Sierra Vista City Council
Work Session Minutes
June 9, 2016

1. Call to order – 3:00 p.m. in the City Hall, Council Chambers, 1011 N. Coronado Drive, Sierra Vista, Arizona.

Roll Call

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

Others Present:
Chuck Potucek, City Manager
Mary Jacobs, Assistant City Manager
Adam Thrasher, Police Chief
Ron York, Fire Chief
Sharon Flissar, Public Works Director
Victoria Yarbrough, Library and Leisure Services Director
Mat McLachlan, Community Development Director
Jill Adams, City Clerk
David Felix, Finance Manager
Linda Jones, Budget Officer
Simone McFarland, Economic Development Manager
Laura Wilson, Procurement Manager
Abe Rubio, IT Manager
Lee Elaban, Leisure Services Supt.
Emily Scherrer,

2. Discussion regarding FY 2016-2017 Budget (continuation from previous Work Session)

Mayor Mueller stated that he wanted to explore a couple of ideas that were brought up earlier. Starting with the $50,000 grant for businesses as suggested by Council Member Mount to refurbish facilities.

Mayor Mueller thinks it is a great idea but wants to discuss how to give staff guidance on setting up the program or not do it. Mayor Mueller requests others to share comments. It is in the budget and he directs the City Manager to find the $50,000 and come back on June 23, 2016 with what cuts were made and discuss if those were the appropriate cuts.

Mayor Mueller is more concerned with the specifics with a program like this. The main thing is that it should not appear as though the City is giving away cash. A program needs to be established and first verified if it is legal, and that is being done. The program needs to be specific on what it is for – everyone or facilities that need code upgrades (health, sewer, fire, electrical, building) and help those properties. The City Council needs to give the City Manager guidance on if this includes just properties on west end or all properties.

Mayor Mueller questions whether a match should be required. He believes owners should give as little as10 percent and this should be a qualifier. Another question is should the City pay cash out or establish a process where the City reimburses the owner for the grant portion. The City Council needs to discuss those issues to make sure the program is managed properly and give guidance to the City Manager.

On the procedural side, there needs to be a simple way to do this. The development and review of the application process should fall under the Economic Development Manager. Once the application is complete and ready for approval or disapproval, it should be reviewed by the City Manager. Then the City Manager will go to the City Council with a simple resolution to recommend x amount of dollars to “this company” to do “this work” on their facility and it is voted. Mayor Mueller believes this is the simplest way to do the procedural part of this. Final approval will be given by the City Council.

There are potential political repercussions when approving one business and not another. Mayor Mueller does not know how to avoid those possible repercussions. He would like to hear comments and give guidance to City Manager in order to get this program going. As memory serves him correctly, when the EDF was first given $50,000 for loan program, it took 6 months or so to get people attracted to it and the first couple of years to get people to realize that there was a program and working. After the first project, there was definite interest and then it waned a bit. It is critical the Council discusses this now and obviously a check will not be cut 1st July for this process but as soon as we have a viable applicant it is important we move on so we can continue to do this.

Council Member Ash supports what was brought up in the strategic session with Economic Development and Community Development and believes it was a grant program to help with infrastructure and there were some questions about the legality. She questions how this is different from that program that was brought up during strategic planning. Ms. McFarland spoke about it being a grant in strategic planning and there are cities that do that type of project and Sierra Vista would need to meet the legal requirements. If this is to go in place, the Council should tell Economic Development and Ms. McFarland and Mr. McLachlan will put a program together and an outline to meet the legalities. They will present to the Council and do the things that the Council wants to have happen. Mr. Potucek believes that meeting legal requirements would be stronger if the focus is on health and safety issues related to code requirements and areas that are blighted or old that improves the community, i.e., west end.

Mayor Mueller stated that blighted is an open definition and to take into consideration the age of the facility possibly 15-20 years old.

Council Member Gray asked for legality if we could specify a certain area of town or conduct the program city wide. Ms. McFarland stated that question would be answered when Economic Development put the research together and suggested to direct staff and they will propose a program and bring it before the Council. Economic Development would want grant matching or job creation as a requirement. Mayor Mueller wants a guarantee from the business that it will be in business for a year or the landlord will not raise rent for a year or two after the investment has been made. Ms. McFarland stated there are a lot of things that need to be looked at and suggests Council directs them to do research and come back with options and proposals.

Council Member Ash clarified that this program is the same as what was brought up earlier. Ms. McFarland stated it is the same thing proposed last fiscal year. However, the program could not be afforded and was taken out of the budget.

Council Member Gray asked Mayor Mueller if there were to be cap per project. Mayor Mueller stated it would need a reasonable cap based on the size of the business and that is something Economic Development would look at. Ms. McFarland stated the program would have a cap and it needs to be substantial enough to make a difference.

Council Member Ash inquired how many businesses could be helped with $50,000. Ms. McFarland stated approximately 1-3 business and it will take a year to put the program together. Even if money is in there now, funding would be at half of the year for a couple projects. If it is successful, the City would look at it again next budget cycle. Council Member Gray asked if any money not used this fiscal year would roll over and add to next year. Mayor Mueller would suggest that as an option. Mr. Potucek stated the closing fund for $100,000 and this fund for $50,000 are fairly modest investments. This fund for $50,000 has way more potential to be tapped into than the closing fund by volume of attraction by candidates. The difference is attraction candidates would need more dollars to accomplish their goal than this. Hopefully, both funds can be grown over time based on success of the projects.

Council Member Gray wants to grow the program. She asks if every year the City puts $50,000 and we use it; then how do we grow it. Mayor Mueller advises that with annual budget cycle and maybe next year we may want to up it to $75,000 or $100,000 for the next fiscal year. The Council would make the decision and it has to be balanced against all of the other operating costs.

Council Member Gray would like to see in the proposal some type of tie in for education requirements for starting a small business as well as a match. Mayor Mueller asked for clarification on education requirements. Council Member Gray stated that new businesses do not know how to navigate through the city and the red tape. In the past, that has caused significant dollars to be spent or unexpectedly spent due to the business owner being unaware of what needed to be. She would like to see a tie in so money is not wasted. Ms. McFarland advised we could add an educational component that states that they need to sit down with SSVEC and other and do a certain amount of hours, etc.

Council Member Huisking is concerned on how to choose who to help and once funds are depleted do we go between two funds if we find one is more effective than the other. Another option is could we use money from the $100,000 to replenish the $50,000 if we find that it is more likely to help people. Council Member Huisking asks how do you know someone is going to survive. They say that if you survive 5 years that you're pretty well established. We may want a better metric than one year if we are going to help a business. Due to talking about code upgrades, what is the responsibility of out of town or nonexistent owners for their buildings. We are not building something new and we don't have the money to build something new. When using an existing building, do we talk to the owner and ask them to agree not to raise the rent. Mayor Mueller states that all the things mentioned needs to be part of the application process, business plan and some type of assurance they will be around. A grant guarantor coming up with 10 or 15 percent and the landlord is benefiting from the improvements. We need to get the landlord to say that they will keep the rent at certain level and get a letter from them. The application needs to deal with contact from landlord and business owner to ensure they are both aware and working together. If not, then there is a risk to public money.

Council Member Gray mentions if a lease is signed for a period of one year, rent cannot be raised until lease expires. If we are asking for a match from the business owner or property owner, negotiated between the two of them, we need to keep to improvements of building that are not specific to the business itself. If we keep to health and safety and codes of the building, that way if the business moves, the money spent was not wasted because the building is up to code. Ms. McFarland states if we are appropriately taking risks there will be failures. We need to make sure that the Council has the appetite that if someone defaults, that it is ok; but buildings will be up to code. The Council needs to be aware that if taking risks there will be defaults on some of this but that does not mean that the program is a failure.

Council Member Mount appreciates the discussion and the reason why he brought this up is for the local businesses. The intent is how to stimulate the small businesses. The risk is not in business failure, the risk is in doing nothing for another year. We need to send a message as a Council that the intent is to produce a solution. There is $50,000 in budget and he trusts that the City Manager can find it and he has faith in Ms. McFarland to do it.

Council Member Ash supports the program and it is tangible and easy to explain to constituents. However, Council Member Ash is concerned that there is nothing in writing as it is being discussed and the budget is already tight. She also feels that helping one to three businesses is great but are there other services or projects that we can invest in now to make Sierra Vista more business friendly for all businesses; i.e., obtain business licenses on line, pamphlet about how to start a business and that is something that the community had been asking for. She questions if there are programs that can be further invested in with partnerships with Chamber of Commerce or SVBC and is that money better spent doing direct services.

Council Member Huisking states “never going to know if we don’t try” and generally if we go with something like this there are things to worry about but it would be proactive for Sierra Vista. Any program that just starts have bumps in the road and solutions come out of it. She states that Council Member Ash is on the right track but it is a combination of things.

Council Member Ash states that the City could give grants to people but if the internal process is not good when is that going to be implemented and building those things within our internal process is important. Mayor Mueller states to look into business licensing on line. There are other items to look at and they are not high cost items for the budget.

Council Member Mount states the number one thing that kills any project is scope creep. What we need more than anything is a project that generates businesses, jobs, and revenue. We are not going to get that by building more processes within a layer of government or non profit. We need people making money at this point and that funds all of this. If we could scrape another $20,000 out of budget to do what Council Member Ash wants, then great. Set the conditions, make it easy for people to execute and then stay out of the way and not burden them with a lot of worrisome stuff. There will be risks, but if we don’t get started then we will never know.

Council Member Gray stated they both have the right ideas but doing them simultaneously and no matter how business friendly Sierra Vista is, some will say that we are not. If we are improving these processes and at same time using grant funds to do code improvements, then that helps to free up money to hire 1-2 additional employees. Then we are improving our economy and in turn helps give revenue to be able to implement better processes.

Council Member Calhoun stated that these two comments go together. Facilitating permits and licenses on line doesn't sound like a costly process. It sounds like something that has been talked about in the past and may already be in the works. The other piece we have no control over and but what we need to do and that is have a conversation with property owners. The thing that she hears the most from residents is that the rent in Sierra Vista for commercial buildings is high as Phoenix and Tucson and Canton, Ohio. She questions the possibility of the City getting together with property owners and managers and find out (even though it is difficult economic times) about spacing the rent in this community.

Council Member Mount agrees and before handing out money we need to look at places that are willing to work with these candidates. It is just a matching game and if we open discussions and appeal to the better nature of people who have a stake in it then we can lift things up a little bit. It is conversations and networking. People can network. Council Member Mount is looking for an opportunity and a glimmer of hope to try this out and people will follow.

Ms. McFarland added to Council Member Calhoun stating they are reaching out to property owners and sent them snail mail and notices when doing the business walk. A lot of times they don't respond because they are not local. Ms. McFarland is working with the brokers and property managers in a lot of different ways. They are meeting with them and providing updates and tools and listening to their challenges.

Mayor Mueller states when talking about brokers; they are not the decision makers. Council Member Calhoun advises that brokers can speak on City's behalf. Council Member Gray states that they are because they don't want the buildings vacant. Council Member Calhoun was informed that there is some advantage to have empty building for the property owner and that is not helpful to the community. Another point is the vacancy tax. Council Member Gray advises that it is a state law and they don't allow it in AZ.

Council Member Huisking asks the question concerning high rents and believes the grant could incentivize building owners to rent that property and create competition for buildings gradually filling up with viable businesses. How much of a benefit tax wise is a vacant building when it could be filled with a business.

Ms. McFarland thinks that part of the way property owners are looking at this is that their cost basis is so low. They have owned the building for so long and in order for them to come in and add this amount of money to bring the building back up to code is to raise the rent so high that it makes sense financially. If the cost basis were higher and they had the carrying cost every month, then they would be more motivated to put someone in that building. But if you own a property that is free and clear and you had to put another $50,000 into it, you need to make sure you cover that net when you rent it back out. So that is a reason why the lease rates are so high. They haven't continued to do maintenance on these properties and to put somebody in there is high and that is the problem. This grant would help to alleviate some of these things.

Council Member Gray states there could be some negotiation for tenant improvements. There are ways to do that, but she doesn't personally believe that the City should be involved in controlling rent rates, it is market driven.

Council Member Ash supports the Council and the program and believes it will work very well. Her preference is to focus on the west end, and buildings on Fry Boulevard and on Wilcox.

Mayor Mueller states that unless there is an objection he will direct the City Manager and the staff to develop this program based on lines discussed this afternoon and present to the Council in order to start the program soon after July 1. He advises to look for the $50,000 out of the budget and discuss where it came from in detail on June 23, 2016. No objections.

Council Member Calhoun asks if the Council needs to make suggestions for where money should be moved around. Mayor Mueller reiterates that once staff comes to us with recommendations and that needs to be a part of the discussion.

Discussion regarding Employee Healthcare

Mayor Mueller wants to discuss healthcare and primarily healthcare dependents. Mayor Mueller showed a slide from previous discussion. Notice from last year to this year the subsidies have gone down and we are limited by the grandfather clause and trying to keep healthcare costs. One suggestion by the City Manager as an option is getting down to 50 percent subsidy on employee+spouse, employee+children, employee+family, and retirees+family as a way of money saving device for next year and year after. It will be awhile before getting to 50 percent.

Council Member Gray asks in what regard. Mayor Mueller asks if it is a good idea to announce that over a period of years it will get down to 50 percent to save money so that the employees are aware ahead of time or not do it all.

Council Member Huisking believes the city is already headed in that direction. Mr. Potucek states they have been doing that as a necessity. Council Member Huisking clarifies that they do not have council direction. Mayor Mueller states there is no Council policy that says that we want it to be that way.

Council Member Gray's take on this is that we did the Class Comp study to bring our city employees in line with the market and we do the same thing with insurance. We make it more in line. Just because you work for the government doesn't mean you get a higher subsidy of insurance if that's not what the private market is doing. If we are going to say on salaries we are going to be more in line with the private sector then we need to do the same with insurance.

Council Member Huisking questions on what basis any employee decides to remain with the City or go to the market. Is it because the City has a better healthcare plan or is it because the working conditions are here or the pay is comparable to the market or all of those. Mr. Potucek thinks the City has best plan and that is why most employees stay with the City. The move to firm a level of subsidy sends a message that this is where the City is headed and there will be increases to what employees will have to pay and that will be a Council policy decision. We have been moving that way as a matter of necessity. In terms of people making choices; that there are employees with spouses that have other plans and are covered and there a number different situations and choices an employee can make to cover their healthcare benefits. City's plan is the plan of choice.

Council Member Huisking sees it as a council policy to match the market place. On the other hand, if the City goes in that direction, concerning the retention of quality employees, will turnover be higher or more equal or just a matter of the way we are or how we're going because we cannot sustain it. Mr. Potucek can't say that the health plan benefits or changes in cost in a year could be traced to turn over; pay probably was more the issue for turnover than healthcare.

Council Member Mount comments if we have it in our capacity to take care of those at the bottom end of the pay scale because if we are going to groom people it is cheaper to groom someone along than to find someone midway into their career to replace those employees lost. Council Member Mount agrees with Council Member Huisking on retainability, but is unsure if there is a direct correlation but it is a factor. Council Member Mount thinks this discussion has to be had periodically and the thing driving us is the sustainability of personnel budget and can we sustain it without a series of cuts or increasing taxes. It has to be a balancing act between Economic Development to bring in more revenue. Only way to make it more sustainable is to bring in more revenue from an outside source.

Mayor Mueller says with healthcare and the dependent side specifically the change from 58 percent to 50 percent, 69 to 50 percent, from 60/61 percent, it should be a small amount and it won't change enough for the employee to go off the plan or look for work elsewhere. Mayor Mueller does not have the raw numbers and it may have more impact at the lower scale. Council Member Mount states its worth exploring. Mayor Mueller wants to ask the City Manager to come up with proposal for a policy statement to get down to 50 percent.

Mr. Potucek thinks a good exercise would be to bring in our consultant with actuarial figures and develop a few different scenarios in terms of what those decisions may mean for the future of the plan and the costs. Mr. Potucek thinks he has the data to project out to where they may have to make decision points. The key right now is the fact that we are grandfathered. You will not find what the City has in the market place. Mayor Mueller states if we lose grandfathered status then we will be at the mercy of the market and we will not be able to control that.

Mayor Mueller thinks that is a good way to proceed. Consensus.

Mayor Mueller asks if there are any other issues in relation to the budget. Mayor Mueller thanked the staff for all the hard work and happy birthday to Linda.

Council Member Calhoun requests clarification for June 23rd. Mr. Potucek clarifies that there will be a vote on the tentative budget on the 23rd. There will be an opportunity at the regular work session on 21st, where all the various changes will be presented. The tentative budget sets a cap and any changes made between the time of the tentative budget and a month later in terms of adopting the final budget can only be within that cap. The tentative budget allows for more public input time.

Council Member Mount asks the City Manager if he will show whatever reductions took place. Mr. Potucek will have a detailed memo with all changes made with recommendation in resolution format.

3. Adjourn

Mayor Mueller adjourned the work session at 3:46 p.m.

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Mayor Frederick W. Mueller

Minutes prepared by:

Attest:

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Jennifer Osburn, Administrative Secretary

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Jill Adams, City Clerk