

Work Session Minutes
June 29, 2015

1. Mayor Mueller called the work session to order at 4:00 p.m. in the City Manager's Conference Room, City Hall, 1011 N. Coronado Drive, Sierra Vista, Arizona.

Present:

Mayor Rick Mueller – present
Mayor Pro Tem Bob Blanchard – present
Council Member Alesia Ash – present
Council Member Gwen Calhoun – present
Council Member Rachel Gray – absent
Council Member Hank Huisking – present
Council Member Craig Mount – present

Others present:

Chuck Potucek, City Manager
Mary Jacobs, Assistant City Manager
Ton Alinen, Police Chief
Adam Thrasher, Deputy Police Chief
Ron York, Fire Chief
Scott Dooley, Public Works Director
Richard Cayer, Operations Manager
Judy Hector, PIO
Victoria Yarbrough, Library and Leisure Services Director
Jill Adams, City Clerk

2. Discussion regarding the effects of the 60 day posting requirement on the FY 2016 Budget

Mr. Potucek stated that at the last Council work session, Council Member Calhoun requested an additional session to clarify issues primarily revolving revenue projections based on the proposed 2/10th of a percent sales tax increase and the adjustments that he is proposing to offset that difference.

The reasoning behind the change in the revenue projection is based on Arizona state law (ARS 9-499.15) which requires that all tax and fee increases affecting businesses must be noticed 60 days prior to Council formally voting to approve them. This means that the vote to increase the sales and use tax rate would occur on August 27, 2015.

In addition, the Department of Revenue requires a 60-day waiting period following approval of a sales tax increase before the new rate may take effect, which means that any approval with the subsequent notices that need to go out could go into effect on November 1, 2015.

As a result, that means that 1/3 of the anticipated revenue from the proposed 2/10 sales tax would need to be removed from the budget in order to balance since the City could not anticipate getting all of the revenue during the course of the next fiscal year.

Two tenths of one percent sales tax increase for the full year revenue increase projection of \$1,157,030 and by taking a 1/3 off of that comes up with \$816,300 or \$340,730 reduction to the full year projection. That is the result of the notice of requirements that the City has.

In response to Mayor Pro Tem Blanchard, Mr. Potucek stated that there has always been a noticing requirement and so there was always going to be some lag in time. It is just that recent state law has actually expanded that timeframe to require the additional days. The City would have had about a quarter losses except for the new law now it is a 1/3.

Most of the discussion revolving the increase in the budget surrounded facilities maintenance dollars and the increase was used to increase those facility maintenance dollars to \$687,000. Due to the reduction in revenue, he is proposing that money be deducted from Facilities Maintenance leaving \$325,141 for fiscal year 2016.

A list was presented to Council of FY2016 capital priorities (attached).

In response to Council Member Calhoun, Mr. Potucek stated that these are the recommended projects for the coming fiscal year taking into account that Facilities would be reduced to \$325,141 as a result of the change in revenue.

Mayor Pro Tem Blanchard asked about the HVAC at Fire Station No. 2. Mr. Potucek stated that it is a HVAC replacement. Mr. Dooley stated that this is capital maintenance.

Mayor Pro Tem Blanchard stated that he would think that this would be a higher priority. Mr. Potucek stated that the items on the list would all be in the budget. They are all priorities to be done.

Council Member Calhoun asked if the list was part of the capital improvements funds. Mr. Potucek stated that this is in the General Fund facilities maintenance account. Council Member Mount added that this is part of that \$687,000. Mr. Potucek stated that it was basically cut in half.

Council Member Mount noted that there was a consensus not to even go up that high and then that was stopped and Council started a different consensus that lead to the \$687,000 and then that increased the tax rate.

Mayor Mueller stated that Council did not set up the tax rate until they came up with a final consensus.

Council Member Mount stated that the argument for putting all of this stuff in was so that the Council does not have to revisit this in the budget next year. Council Member Calhoun stated that was not the only argument.

Council Member Mount asked if this is the stuff that they wanted as part of the \$687,000 to raise the taxes.

Council Member Calhoun stated that in order for what she considered important for the community to keep moving forward, to repair those things that needed to be repaired, to keep the City buildings from falling into further disrepair, that Council put money in the budget to maintain the buildings. Essentially, her opinion was to have the City's facility managers tell Council what were the things that were falling apart the most that needed to be fixed. Therefore, she is willing to say that the community needs to pay for those things.

Council Member Mount asked Council Member Calhoun if the list is what she had envisioned. Council Member Calhoun stated that she looked at the list and this is pretty much what she

believes is important. She thought Public Works would go over the list and pick out what was most important.

Council Member Mount stated that no one on Council had a clue what was in that \$687,000 because it was never presented during that work session.

Council Member Calhoun stated that they were willing to trust the Public Works Department. She is willing to believe that and fund whatever the City needs to stay operating.

Council Member Mount stated that the \$687,000 was not in the proposed budget and when the question was asked a couple of times if the City could be operated with the proposed budget and not have a tax increase the answer was yes. Mr. Potucek stated that keeping finger crossed, yes. Council Member Mount stated that he believes that is still true.

Council Member Calhoun stated that is like a family stating that yes they can eat beans and rice for the next six months. Council Member Mount stated that he was just going back to what was asked and to what was said and not splitting hairs.

Council Member stated that then the question was asked again and maybe this is where some of the confusion was, the \$687,000 or whatever the number was at the time, could the City operate Public Works without it and the answer was no. That is what was said the second day at the work session. That lead to this whole discussion of should it have been in the proposed budget if the answer was no because what the City has is a department head saying that he can't operate his department without this money and to him that is quite unfair. He doesn't know where the disagreement is in that; but there is certainly a big disagreement.

Council Member Mount added that then Council rolled into the last day and reached a consensus to increase Public Works' line from the proposed budget to some \$300,000 and then that had a consensus; but Council still did not know what that \$300,000 entailed. It was never discussed and then Council broke consensus to add in an additional \$357,000 and again not knowing what that stuff was. He stated that he just wants to make sure that the tax increase that this is exactly what the Council wants to pay for with that tax increase.

Mayor Mueller stated that is one of the reasons why the Council is holding the meeting. The following two slides basically break that out so that there will be a firm understanding and so that Council knows in fact when voting on the cap and tax increases.

Mr. Potucek reminded Council that these were not the only additions to the budget that Council made during the course of the work sessions. There were a number of personnel additions that were made that were actually more of a cost than these items.

Council Member Mount stated that \$687,000, if it was a \$1.1 Million increase, represents the bulk of that. Mr. Potucek stated that then you have \$500,000.

Council Member Calhoun stated that the city manager cut a lot of things out of the budget in order to balance the budget. Mayor Pro Tem Blanchard noted that not the increased balance.

Council Member Calhoun stated that it looked to her as though the City cut to the bare bone and she does not know how much more there is that could have been cut.

Council Member Mount stated that this is what got cut, the only thing on the list of the \$687,000 from the proposed budget was the engineering professional services for \$25,000

and he does not see any indication of that back into the additional spending. It was the facilities infrastructure maintenance, painting, drywall repair, flooring repair, shade screen repair, furniture repairs and bathroom fixtures at \$35,000. The Council cut out \$35,000 in order to balance the budget from Public Works and then added in \$667,000 back in.

Council Member Huisking stated that she is a little upset with the way that Council Member Mount is presenting the issue and she knows that he is wanting to get to the bottom of this and make sure that Council is doing a good job and the public understand what the money is spent for; but she does not know that it is Council's job to micromanage what the staff believes are important expenses in order to maintain services and the infrastructure that is in place that the tax payers already agreed to pay for the first time. If he is stating that the City should only build and not maintain the City's infrastructure and he is going to go through it line by line, just to prove a point, then she thinks that Council is going in the wrong direction and spending time that is unnecessary. It has already been reduced and it is at the same place that he wanted to go and maybe a few extra dollars over the \$306,000.

Mayor Pro Tem Blanchard concurred. Council should not be micromanaging.

Council Member Mount stated that he did not ask for that. What he asked was if this is what Council wanted to spend the money on because Council did not know what was being put into this before they were asked for \$687,000 worth of additional spending. There was no list. He is not stating that the City should not have these things. What he is saying is that the idea that Council cut a bunch out, he does not see that. It states noticeable things cut to the budget and the only things on the list are \$35,000. He agrees on that he does not want to micromanage; but Council is fixing to spend a lot of money and he does not think that anyone in Council up until days ago knew what was being bought and he does not know if the argument being made is valid.

Council Member Calhoun asked if he what he is saying is that the conversation should have been started six months ago instead of two weeks ago in order to cut and choose. Council Member Mount stated that he is not. He is not playing word games. He is saying exactly what he is saying. When the budget was proposed to Council, it was presented as a balanced budget that could operate the City and the only notable cuts in that budget was \$35,000 that is represented somewhere on the list. Council came to a consensus that increased \$35,000 to \$687,000 and none of those things represent either the \$25,000 worth of cuts or the \$78,000 of Vista Transit that was assigned to Public Works. Council added money to a large degree that was not a part of the cuts to begin with. He just wants to make sure that Council is crystal clear on that. Is this what you want to buy?

Council Member Calhoun stated that she thinks that they are and she doesn't know how many times he needs to say it. Council Member Huisking added that they are.

Council Member Calhoun stated that they are clear that these are the suggested projects since Council had approved at least that much, actually more.

Council Member Mount stated that this is the first time that he has seen this list. Council Member Calhoun stated that yes because there had to be cuts due to the 120 days and Public Works was asked what they could put in that equals what the Council said that they would support.

Council Member Ash asked Council Member Mount if he was a part of the consensus that supported the \$687,000. Council Member stated that he was not.

Council Member Ash asked Council Member Mount is her was a part of the consensus that supported the \$300,000. Council Member Mount stated that by the time that they got to that point he did.

Council Member Ash asked Council Member Mount if there is something on the list that he does not want to support. Council Member Mount stated that honestly he does not want any of this based off of where they have been and where they are going. He liked the proposed budget and if Council was going to add anything back in, that is a notable cut, it is \$35,000.

Council Member Ash asked Council Member Mount if he would like to see the \$325,000 cut. Council Member Mount stated that his concern is that the whole argument about throwing back in that \$687,000 was to try to get it all done and not kick it down the curb any further. That was the argument so that they would not have to deal with it in the budget next year.

Council Member Calhoun stated that the word, deal with it, keeps coming up; but that was not the intended meaning. It was to get these things done in the community. Council Member Mount stated that he can only go off of what people said and he rejected that and no one spoke up.

Council Member Calhoun stated that someone should have because when that term was used, it was not in terms of having to sit and have a conversation on about it. If the airport roof needs to be recoated, why doesn't it get recoated and not have to do that next year because next year, there is going to be at least that many more things that need to be done for the community.

Council Member Mount stated that what he is getting at is that there are two lists and they are both around \$300,000. He asked Council if this is the stuff that they want versus what is on the other list.

Mayor Mueller stated that Council did have a proposal from the city manager about what needs to be in FY 2016 budget and what is not going to be included out of that \$687,000+ amount. His understanding is that the discussion for the work session focus on to validating the fact that is what Council wants to do and that is essentially the question that Council Member Mount is asking. Council Member Gray sent via email a statement that she is willing to go with the city manager's recommendations.

Mayor Mueller asked Council for a consensus on the city manager's recommendations of which there are two slides, priorities that are included and other things that are not.

Mayor Pro Tem Blanchard stated that he agrees with it.

Council Member Huisking stated she has to trust what they are getting from the staff and what was all decided upon together. This is the priority for next year; but she reminded everyone that does not make all of the other things that need to be done go away.

Mayor Mueller stated that she is right and Council will have to deal with some of them next year.

Mr. Potucek stated that it is very important to recognize too that the budget is a plan and there are monies allocated. For example, there is something on the next list that has not been shown yet and it fails, and it is essential to operate a facility. Then the list would have to

reprioritize and try to pay to get that fixed and something on this particular list may not get accomplished as a result of this happening. There has to be some flexibility built in and also different procurement possibilities may be looked at to bundle certain items into one or look at using DOC labor to accomplish other things. There are certain management things that staff would like to do to try and save money so that the City is not spending as much on this. If those things occur then there are more resources left over to perhaps get to other items.

A budget is a plan and right now the way Council sits on June 29, 2015, this is what is planned to be done. Hopefully nothing occurs that becomes an emergency and these things get done and then move on to the next list.

Council Member Calhoun asked if this includes the personnel that were added in. Mr. Potucek stated that is not in this list; but that is in the other. Mayor Mueller noted that the city manager is not recommending that Council revisit the personnel that was added back in. Council is discussing the city manager's recommendation.

Mr. Potucek stated that he is assuming that there was a consensus on the personnel additions.

Council Member Huisking asked that in the event that something else happens, then this list gets cut. Mr. Potucek stated that yes and another one come into the list.

Council Members Calhoun stated that she is good with the list and added that she agrees with Council Member that if there is a different way to go about budget planning, that starts earlier on, she would support that and Council can come to a better understanding of why certain dollars are put in certain places.

Mayor Pro Tem Blanchard asked if the city manager will have the revenue projections if they start the process early. Mr. Potucek stated that what is important to understand is that back in January during the retreat with Council, it was laid out that there would be difficulties balancing the budget. That process started in January and then there was the Citizens' Advisory Commission' input that lead to a number of meetings. For a long time now and he has been doing this for a long time, Council never delve into this. The Public Works Department would prioritize as to what projects there were and it would be whatever dollars were there to allocate them. They would work with him to prioritize that and that would be what was included in the budget. The reason that this is being discussed is because there is a tax increase associated with it whereas for years and years there had not been. There was never any Council discussion to this level of detail in the budget.

Council Member Mount stated that his frustration with this is that Council knew in January that this was coming up because this was one of the first things that were discussed when sworn in. Then the CAC got put into place in February and it went on for 10 weeks having the volunteers go through this stuff. Then Council sits for six or seven weeks going over this year's budget and projections. Ultimately, Council takes a course of action that was not a recommended revenue option that was laid out by the CAC and added more revenue in and because there was a disagreement whether or not a department could do its job or not and missed the mark anyway for posting it by 60 days in which case, the City can't get all of the stuff that was said that they were going to come up with. The whole thing to him is silly. He asked Council where they go from here. Council is not getting the consensus that was started before; they are not getting what they wanted.

Mayor Mueller stated that there is a consensus to support the city manager's recommendation and move forward. However, he appreciates Council Member Mount's frustration because everyone is frustrated.

One of the things that needs to happen because there is a key date setting the cap on the budget is that if there is even an inkling that taxes will be raised, that date and the time that Council has to discuss taxes, should start well before so that Council does not run into this mess of having to lose 1/3 of revenue during the fiscal year. That advances everything in the calendar year. Staff needs to look at restructure for the budgeting process. That will be a management challenge because not all of the state projections are in.

Based on what is going on at the State, they discovered some money, he does not see projections getting any better and the City may in fact have to look at a minor tax increase next year to meet the needs of the City. Council has to be very cognizant of the process.

3. Adjourn

Mayor Mueller adjourned the work session at 4:35 p.m.

Mayor Frederick W. Mueller

Minutes prepared by:

Attest:

Maria G. Marsh, Deputy City Clerk

Jill Adams, City Clerk