

[Time: 00:50:58]

Mayor Lane: Thank you, Mr. Worth. We'll start with Vice Mayor Smith.

Vice Mayor Smith: Thank you, Mayor. And thank you for the presentation, Dan. The -- the reason that I think we are talking about this is because the Section 221 general provides a protection and a transparency for citizens and assures them that we're not going to deal in property, real property or land or whatever. We will just assure you that if they are being disposed of or at a fair market value established by option process.

It's okay to have some exclusions if the determination is -- and now I'm talking about the sale of property. If the determination is that the sale of the property is so minor, in probable realized value, that it won't even pay to hire an auctioneer. I think oftentimes this occurs for selling a small easement to somebody with an adjacent piece of property, but it -- it's hard to imagine on a case like the Harquahala, the farm that we sold out on the west side of the valley, we sold that for over \$9 million. And sold it in the case not unlike what you were hypothesizing, when you talked about the roads situation. We sold it to a property owner who had a farm that happened to about our 1216 acres but his farm was nowhere near as big as our farm. And to have done that in a private transaction and somehow assume that the public interest was served, there's a lot of dollars there to hire an auctioneer and pay for the process of selling it in a more public fashion. So that's one that particularly caught my attention and led me to the realization that in my mind, we should have some dollar limit on the application of the sale of a piece of property. And I would pick in my own mind something that is \$100,000. If a property is appraised or estimated to be worth more than \$100,000, I think it should be disposed of through the public auction process. Anything less, then I guess we

could use this exclusion. So I do see a dollar limit as being the driver in that -- in those kind of transactions where we are selling property.

In the exchange of property, there are two things that seem at odds with what the intent of Section 221 is. One thing that seems at odds is again, it's without regard to size, but it's also without regard to comparable size of the two properties. And in the most recent case that you mentioned, the trade to the graphics art building for a piece of undeveloped real estate, there was a gross difference in the value of the properties, and naturally that meant boot had to be paid to one party or the other. There's a part of me that says the properties ought to be roughly comparable in size, and maybe there's a rule that says they ought to be no more than 20% different from one another, but I will tell you, frankly, I don't see a good basis for having an exchange provision in this Section 221 as an exclusion in any case.

And here's why. When you have the exchange provision in here, you are not only selling a piece of property that we have determined is excess, but you are also subsumed in that transaction. You are buying something. And what you are buying may be a desirable piece of property. You have no idea. But we have a whole capital allocation process in the city that says our needs are a billion dollars and our available funds are \$100 million, or whatever the number might be. And doing it in exchange suddenly elevates this purchase that's embedded in the transaction, elevates the purchase to priority number one in the ranking of capital. And so when we sit up here and approve a transaction that says, okay, trade the graphic arts building for a piece of undeveloped land, it's okay to say that we want to get rid of the graphic arts building but we are making a capital transaction. We want to buy this vacant piece of land down there and I'm not comfortable merging those two decisions in the same vote.

And so for that reason, my recommendation, it really wasn't what you were suggesting as an alternative, but my recommendation would be that we eliminate the exchange exclusion. I can think of no -- maybe my colleagues but I can think of no argument that justifies that kind of a transaction. Thank you, mayor.

[Time: 00:56:32]

Mayor Lane: Thank you, Vice Mayor. This is maybe something that is relevant just on the overall. Do we have any idea how much unused land the city holds? I'm talking about remnants, a whole manner of things that are adjacent to properties that are -- have been held for whatever reason, but are not on the tax rolls and are just sitting ideally by, hoping that we will have another surge in value of our real estate and maybe that's happening, but we have gone through a few cycles. But I digress, I suppose.

Do you have any idea how much we hold on an estimated basis, either in acreage and/or value, estimated value?

Public Works Director Dan Worth: Mayor, I would have a difficult time quantifying that, but I can -- I can offer up some facts, I think, that might have a bearing on it. We've got very few large marketable

parcels that are unrestricted as to what their potential use might be. The 80 acres on bell road, the 5 acres in the area of downtown and a couple of smaller parcels. Very few of those. We have gotten some other parcels that were bought with particular funds for particular uses that haven't been put to those uses. We've got some properties maybe in the tens of acres that have been bought by the water fund, that we can't by rights use for anything else, and may have a use for in the future. We've got property that was dedicated to us pursuant to development, for city uses a parks site at Ashler Hills and Scottsdale Road, about 20 acres and there's the D.C. ranch side that the city has not developed yet, but those are restricted. If we were not to use those for the dedicated purpose, I'm sure we would have a process to go through to -- with the entity that dedicated them to us, before we could use them for anything else or sell them. So those unencumbered unrestricted parcels are very few.

Mayor Lane: Well, let me just go through a couple of things. As far as I'm concerned, on the adjacent properties, I'm very concerned about putting any impediment in the way of the city being able to move those properties back on to the tax rolls. There's strict and real value just in getting them back on the tax rolls versus anything we might get. And those are generally -- and, again, I'm not -- I have not student and have not studied the issue, but an awful lot of time we have had in the past remnant pieces that absolutely had no viable use to anybody, other than the adjacent property owner. Now, that goes to the smallness of the parcel as the Vice Mayor was indicating. So I'm thinking that whatever we can do to facilitate getting those kinds of parcels back on the payrolls we are looking to do, not to create any further question mark with somebody who might not be interested but might be willing to pick it up and take it to their own property. So the idea, the adjacent property, obviously, the addition of control, there's also the matter that the value, who has a value, I mean -- who has a greater value to it than potentially the adjacent property owner.

The other is a return -- get back to the -- to the owner who actually -- and this could go mostly for adjacent properties. I have think about the situation we have with the shopping center up in Thompson peak and bell road, where there were not only restrictions on it, but adjacent property, but it was also controlled. The deed -- I don't know if it was deed restricted but it was originally doe fated by the property owner for a specific city use, which didn't happen. I wonder, do we even have an obligation somehow or other just under that basis alone since it was dedicated under certain circumstances? I don't know what that one was, particularly, but oftentimes it might be a fire -- a fire house. I don't believe it was in this case but otherwise it was a city use.

Do we have some kind of responsibility in those cases to absolutely return it to the adjacent property owner who frankly, now in this case, the former property owner, that, you know, had signed it over for a specific use. Do we have any conditions or is that an added element in anything that we consider in those circumstances?

Public Works Director Dan Worth: Mayor, that would be subject to whatever the terms of the deed -- the deed was, when it was dedicated to the city. In that particular case, it was a transit facility. We determined that there was no need for a transit facility sometime after the dedication was made, and we did use -- and it's on the chart. We did use the adjacent parcel exception to sell it to the owner of the adjacent shopping center, with the thought being that if we put it on the market

for an election, anybody else who would have bought it would have been buying it for something that they only build a public transportation center. It had a greater value to the shopping center owner in whom the deed restriction was granted in favor of. They could have removed it and nobody else could have.

Mayor Lane: I'm going a step further in this discussion to say if, in fact, we represented that it was going to be used for transit center, we did not use it that way, we could have said anything, a library, anything. We didn't use it that way, that owner that dedicated that land under development agreement has to buy it back. Understanding that it may be a very logical thing to do to the adjacent property owner, all of that. It's a matter of the fact that they've got to pay full tick -- ticket for something that they dedicated under -- I will use this word but I know it wasn't intended, false pretenses more or less.

That's a -- that's certainly that and the idea of potentially a lower value, even under circumstances that might be less restricted than what we just discussed in an auction, just by virtue of placement. In other words, what we might be able to get from the owner of an adjacent piece of property might be willing to pay what is technically the appraised value, presumably is subject to whatever restrictions, versus someone else, even in an auction. So going through the process, would seem to be out of line as far as that is concerned.

And the exchange of the property, I probably don't feel as strongly about the idea of what we might do in this exchange of property, and this may coincide with the Vice Mayor's position, as far as the size or the volume of the issue. But our controlling mechanism has always been a decision by this council, given the relevant facts that are presented to us by staff, presumably in a professional manner, which is what we experienced, that we make a decision at that point in time. We can decide not to. So if there's criteria, even on the exchange, it's for us to judge whether it meets that criteria, and that's the purpose of this vote is.

I'm not looking again to create any greater obstacles. I suppose there might be a situation where a size of parcel that maybe would fall outside that realm, as a matter of course, but I'm concerned about the fact that now we are duplicating -- we may be duplicating or we may be inserting administratively a situation that we can't -- this council would be relieved of any judgment on. So I'm -- and the same thing would apply here, and a value and a sale and auction could run the risk and I think we ran into this with one of the exchanges or at least it was theorized that we might, we might run into an auction situation, less of a value in an auction than we did working with somebody on an exchange. But those are things that I think this council has in the past made a determination of, and in some cases, there are split decisions of, but nature of the democracy, and the presentation from our professional staff, we went ahead with them in most instances. Those are the ones we went ahead with. I don't know that you listed the ones that didn't take place.

But anyhow, that's -- my feeling on it is it's a careful area, and it's an important area, and I think that I -- on the basis of nothing other than the fact that I would rather not inhibit our ability to dispose of appropriately and with professional judgments being made by our professional staff presented to us to decide.

I would not want to add any additional inhibitor into being able to turn these properties back to the tax rolls. So Vice Mayor Smith?

[Time: 01:05:48]

Vice Mayor Smith: Thank you, Mayor. I wanted to clarify. I'm not trying no put any impediments on the ability to get property back on to the tax rolls I'm anxious to do that as anybody. I don't think going through the public sale process as opposed to a private transaction creates an impediment one way or the other. I think it can happen with equal rapidity in either case. I'm also not convinced that we necessarily have all of the information in front of us to make a good judgment about the value of a piece of property.

I harken back to the farm that we -- the 1216 acres that we sold for \$9 million. I don't think any of us here on the dais or any of us here at the time, at least, I don't think had any particular insight that that was a good price or a bad price or anything else open the farm, versus what we could have achieved in an auction.

So I'm really just trying to preserve -- I'm not trying to judge the price. I'm trying to honor the process and the process generally is set up to have the public reassured that the properties have been sold and at auction value. And that the market has worked its magic -- and that the market has worked its magic in trying to come up with the right number, not seven of us plus staff. I don't really see this as being an impediment, particularly if we -- the smaller parcels that may not be saleable to anybody except the adjacent homeowner, whatever. By the \$100,000 exclusion, I'm sure we are capturing most of those smaller parcels or smaller instances.

Unless there are further action, I would like to actually make a motion and take me back to your last slide, if you will, Dan. I would like to make a motion, first with regard to the second item, that the sale to or exchange with adjacent property owner exemption in Section 2-221 be limited to properties that have an appraised or known value of less than \$100,000. And number two, that the exchange provision of Section 221, which I think is 221 -- help me out. 221 (B) (1) be deleted. That's my motion.

Councilman Phillips: I will second it.

Mayor Lane: The motion has been made and seconded. Well, I have a request to the city attorney or a comment on that.

City Attorney Bruce Washburn: Thank you, Mayor. I wanted to make sure that it's clear that the motion is to direct staff to bring back ordinance changes to reflect the changes. We are not actually changing the ordinance tonight. It's just direction to staff to bring back an ordinance change.

Vice Mayor Smith: My words exactly.

Mayor Lane: Thank you, Mr. Washburn. So corrected about the motion maker and the second accepts that understanding as well. Councilman Phillips then?

[Time: 01:09:19]

Councilman Phillips: Thank you, Mayor. And, yes, I agree with the dollar limit of \$100k and under. I think auctions are way more transparent. In fact, if my math is correct, the Harquahala, if my math is direct, it's \$7,000 an acre. I think we could get more in auction. If it's good to the public benefit, it doesn't look good when we exchange land, especially if it looks like a special interest that we're exchanging it with. So I never agree with that in the first place. And it always seems like we are losing on the exchange. It's always when we exchange or sell land to somebody else, you know, in the case of the hospital, a few years ago. We just end up on the losing end of it. So I'm in total agreement with these two items.

Mayor Lane: Thank you, Councilman. If I might, I just wanted to get some clarification. I understood that motion to be -- to guide the staff to come back with the elimination of the exchange exception. Okay. Councilwoman Littlefield?

[Time: 01:10:34]

Councilwoman Littlefield: Thank you, Mayor. I agree with this also. I think that the city council has a responsibility to the citizens to ensure that we get fair market value for any exchange or any sale of property that the city owns. I agree that we need to put things back on the tax rolls as we can, but I also don't believe we should be giving them away. And so I think that open and transparent transactions are very important in this process for the citizens to see it and be able to analyze it. I agree with Councilman Smith, you know, and Harquahala home was sold, did we get a fair market value for that? Really? I don't know. But we need to have anything, I think over \$100,000 is good. We don't want to spend more money doing an auction than the properties are worth, but I think it would be a good idea to come back with similar activities like that. And I think exchanges kind of breed a contempt for the process that we could do without. Thank you.

[Time: 01:12:02]

Mayor Lane: Thank you, Councilwoman. Councilwoman Klapp.

Councilwoman Klapp: Could you put the list back up of the properties? Let's just start at the bottom, the graphics building, was that based on an appraisal?

Public Works Director Dan Worth: It was based on an appraisal on the graphics building. The -- which is the property that we sold. The property that we obtained, we got it about half the appraised value because we negotiated a price to obtain those parcels based on what the previous owner had paid at auction for them.

Councilwoman Klapp: I remember that issue, and it -- and based on the discussion that we all had,

that was a great deal for the city, based on appraised value and what we ended up with. So I don't think we could have gotten anything like that if we had gone to any kind of an auction on the graphics building property. Did we base the Bell Road transit parcel on an appraisal?

Public Works Director Dan Worth: Yes, we did.

Councilwoman Klapp: And the H.R. building?

Public Works Director Dan Worth: All of these were based on appraised value.

Councilwoman Klapp: Was the appraised value of the Harquahala property \$9 million or so?

Public Works Director Dan Worth: Yes, it was.

City Attorney Bruce Washburn: It was 8.5.

Councilwoman Klapp: It was even more. So my point is that we can all sit up here and say that we think we didn't get a great deal because we didn't go to auction. But that's not why you go to auction. If you have a buyer who is buying at appraised value, most anybody would take that deal. So I don't see the need to do this, as long as we are basing our real estate transactions on an appraisal and the city is benefiting from the sale or the exchange of the property. So I would not agree that we need to make these changes to the ordinance.

[Time: 01:13:56]

Mayor Lane: Thank you, Councilwoman. I think some of the comments that have been made that we are losing on all of these transactions and that we are giving it away and contempt for the process, I think just a bit of an overstatement, when you think about the process that we do employ. And maybe for that reason, I'm very concerned about eliminating this provision from an acceptable practice. If there was some quantification on it, that may be something else, but nevertheless, even in the circumstances that we had in front of us, if the skepticism and the distrust into the process that we employ, which does employ independent verifications of values is somehow held in contempt or disregard. I have think to we should probably be looking at who we have working for us, and what decisions we make here. So I'm concerned about that, even though the exchange side is one that I do believe requires some it's not this -- some, maybe additional consideration. It's not the elimination of it. So at this point in time, that's the only one that's in front of us, but that's my concern, and I would not be signing on with this guidance.

Councilwoman Korte?

[Time: 01:15:16]

Councilmember Korte: Thank you, Mayor. Regarding the graphics building, Dan, the exchange were two small little parcels on McDowell road around the Indian Bend Wash. Am I correct in my

memory?

Public Works Director Dan Worth: Councilmember Korte, yes, that's correct.

Councilmember Korte: And certainly, it's one of those small things we can do to beautify the McDowell corridor, for which is our -- one of our primary strategic initiatives. I am with the Mayor. I do not see an issue with the transparency. I don't want to create more obstacles to move properties than necessary. Even I really, you know, over the past five years, we have 13 examples where exceptions occurred. I don't see that as a trend of any time of abuse of power or transparency or trying to pull wool over anyone's eyes. All of these parcels and the disposition of these parcels have been through an appropriate process of appraisal and I believe the city has received fair or more than fair compensation. And I will not be supporting the motion.

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

[Time: 01:16:52]

Vice Mayor Smith: Thank you, Mayor. And I -- I'm genuinely sorry to see that the transaction -- that the discussion has turned into a discussion of whether there's contempt of the process or abuse of power or pulling the wool over the eyes. That was not my reason for making these recommendations. My reason for making them was only because we have an established codified process for disposing of properties and it says generally it will be done in a public -- a public sale process, an auction, whatever you want to call it. These exceptions, I expressed my concern about the exception for the exchange that number one, the properties that we received versus the properties that are given up are sometimes out of whack value-wise, but almost as important, and the reason I recommended doing away with the section all together is because of what I said, it elevates the received property to number one on the capital expenditure list.

I don't disagree with Councilmember Korte that these two pieces of property may have been a very desirable addition to the park and the area down south. I'm not sure that was first and most urgent need for the proceeds of this transaction and I would very much have preferred to have an opportunity to debate the merits of whether that's the first and most important mace to spend -- place to spend our money. It's not contempt for the process.

I'm trying to honor the process that's applicable to all but these 13 items or rather, it's actually 12 because one of these was a sale to a government entity which we are not even talking about here. So I'm sorry to see that it's boiled down to that. I'm sorry to see that people think that somehow selling it in a private transaction to one interested buyer, that there you some could not possibly be two interested buyers out there and if you have two interested buyers, you've got an auction. That's the definition of an auction.

So I'm just trying to make sure that we bring to bear on the sale of public assets that are the property of the citizens of Scottsdale, that we bring the most transparent and hopefully the most defensible value to every -- every disposition that we undertake. And that's my reason for making this. It's not

by any means to correct an abusive power. I think the staff has been perfectly correct in following the process. I guess I would volunteer too, to those in the audience or nip watching if you have ever done a home appraisal -- have you ever done an appraisal of any kind, you know the wide variety of numbers that you can get. Typically, that's why people do three appraisals when they have their home sold so that they can average the two or even figure out whether there's an outlier to throw out of the process. So I'm not convinced that our most defensible position is to say, oh, I sold it at the appraised value. I'm just trying to honor the process that we have established by code for dealing with the disposition of property. Thank you, Mayor.

[Time: 01:20:22]

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

Councilwoman Milhaven: I think we would all agree that we want to be open. We want to be transparent. We want to have a defensible value and we want to get the best value for our community. We just disagree on whether or not an appraisal or an auction is the right way to do that. Clearly the majority felt appraisals were an adequate way to do this. I would not have any interest in trying to decide for future councils. We have the right at the time to say, no, we would rather go for auction and we think the appraisals were property. I don't second guess that I know how to appraise a property. That's not my expertise, interesting some members think they can. I would wonder if they knew where the property was located to assess the value.

I won't support this and I call the question.

Mayor Lane: Thank you, Councilwoman. The question has been called. Do we have a second to that?

Councilwoman Klapp: Second.

Mayor Lane: We will then move on with the motion that has been on the table and has been seconded. No further comments indicated or request. I think we are then ready to vote. All those in favor of the motion as it's been stated, all those in favor aye and opposed with a nay. The motion fails 4-3, councilwoman Littlefield on the yes side, Vice Mayor Smith and Councilman Phillips also on the yes side.

So that takes care of the exchange side of it. I don't know if there's any further conversation, and I don't know whether that was meant to be the singular item. I don't know if it was meant to exclude it by exception. You see that motion, but otherwise, is there any comment or decision as to any kind of additional guidance that we would want to give on either one ever these, I have suppose but certainly to the second one? Seeing none, then it stands in place on both items. Thank you very much, Mr. Worth. I appreciate it.

Public Works Director Dan Worth: Thank you, Mayor.

ITEM 16 – MONTHLY FINANCIAL UPDATE

Mayor Lane: Okay. The next item is monthly financial updates and it's a request, receive, discuss and provide possible direction on the city treasurer's monthly if many presentation as of September 2015. Mr. Nichols our illustrious city treasurer is here to make this presentation.

City Treasurer Jeff Nichols: The monthly financial update as of September 30th, 2015, first I would like to thank the council. I had made a request of you all earlier to not -- to only submit the monthly financial updates for July and August to you in writing, and because there's not a lot of activity and I think you will see with this monthly financial update, that that still holds, but we'll walk you through it. The significant variances I see on this slide, slide number one, on general fund operating sources, the 1% sales tax, the \$1.1 million, which I will get to in the following slide and then you notice about two-thirds of the way down the paper, under other, the miscellaneous, the \$2 million variance, and what that is, is something you were just discussing. It's the proceeds from the sale of the graphics building, and we received it within this courter, however, it wasn't expected to be received until October. So that is nothing more than a timing issue. And really, between the sales tax and that miscellaneous source of revenue, it explains the \$3 million variance year-to-date.

I go to the general fund operating sources, the sales tax, the 1%. See some of the variance there, the small retail stores of \$300,000 or 9%. Most of that relates to sales, increased sales in home furnishings. I don't think that comes as a surprise because we have seen a lot of increase in home building. And so naturally when people are moving into new homes, they are normally buying new furniture and we are seeing an uptick? That revenue source.

Under the auto sales and maintenance, the \$200,000 is 8%, it's related to increased sales and new and used vehicles but also the addition of another dealership. I won't name the dealership, you are probably all well aware of that. And then the variance, the 15%. It relates to some audits that were recently completed by our audit section. Significant one-time auto payments related to construction, and then they are under business sources in rental, you see a \$200,000 variance, or 5%. That relates to the sale of an apartment complex that was done within 24 months after the construction was completed, leading to a speculative sale and we captured some sales tax on that. It was just put in the rental category because it fell under the apartment.

Moving to the year-over-year change, as you see there, very light, kind of hard to see, but year over year, we only forecasted a .4% increase in general fund sales tax. And the reason for that was because of the change in the construction sales tax. When we looked at what we thought the growth would be, and then factored in the fact that we were going to be losing some sales tax related to construction because of a change in statute, we had forecasted a growth of only .4%. Currently, the growth is approximately 4.6% producing a variance of about \$1 million as was shown on the previous slide.

When we look at general fund operating uses by category, you see a variance of approximately 1.7 million in the bottom right-hand corner of 3%. The vast majority of that related to contractual commodity and capital outlay. I have think it's easier to explain that on the following slide, if we look

at that by division. And so when you look at the divisions, the -- the variances that stick out in my mind, administrative services, about \$400,000 or 8%, just it's a timing issue related to the quarterly maintenance for printing and binding equipment, and software maintenance and license. So we had budgeted those expenses in first quarter and we haven't paid those yet.

Going down the line, the community services, \$300,000 variance or 3%. Again, timing issues related to irrigation repair that we thought we would have. Also in the maintenance area, the mowing budget was based on prior year. As you know, the weather has been a little bit different this year. We are seeing some savings in that area.

You look at public safety fire, a variance of approximately 200,000 or 3%, and that's timing related to the quarterly dispatch contract. We just haven't paid that yet. We will catch up in October with that payment. And finally, public safety police jail services contract is trending lower. That's good. But it is a slow time of the season so far. So we still have time to pick up and maybe increase some costs and maybe some revenues on the fines and forfeitures in that area.

So bottom line, fiscal year-to-date, we are doing approximately \$4.7 million better than we thought we would be doing at this point in time. And with that, I would be willing to entertain any questions you all may have on the year-to-date financial report.

[Time: 01:28:56]

Mayor Lane: Well, thank you, Mr. Nichols for that report and conveying for the very, very most part, some good news. I have only just one question myself, and that is, when we are talking about the changes obviously in state statute as it relates to T.P.T., and construction specifically, and then also audit, are we in the midst of -- I realize we have delayed a number of things by virtue of the -- you know, the inability of D.O.R. to maybe pick it up and change all of it, as far as the attending administratively to it. But has auditing already transferred over in accordance with the agreement, of course, over to the state?

City Treasurer Jeff Nichols: Mayor, members of the council, yes it has.

Mayor Lane: This would be under the circumstances then of the new auditing setup of the more limited auditing that we have or is this coming from the state?

City Treasurer Jeff Nichols: Mr. Mayor, members the council, I don't know that we can address that question because I'm not sure in the audited I had referred to had begun prior to the changeover to the state. So it would all depend on when those audits had been begun. Certainly the one related to speculative building of the apartment sale, that would have been something I believe we would have requested of ADOR to perform the audit and obviously, they gave us the go ahead. Because that's the way it's going to -- you know, as we move forward, any audit that we want to do, we can fill request of ADOR. They just have to give us permission to do the audit before we begin it.

Mayor Lane: They are the lead auditor, if you will?

City Treasurer Jeff Nichols: Yes, sir, Mr. Mayor. They are the lead.

Mayor Lane: Okay. Well, interestingly enough, in order to try to determine whether or not there's been any denigration of that kind of thing, I'm not sure we have comparative data, but it's been generally accepted that we were far better in auditing our individual businesses within the city, and I mean a simple compliance basis than the D.O.R. has more or less shown in the past.

City Treasurer Jeff Nichols: Mr. Mayor, I would agree with that assessment. As a matter of fact, we are completing an audit that we have been working on for about two years and because of the audit that we have done, ADOR is now looking at this business as well, because it may be an instance where this business was paying a use tax and not a transaction privilege tax. So ADOR might actually benefit from an audit that we have done by looking into it from their point of view.

Mayor Lane: Well, we always had the established rule that if we found something that might be spread over a greater realm of things, particularly for the state, that we would turn that information over to them as well.

City Treasurer Jeff Nichols: That's correct, Mr. Mayor.

Mayor Lane: And the only other thing I wanted to ask you about on the construction side, if, in fact, a full change in TPT on prime contractors has been implemented with much confusion, I might say but nevertheless, has that had any impact as to what we -- has that been transitioned, actually, in its entirety, and does that have impact on what we have here?

City Treasurer Jeff Nichols: I believe it's been transitioned in its entirety. It's taken a few iterations to get to that point, however, the information I'm receiving is that maybe we were conservative in our estimate, and there may be many contractors that are doing point of sale and paying the transaction privilege tax at the point of sale. So it might not impact us as negatively as we thought it would have.

Mayor Lane: Is it reflected then in that estimable 4% versus a 4 point something or other?

City Treasurer Jeff Nichols: Yes, sir, Mr. Mayor, it is.

Mayor Lane: Thank you very much, Jeff. I don't see any other comments on this. Do we generally adopt this or --

Councilwoman Klapp: No.

ITEM 17 – FISCAL YEAR 2014/15 FINANCIAL UPDATE

[Time: 01:22:43]

Mayor Lane: Just a mention. Okay. Again, thank you. We will move on to the next item,

which -- well, it's got your name on it too, the fiscal 2014/15, the financial update.

City Treasurer Jeff Nichols: That's correct, Mr. Mayor, thank you very much. So financial highlights of fiscal year '14/15, last fiscal year, will begin, as you know, once we made the May monthly forecast, the first column there, we recalibrated if you will, where we thought we would end the fiscal year, but really, we are looking at this difference in the right-hand corner of 3.4 million is the activity for May and June. We took our best guess, if you will, but there's a lot of activity within the last two months of any fiscal year in the governmental entity, especially on the expense side. We normally see an uptick in that and we try and use our best judgment on what that will be.

Now, that being said, the sales tax variance of \$800,000 will be explained on the following slide. What I would like to point to is the auto tax or the state shared revenues. We use the state's figures and they showed an increase of approximately 4.6. It was still much better than they had anticipated and we believe that's -- that growth is driven by the migration of people into the state of Arizona, just simply people moving here, that weren't anticipated. An increase in population, to an increase in spending.

You look at the fines and forfeitures, \$300,000 variance in that category. It's simply, if you recall, last year I was reporting that we had gotten behind in the photo radar. They played catchup throughout the year, and we saw a great deal of catch up in the last couple of months, and so we enjoy a favorable variance regarding that. The \$1.1 million variance in the miscellaneous category, some areas that we were somewhat remiss, TPC came in, the players club, came in higher than we thought it, would the revenues that they share with us from the course.

We had recovery of expenses about \$300,000 that we didn't anticipate. \$100,000 was related to a police officer that we had loaned to the academy. And then we received reimbursement for that. Another was related to \$150,000 reimbursement last year we had purchased some faulty ammunition. We went back to the manufacturer of that ammunition, and they made us good on it. So we recovered \$100,000 of those expenses. All in all, a \$3.4 million variance in our operating sources. If you look at the sales tax category, you see, again, a small retail stores, again, the increased sales in home furnishings and the miscellaneous goods and services were driven by a couple of significant, again, one-time audit payments. And those two variables make up the majority of the \$800,000 that we are seeing there in operating sources.

You go to the operating uses by category, again, what we are seeing here is some salaries and wages. We had some retirements towards the end of the fiscal year. As you know when someone retires, there's a payout for sick and vacation hours. They were quite significant. We also, as I had reported last year, some of those retirements, especially in the police department led to the savings you are seeing in the retirement and the -- and the Social Security payments, in that we are filling those positions with people that are paid at a lesser salary. Although we had to pay out a significant amount of money, we are making savings.

Operating uses by division, the unfavorable variance there and mayor, council and charter officers isn't driven by the mayor and the council. It's actually driven by the charter officers. We've had some

unexpected litigation that the city attorney has been funding on behalf, really, the financial services, if you will, but it's also his fight.

Mayor Lane: Move that into the --

City Treasurer Jeff Nichols: We can separate those two if you like. The other thing, community and economic development, timing and developer incentives related to Scottsdale fashion square is -- is -- that is happening. It's also the timing related to the marketing contract at WestWorld and also in west world, they are spending less on resale inventory, mostly like bedding, sand and gravel. Go down to public safety.

Police, actually, that positive variance of \$400,000 is being driven by lower fuel costs. And lower maintenance costs related to the vehicles. So that's a savings that we were realizing. And bottom line is expenses, total operating expenses \$200,000 off where we thought we would finish.

You see in public works, negative variance of about \$300,000, and if you recall, we had transferred in approximately \$1 million into public works for the maintenance of city facilities, however there were some things at year end related to roof coatings and mold abatement and replacement of garage doors up at the fleet facility and emergency repairs to elevators that drove that negative variance.

So the bottom line is on this slide, you will see we had thought if you recall -- if you remember, I had reported we would have an unassigned, unreserved fund balance of a little over \$20 million. It ends up we have a sign unreserved balance of \$23.8 million, due to that activity at the end of the year. With, that I would take any question because this is basically the presentation related to the income statement, and now we are going to get into a presentation after this related to the statement of net position.

[Time: 01:39:32]

Mayor Lane: Thank you, Mr. Nichols. We have a question from the Vice Mayor.

Vice Mayor Smith: Thank you, Mayor. Take me back to the revenue slide, your second slide, I guess it was or whatever.

City Treasurer Jeff Nichols: This one or this one?

Vice Mayor Smith: Go back another slide. Yeah, there you go. You didn't talk about the -- this I understand is just differences between what we thought in May and what we thought happened when June 30 turned around and so it's a very short period of time measurement, it's not for the whole year.

City Treasurer Jeff Nichols: That's correct.

Vice Mayor Smith: I'm looking at the interest and it was \$600,000 and it turned out \$900,000, a fairly significant percentage-wise. A significant variance. Was there something that happened there that

we didn't know about in May?

City Treasurer Jeff Nichols: Vice Mayor, I'm looking at my notes. I don't have anything noted. I will look to the budget director but I don't know if she has any information related to that or not.

Budget Director Judy Doyle: Mayor and members of the council, it was better return on our investment. Our accounting folks do a year-end review and they do process that in June, and it was not identified until then.

Vice Mayor Smith: That's the sort of thing that wouldn't normally surprise us quite that way in two months period of time. Well, my other question has to do with -- I guess your very last slide; when you were talking about we will now have \$23.8 million of unreserved fund balance. Do we have a point in time when we, as the council get a chance to direct that some of this will -- should be put in to capital or should be spent for maintenance and should be whatever or have we passed that time already?

City Treasurer Jeff Nichols: Mr. Mayor, Vice Mayor Smith, members of the council, yes, you do. As a matter of fact, there are some other things to consider related to this. And we'll talk about it.

Vice Mayor Smith: You are going to talk about the extra payroll period?

City Treasurer Jeff Nichols: Yes, the -- I'm going to talk about several things here. We do have an additional payroll period, you know, two years coming and that will eat up about \$7 million in expenses of that winnings if you will. On November 10th, staff is bringing forward something for council's consideration related to the Scottsdale cultural council, and the needs for the building improvements and the equipment at Scottsdale center for the performing arts. Early next year, in the budget process, staff will be bringing forward a discussion on the possible elimination of the food tax, and although that's not a one-time issue, as -- as also will be bringing forward conversation on fire compensation, those two things, although not one-time issues, this might be a use of funding where we could create what I would call a glide path, if you will, into the future to absorb some of those either losses of revenues or increased costs related to those two issues to get us a little bit farther out in the planning process. So there will be a time when staff comes forward for those considerations.

Vice Mayor Smith: Well, you may have answered the question. Obviously, anticipating the unique payroll needs two years hence of \$7 million is a legitimate reason to hold on to some of this money and if you are coming to us in early November with some specific capital requests for -- that's another legitimate reason. I'm not sure that the other things that you mentioned, which are sort of ongoing events are necessarily a justified use of the unreserved fund balance. But without regard to any of that, are you saying that we don't have an opportunity to divvy up this money in any way or we shouldn't take that opportunity or it doesn't occur or it won't occur or what exactly are you saying?

City Treasurer Jeff Nichols: Mr. Mayor, Vice Mayor Smith, members of the council, if you want to direct staff to bring forward for your consideration other opportunities for the use of that money, that funding, I'm sure the city manager, the accounting city manager would be happy to -- the acting city

manager would be happy to put that on a future agenda.

Vice Mayor Smith: My two cents when you are going to come to us, as you said in early November with some uses of this, I personally would like to see what you think are the commitments, I will call it, against this fund, what you think is a reasonable level to maintain, as a minimum, because this is a life-to-date number. We don't want to run it down to zero, because it's there for a reason, but, I for one would like to see some schedule that talks about known and anticipated uses and -- and maybe then solicits our guidance otherwise. Thank you, Mayor.

[Time: 01:44:50]

Mayor Lane: Thank you, Vice Mayor. And I might have missed this somewhere along the line, we do have a process where we review this through the budget process, whether or not there are previous items that we have at least given some direction to consider, this is aside from those things, the extra payroll or any of that. We have given some guidance to include this in the discussion when we come through the budget process, is that not correct?

City Treasurer Jeff Nichols: Mr. Mayor, members of Council, I do believe that that is one way we have approached it. I think what Vice Mayor Smith is referring to is -- there have been other times that at the end of the fiscal year where staff has come forward with some items for your consideration, to use some of that funding. So we can do it. We can certainly do it through the budget process. That's probably a better process as the Vice Mayor pointed out, you want to make sure that one-time money and it's for the best and the highest use and normally, you want to see what competing interests are for those funds.

Mayor Lane: It just seems to me that that's the way we have handled it and it's probably because it has to be in the full scope of all of the things that we feed to consider in the budget process.

City Treasurer Jeff Nichols: Again, Mr. Mayor, I would refer to Ms. Doyle, as far as past practices, but --

Budget Director Judy Doyle: Mayor and members of the council, gentlemen, generally we come as part of the budget process, once we have an idea from the division what all of the requests and needs are, we prioritize and then bring forward a recommendation at that time for the use of the unreserved fund balance.

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

[Time: 01:46:31]

Councilmember Korte: Thank you, Mayor. So in honor of best practices and best and highest use, and competing interests, to bring to us some type of improvements to the performance arts center as a sole and separate interest doesn't seem too -- it does not sit well with me. I would rather -- because we know -- let's go back to our bond package that six of us hope that our citizens will

approve almost \$96 million worth of bond -- worth of bond projects. We know that there's probably another, at least 100 million plus of bond projects that have been identified to the last three or four years through the bond task force and staff, that are of critical needs. So I would like to be able to make a decision for those critical needs in context. So Scottsdale Cultural Council and the performing arts center to take that out of context, I don't believe is the best for our city.

City Treasurer Jeff Nichols: Mayor Lane, Councilmember Korte, my recollection is -- and, again, Ms. Doyle will correct me if I'm wrong but that staff was already directed to bring that forward for council's consideration in November. So --

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

[Time: 01:48:12]

Councilwoman Littlefield: Thank you. I would just like also when we start this kind of a discussion to know what is considered an and accepted to be a minimum to keep in here for reserves and for emergencies and unanticipated things that could come up because are I don't -- like councilman Smith, I don't want to draw this down to zero. I don't think that would be fiscally prudent and I would like to know, you know, if we take seven million out of this already for the extra payroll, that brings us 16.8. Well, how much up reserved balance that we really want to keep in there on an ongoing basis for emergencies and protections to our services that we give our citizens. So how much then do we really have to talk about? And I would like to have a number on that. Thank you.

Mayor Lane: Thank you, Councilwoman Littlefield. Mr. Washburn.

City Attorney Bruce Washburn: Mayor, I'm -- I think I may have kind of lost track of the gist of the discussion because the items that were on the treasurer's financial summary presentation and I'm a little concerned that we are getting kind of far afield. It's one thing to be asking him about showing things in the presentation and another to be discussing exactly what expenditures we will be making.

Mayor Lane: Agreed. Thank you, Mr. Washburn. So Mr. Nichols if you want to proceed with the next area of your report.

[Time: 01:49:48]

City Treasurer Jeff Nichols: Yes, sir, Mr. Mayor, members of council, financial highlights of the statement of net position are the balance sheet items, really, to cut to the chase on this you look down in the bottom right-hand corner, and you will see a net position decrease of almost \$244 million. And in effect, you notice up under total assets, we saw an increase in total assets. We'll get to these later, but, really, what's driving the strange in the net position, if you look down almost to the bottom of the slide, net -- net pension liabilities of \$272.1 million. Now, one thing I would like to point out and the year before it says it was zero. Well, it wasn't -- this doesn't exist in the prior year. It did exist. It was just noted in the financial statement notes. It wasn't on the face of the financial statements. GASB-68 required us to put this on the face of the finance statement. So we followed

that generally accepted accounting principle and have done that.

[Time: 01:51:00]

Mayor Lane: Excuse me, Mr. Nichols in the past have we ever received a breakout of our portion of the unfunded liability as it's indicated here?

City Treasurer Jeff Nichols: Mr. Mayor, neither the Arizona State Retirement System or the Public Safety Personnel Retirement System were required to give us a break out.

Mayor Lane: So it wasn't just a matter that it wasn't on our balance sheet but it also just simply wasn't made available. We didn't know what it was.

City Treasurer Jeff Nichols: We didn't know and I would say exactly what the actuarial liability was but it was a disclosure in the notes that we had an actuarial liability.

Mayor Lane: So we had a number in the notes?

City Treasurer Jeff Nichols: With have to refer to the notes, but --

Mayor Lane: This is a product of a change in the FASB that relates to the disclosure and the placement on the balance sheet.

City Treasurer Jeff Nichols: That's correct.

Mayor Lane: This is a net figure, the total assets as you might portray them, versus total liabilities and this is the unfunded liability portion of 272 million?

City Treasurer Jeff Nichols: That's correct and to put it in perspective, I wanted to give you some information related to that. So the actuarial unfunded liability related to the ASRS approximately \$163 million.

Mayor Lane: How large a fund is that?

City Treasurer Jeff Nichols: Well, if you consider the fact that ASRS is currently funded at about 76.3%, so then that's about 24% of the total liability. I can't -- I'm not able to do the math in my head, but let's just say a significant portion of the liability is funded, nearly 76% is funded, a little bit more than 24% is unfunded. The 24% represents \$163 million.

Mayor Lane: And that's in ASRS?

City Treasurer Jeff Nichols: Yes. And the Public Safety Personnel Retirement System, again, the unfunded liability actuarially determined unfunded liability is about \$109 million. The Public Safety Personnel Retirement System, two components, the fire department fund is actually funded at 111%

at this point in time. And the reason it's fully funded or actually over funded if you will is because we don't have firefighters retiring. We just started a municipal fire department in 2004. I think we all know that there is going to be an issue that the governing body will have to deal with in the future when, in fact, all the people we hired in 2004 will begin to retire. That will happen by 2024, if not sooner.

Mayor Lane: You know we will have a problem so the system is rigged so that we will have a problem?

City Treasurer Jeff Nichols: I don't know. No, Mr. Mayor, I would never imply that the system is rigged --

Mayor Lane: Maybe that is a poor choice of words. The bottom line is that it will be a problem at some point in time.

City Treasurer Jeff Nichols: The bottom line is that in 2004, a managerial decision was made to hire a majority of the employees from the rural metro corporation versus bringing them on one at a time, but we knew when we started the municipal fire department, that they would be eligible for retirement 20 years down the road. So I believe -- I believe it was addressed. I was here during that time. I know it was brought up as an issue. I think it was just an issue that people said, well, we have 20 years to deal with that. Now we have about nine years to deal with that.

Mayor Lane: But they are contributing members, right?

City Treasurer Jeff Nichols: That's correct.

Mayor Lane: For the period of time and their benefits are over that time period of time.

City Treasurer Jeff Nichols: That's correct.

Mayor Lane: What's the other side of that equation?

City Treasurer Jeff Nichols: The other side of that equation is the police retirement fund right now is funded actuarially, it's funded at a level of 56.1%. So when you look at all of the three different retirement systems we have, the one that is hurting most financially is the public safety personnel retirement system police fund.

Mayor Lane: So it all adds up to the 272.1 million?

City Treasurer Jeff Nichols: Yes, sir.

Mayor Lane: It's on the balance sheet but it's a footnoted issue as well?

City Treasurer Jeff Nichols: Yes, sir.

Mayor Lane: Thank you.

[Time: 01:55:29]

City Treasurer Jeff Nichols: So looking at our balance sheet, I will walk down through some of the assets and the liabilities now, starting with cash and cash equivalent. As you see there, we have approximately \$525 million as of June 30th, 2015, however, I would caution some people to point out that debt service payments, principal and interest, the first principal and interest payment in July and then the interest payment in January will be approximately \$90.7 million of that \$525 million balance. We have approximately \$22 million of beings payable that were paid out in July. But at June 30th, the cash sat in our bank being. It's something that we knew we would pay in the following month. We had \$10.3 million in salary and benefits that we had accrued. Those payroll days that were in June, that we knew we weren't going to write those checks until July, and then those payments would be made.

And I think the whole discussion -- we hear, we have all of this money. Why do we need to go out for a bond issue? We have these issues and we know about them. There are a lot of legal restrictions in the way the government accounting works. When you look at the airport C.I.P., the \$5.9 million, it can't be spent on anything other than the airport. The water and the sewer C.I.P., those things are the same. We get them from rates and fees and they are dedicated for those purposes. The only air in the 5:00, the 5:30 position that the council really has some control over and that's the general fund on the side of \$23.8 million. Everything else is spoken for, if you will.

When we looked at the receivables of \$86.8 million and these are pretty hard numbers, we knew we had property taxes and penalties that we were going to collect in July, and probably did collect, that we accrued. The other local taxes that we're looking at, primarily those are transaction privilege tax revenues that we received in July that related to June. Intergovernmental was from the state. You look at the interest in other charges, that related to general fund -- I'm sorry, that relates not to what you would think about like interest earnings.

It was more of -- related to the other and one thing, Mr. Mayor, we just discussed the other day, the TGEN receivable. A few years back, we loaned TGEN about \$3 million. They have been making payments on that. They still owe us about \$2.6 million. That's a receivable that we have on the books. The largest there, you see the \$195.1 million. We made improvements to WestWorld, significant improvements; we made significant improvements to the TCP. They are assets on our book but they are not assets like land and buildings. GAAP requires that we regard those as service concession arrangements or agreements because we don't own the land that those assets sit on. We don't book them like we do a normal building or normal improvements to a golf course. They are service concession agreements. They are approximately \$74.4 million.

We have some deferred outflows if you will, related to the actuarial assumptions in the pension liability of about \$50.2 million. We went out and refunded some debt about \$61.2 million in debt, and we had significant savings related to that refunding. But about \$36.7 million is deferred, even

though we enjoy that refunding from a GAAP standpoint, from an accrual standpoint, we have to bring that revenue in over the life of the bonds. So we have an asset on the books called debt refunding.

We also have some prepayments related to some liabilities, most notably a park and ride at the airport and the Nordstrom, even though the cash went out the door, we made the payments in full, the GAAP requires us to amortize them over the life of the lease, or what would have been the lease. So we have those as receivables on our books.

Getting to the point where we are talking about our net capital assets by time. We have land, preserve land at about \$949 million and -- I'm sorry, non-preserve land of \$949 million and preserved land a little more than \$900 million. The other major categories in our assets and our governmental type funds, streets and storm drains of approximately \$1.2 billion, in building and land improvements of 414 -- or \$414 million.

On the enterprise side, our assets include the water system, about \$775 million, and our sewer system at \$405 million. The one I would point out that may be confusing on this slide is the equity and joint venture. Brian will correct me if I'm wrong, but I believe it's related to what we call the sub regional operating group. We are a member of a consortium of sorts that invest in the 91st Avenue plan and Phoenix operates it and runs it. We do own actually a percentage of that plant and that's the equity in the joint venture related to that.

When you look at annual depreciation by type, for the governmental funds, approximately \$116 million in depreciation for the year, the vast majority of that related to streets and storm drains. About \$20 million building improvements depreciating, and all of this, you buy an asset and it meets certain requirements. You put it on the book and you take a pro rata, or a share of that each year, depending on the life of the asset. This does get to the issue that we talk about sometimes and that's whether the investment in our assets and I will get to that later, because there's a slide that's going to be probably confusing to many of us on this, and I just want to point it out. When we look at the annual depreciation by type, as far as the enterprise funds, the water systems, depreciation of \$31.1 million, the sewer system, 15.5 million, and then accumulated depreciation.

The reason I wanted to show this is we have assets on the book. These assets are still in use. They are roads, street, storm drains, buildings, motor vehicles. These have been depreciated. They are losing value, but we still use these assets. They are still in service. They are not off our books. They are just aging, if you will. And the same on the accumulated depreciation by type related to the enterprise funds. The water system, 397.5 million and sewer system 187.1 million in accumulated depreciation.

This is a slide that I think is a little bit confusing. And the reason I say that is if you remember the previous slide, we said that we had about \$116 million in depreciation related to governmental fund assets. What we are saying is the acquisition by type, of \$196.7 million, sometimes when we are trying to convey in a very simple way the message of where we stand financially, related to our financial position at the end of the year, it's -- it's not as easy to do and this -- in this manner. So what I have done if Brian can help me. I can't see if that's the right way on the Elmo or if I need to

turn it around. I need to turn it around. So what you will see here is -- and I want to point out is we have something called construction in progress, if you will. And this is a summary of that.

And when we started the fiscal year, you will note we had about \$106 million in construction and progress. The additions from our year-to-date expenditures on a budget basis were about \$52.4 million. That is the amount of money we invested in our general fund assets last fiscal year. We had \$116 million in depreciation. We invested \$52.4 million in those same assets. So our assets are basically depreciating much faster than we are adding to them.

The our -- it's the links for capital assets, that's a re-categorization for the financial reporting purposed. We took construction and progress, which is we don't depreciate it when an asset is being constructed. We don't depreciate it until we put it in another category, buildings and improvement, machinery and equipment, streets and storm drains.

So we re-categorized the expenditures, \$122 million of expenditures that have happened in previous years and we put them into the asset category, and it misstates, if you will, in my mind, the slide that you saw showing \$196 million increase in those asset categories. \$122 million of that was coming from construction and progress, if you will. So I wanted to make that clear because I thought some might have questions related to us actually investing \$196 million in our assets last year. We did not. We invested approximately \$52.4 million on a cash basis.

[Time: 02:06:12]

Mayor Lane: Mr. Nichols, how do we account for when we rebuild a street, rebuild an intersection, replace an intersection, something, as far as the additions to year-to-date expenditures. And when we talk about the accumulated depreciation, are we still depreciating or have we fully depreciated some things that are still on the books even though they may have been entirely rebuild already by some project or another. There's a number of streets in our city that we have completely redone. I'm just wondering if there's any process to remove the old asset because it's been rebuild.

City Treasurer Jeff Nichols: We do if -- Mr. Mayor, I don't know that we remove the old asset because when you think, let's say a street was built and donated, that street comes with the land. It comes with the sidewalks and it comes with the curbs, the gutters, and the pavement. We basically take a couple of inches off that street, and then we have a process by which we do an overlay. We work with our folks in the traffic department and then the capital project management to get their professional opinion on how much that extended that improvement extended the life of the street. Normally, our process -- or our policy has been when we bring a street into our inventory; we give it a 30-year life. I'm assuming that there will be some sort of maintenance on that street. That's not that you bring a street into inventory, and then just ignore it for 30 years.

Mayor Lane: No. No. And I'm not suggesting that Mr. Nichols. I apologize for interrupting you. I guess what I'm concerned about is in the private sector, certainly if you have a fully depreciated asset and you generally dispose of it or replace, it you write off there's a balance or it gets off your balance sheet. But I'm wondering if we have a similar process with our assets here, particularly when they

are -- so they are infrastructure-type of issues, whether we ever remove a street that has been totally torn up and replaced with a new one, rather than counting it towards a total of assets and now we are saying, hey, these are assets that we have to replace.

It's just a -- just a -- it's a matter of, really, I suppose a little bit of a disclosure, number one, and the other is just the accounting for total assets that we actually have. If we replace it through a bond issue or any kind of measure, I don't mean normal maintenance, I don't mean an overlay, that might extend the life and I guess that. But I'm talking about total replacement.

City Treasurer Jeff Nichols: Mr. Mayor, if, in fact, we did what you are describing, what I would ask from CPM or our traffic staff, our street maintenance staff is an estimate. So let's say it was a mile of road. We would need an estimate from them of the asset, the value of that asset because we might not necessarily have the historical perspective to go back and see what the cost of that asset was when we put it on our book. We will take off the asset and the accumulated asset and then we would add the new asset to the books.

Mayor Lane: So there is a write-off after an expired, terminated asset that is replaced.

City Treasurer Jeff Nichols: If an asset is truly replaced, there would be a write-off.

Mayor Lane: Do you have detail of the original installations, if I might say?

City Treasurer Jeff Nichols: Mr. Mayor, no, I don't. I don't have that.

Mayor Lane: Okay. Thank you. Vice Mayor Smith.

[Time: 02:09:43]

Vice Mayor Smith: You raised an interesting question that's probably worth underscoring for anybody that's watching. Go back to your balance sheet, which I think was slide number 8. And you didn't particularly highlight this at the time, but the fourth line down is the governmental assets net of depreciation. Last year, they were 3 billion -- 3 billion 575, and now they are 3 billion --

City Treasurer Jeff Nichols: Turn them around.

Vice Mayor Smith: Like I said, last year they were 3.6 billion and now 3.5 billion. The point is, really in the last column is that from year to year, they have declined, the net assets of the city have declined by \$35.3 million, and as you were explaining two or three slides later, that's understandable if you recognize that depreciation has been recorded to the tune of \$116 million, and new investments in the city of \$52 million. So it's not surprising the asset value went down.

This frankly -- this is a message to the listening audience. This is why we need to reinvest in the assets of the city, is this is, I think, the second year in a row that the net assets of the city have actually shown a decline, which is an unprecedented occurrence. It is not a sustainable way to run the city

and it shows the urgency of having a program of reinvestment in the city. Thank you.

City Treasurer Jeff Nichols: Mr. Mayor, Vice Mayor Smith, if I might add, you are correct when you say that the last few years, this year and the previous year were the only two years I know of where our capital assets net of depreciation and the governmental area actually decreased.

Mayor Lane: Thank you, Vice Mayor. Thank you, Mr. Nichols.

[Time: 02:11:56]

City Treasurer Jeff Nichols: Getting to the accruals and other liabilities, we talked about the accounts and the interest payable and the payroll and the benefits. The majority of the \$112 million, again, it relates to our bond payments, our bond payments consist of principal and interest, and also the accounts that the -- the items that we know that were purchased in June, not paid until July, we bring those back for accrual accounting purposes.

The accrued compensated absences, again, just it's -- it's the liable that the city incurs when employees have built up their sick leave or vacation leave. We know that they are liabilities related to that and we know that we will have to pay those out. The net pension liability, the \$272 million, we discussed that fairly rigorously.

The other area bond loans and other payables, what I would like to point out, you look at this, the preserve bonds, even though they may be G.O. bonds or MPC bonds, the \$373 million, we do have dedicated revenue sources to retire that debt, the water and the sewer is the same way. The excise tax bonds, the MPC bonds, the staff identified streams of revenue for the most part. Sales tax revenue, excise tax revenue to retire that debt. The debt that really relates to the people's property tax, be it residential or commercial is a general obligation bond of \$299.3 million.

The other things that we have, if you will, off balance sheet liabilities, compensated absences, we have very few now. We used to have many more when we had retiree health insurance. But the liability to be earned by employees during future service, and there's an actuarial calculation that we booked. We don't book I.E., that's why they are off balance sheet. And then the implicit subsidies, the liabilities for health insurance at subsidized rates, the only one group that we have in that now are the medically retired public safety officers that the council has directed staff to continue to keep on our insurance program. And with that, I would take any additional questions you may have.

Mayor Lane: Thank you, Mr. Nichols. I appreciate the presentation. On the last item that you have here with regard to off balance sheet liabilities, do we have quantification on the compensated absences and implicit subsidies on the medically retired?

City Treasurer Jeff Nichols: Mr. Mayor, I don't have those with me. I do know that it's a disclosure in the footnotes. We do have numbers related to that. So I will make note of that and get back with council tomorrow on the a.m. of those liabilities.

Mayor Lane: All right. Thank you very much. I see no other questions for you. Thank you for the presentation.

City Treasurer Jeff Nichols: Thank you.

ADJOURNMENT

[Time: 02:15:32]

Mayor Lane: That completes our items on our regular and we have no further public comment. We have no receipt of petitions. I would accept a motion to adjourn.

Councilmembers: So moved.

Mayor Lane: Moved and seconded. We are adjourned. Thank you very much.