

City of Prescott Fiscal Year 2016 General Fund Budget Mid-Year Adjustments



September 8, 2015



Purpose of Today's Presentation

Review of the Fiscal Year 2016 General Fund Budget, as adopted, and adjustments recommended to be made at Mid-Year (January 1, 2016) to reflect the results of the August 25, 2016, City election ballot questions pertaining to sales tax increments

City Sales Tax Increment Results

August 25, 2015, City Election

Question 2	1% for Streets <i>General Fund not directly affected</i>	PASSED
Question 3	0.55% for PSPRS Unfunded Obligations <i>General Fund dollars will be required to pay all PSPRS costs</i>	DID NOT PASS
Question 4	0.08% for Open Space Acquisition, Maintenance <i>General Fund dollars will be required for maintenance</i>	DID NOT PASS

Question 3

0.55% PSPRS Ballot Measure

Shall the City of Prescott adopt a transaction privilege (sales) tax of fifty-five one-hundredths of one percent (0.55%), the restricted revenue from which shall be dedicated to the payment or funding of payment of the unfunded obligations of the city to the Arizona Public Safety Personnel Retirement Systems, taking effect on January 1, 2016, and continuing until the unfunded obligations of the city to the Systems are paid in full, including any associated financing of said obligations, but ending not later than December 31, 2035?

- 0.55% equates to approximately \$126 per household annually (1/4 the property tax levied for Central Yavapai Fire District service in Prescott Valley and other unincorporated areas)
- Use of revenue restricted to the sole purpose of paying off the City's unfunded PSPRS obligations
- Eliminates these obligations from draining dollars needed to maintain public safety, library and parks
- Preserves funding for quality of life services and amenities – parks, trails, lakes, library, special events
- Stabilizes funding for public safety and avoids service cuts – Police, Fire and Dispatch
- Saves \$40 million in payments to the Public Safety Personnel Retirement System for unfunded liabilities
- Enables timely replacement of public safety vehicles and equipment
- Enables maintenance management of public buildings and facilities
- Retains current funding for development of Airport public facilities
- Prescott will continue to be a desirable destination for visitors whose taxable purchases reduce the cost to residents of City services
- Provides capital for strategic initiatives for economic development and other services
- When the liability is paid, and the tax expires (not longer than 20 years), the capacity in the General Fund remains, without the 0.55% tax being necessary
- Allows necessary time for PSPRS reform without deterioration of local service levels
- The City is actively pursuing legislation related to reform of PSPRS

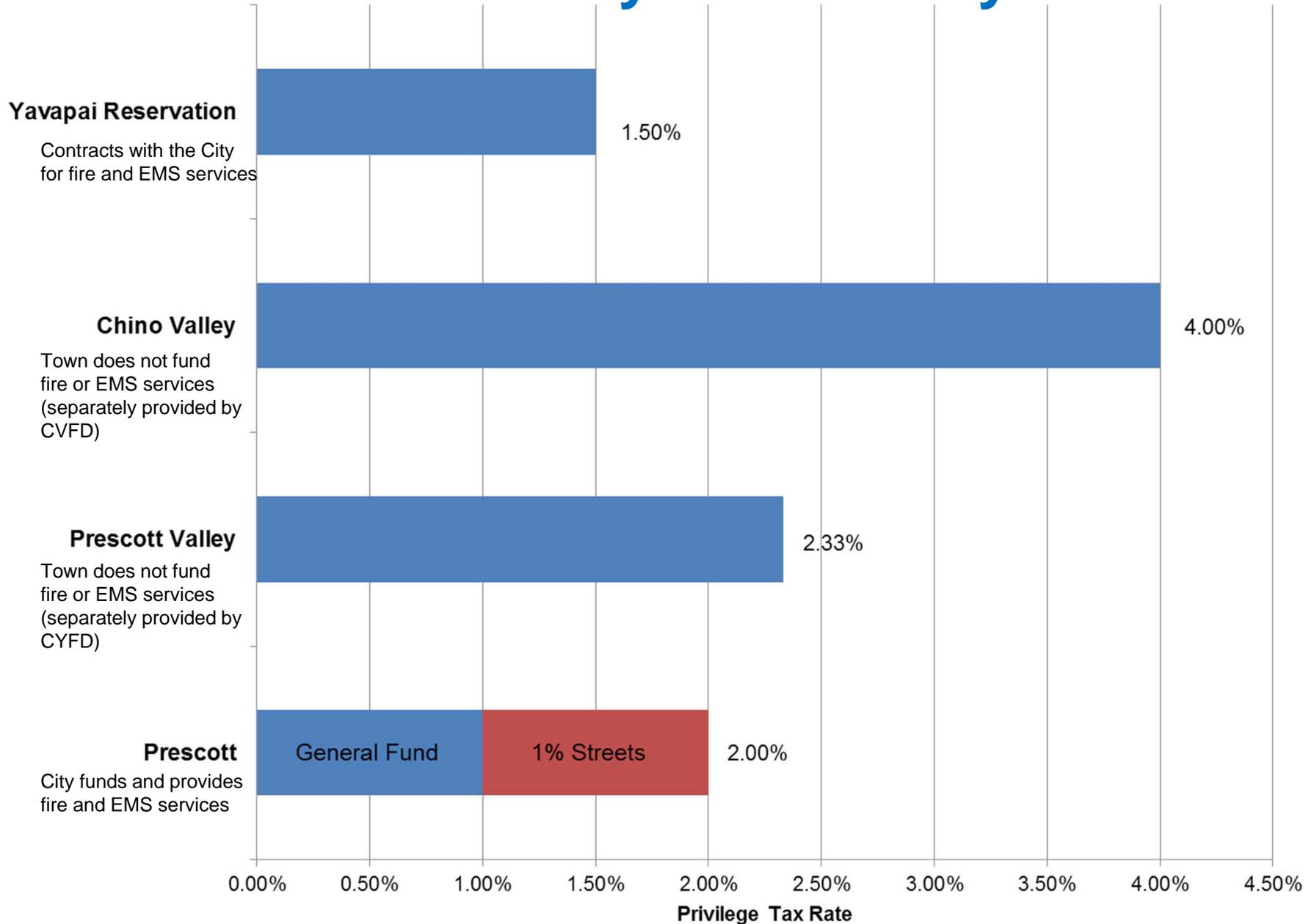
Question 4

0.08% Open Space Ballot Measure

Shall the City of Prescott adopt a transaction privilege tax of eight one-hundredths of one percent (0.08%), the revenue of which shall be dedicated to the acquisition, maintenance, and improvement of open space by the City, with not more than 50% of the accumulated revenue from said tax to be used for maintenance and improvements, to take effect on January 1, 2016, and remain in effect until December 31, 2035; and, if adopted, the accumulation of such tax proceeds shall be in accordance with Article IX, Section 20 of the Arizona State Constitution?

- The current 1.00% Streets and Open Space sales tax expires December 31, 2015, after which there will be no City revenue source earmarked for open space
- The average household will pay approximately \$18 annually for this 0.08% sales tax increment
- Use of revenue from the 0.08% sales tax will be restricted to two purposes:
 1. **Acquisition** of open space
 2. **Maintenance and Improvement** of open space (limited to not more than 50% of accumulated revenue)—these are not permitted uses of the current 1.00% Streets and Open Space sales tax
- Maintenance activities will include projects that promote forest health, keep trails in serviceable shape, improve drainage, and other operational efforts essential to assuring proper stewardship of City-owned open space
- Since 2000, funding from the existing 1.00% combined Streets and Open Space sales tax preserved over \$16 million of property by acquiring tracts of land identified in open space plans; revenue from the 0.08% sales tax will provide a means for managing these tracts and others to be acquired, and improving access to them
- Reinforces Prescott as a desirable outdoor recreation location for residents and visitors
- Provides the capital for strategic open space investments, both for preservation and connectivity to existing trails and recreation areas
- The City will continue to pursue public-private partnerships, property donations, and low or no-cost conservation and trail easements and leases in addition to utilizing the dedicated funds for acquisition of lands identified in the Open Space Master Plan
- The General Plan identifies goals and strategies to help guide expenditures, including public participation, expansion of trails connectivity, and linkages between public and private open space

Sales Tax Rates by Community 1/1/2016

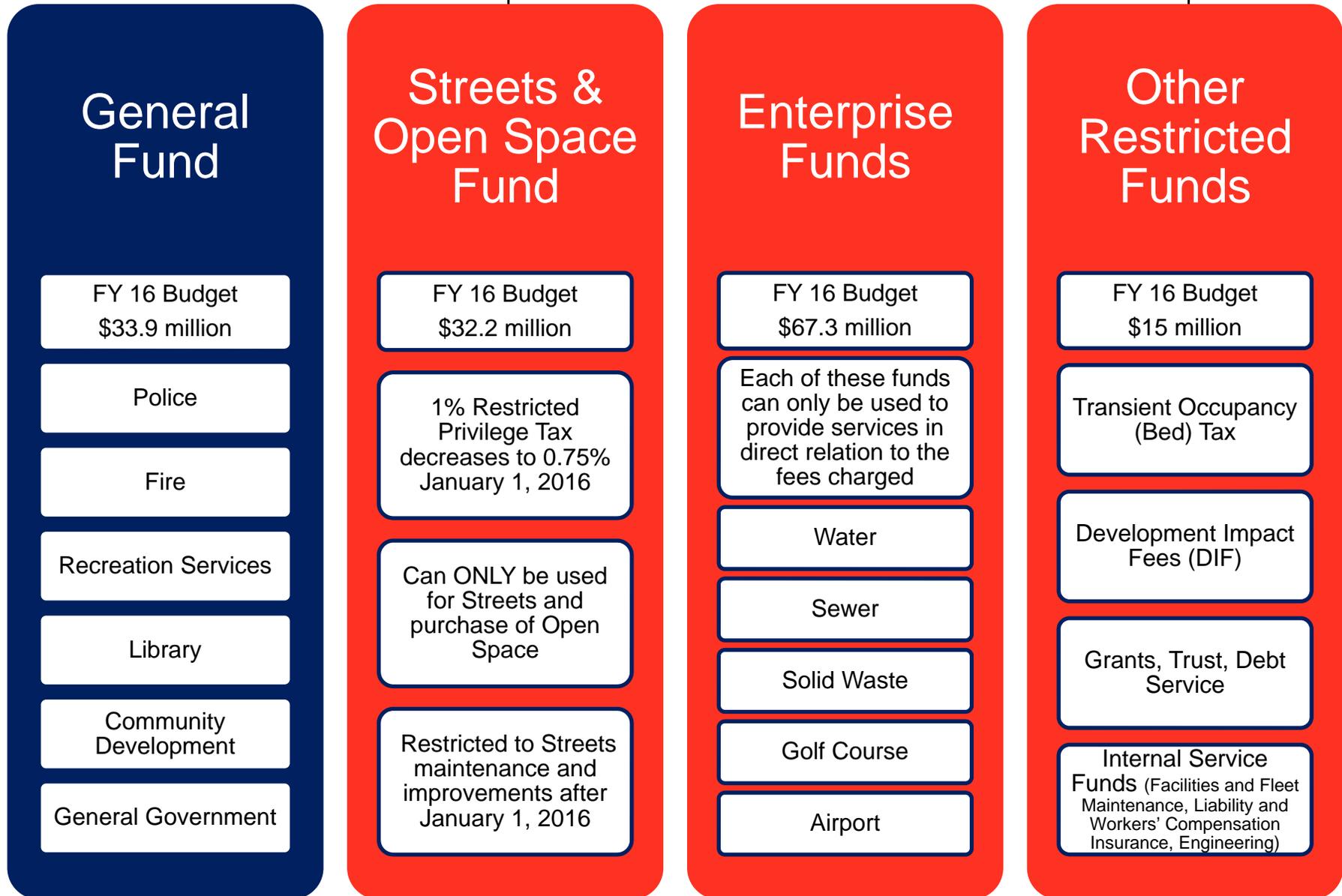


The General Fund

City Funds – Purposes and Restrictions

Expenditures from these Funds are **Restricted** by Purpose

Cannot be used to provide General Fund services



Key Factors Affecting the General Fund

- ❑ City primary property tax only provides 5% of General Fund revenue; minimal increases are allowed annually per state law; over 80% of the collections of tax on property in the City go to the Prescott Unified School District, Yavapai College, and Yavapai County
- ❑ Funding sources and revenue have been under continuous attack by the Arizona Legislature – Arizona cities and towns have few sources left
- ❑ 85% of the General Fund revenue comes from City and state-assessed taxes which have no correlation to service demand
- ❑ The City is precluded by law from charging persons receiving services from our public safety forces
- ❑ The majority of increases in General Fund (and public safety) expenditures in recent years is attributable to steep escalation of state-mandated and determined Public Safety Personnel Retirement System (PSPRS) costs
- ❑ The growing public safety pension costs are severely pressuring City programs and services directly related to the overall quality of life in our community

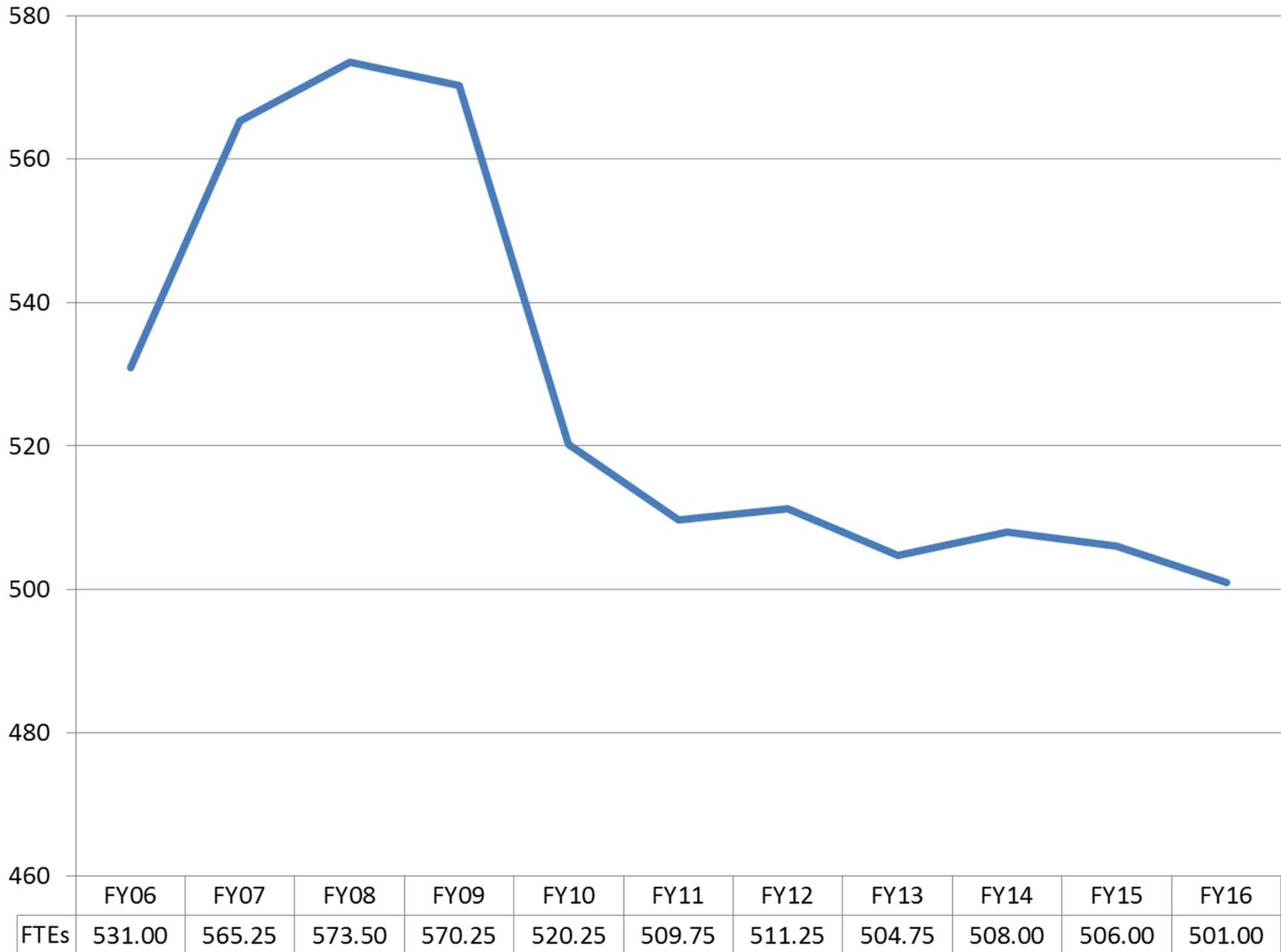
Efficiency and Cost Reductions

Fiscal Years 2008 - 2015

The City has taken many actions to increase revenue and reduce expenditures

- Established user fees
- Pursued entrepreneurial initiatives and public-private partnerships
- Implemented asset and maintenance management systems
- Eliminated unnecessary programs
- Reduced personnel
- A detailed list of actions can be viewed at www.prescott-az.gov “Budget Fiscal Year 2016”

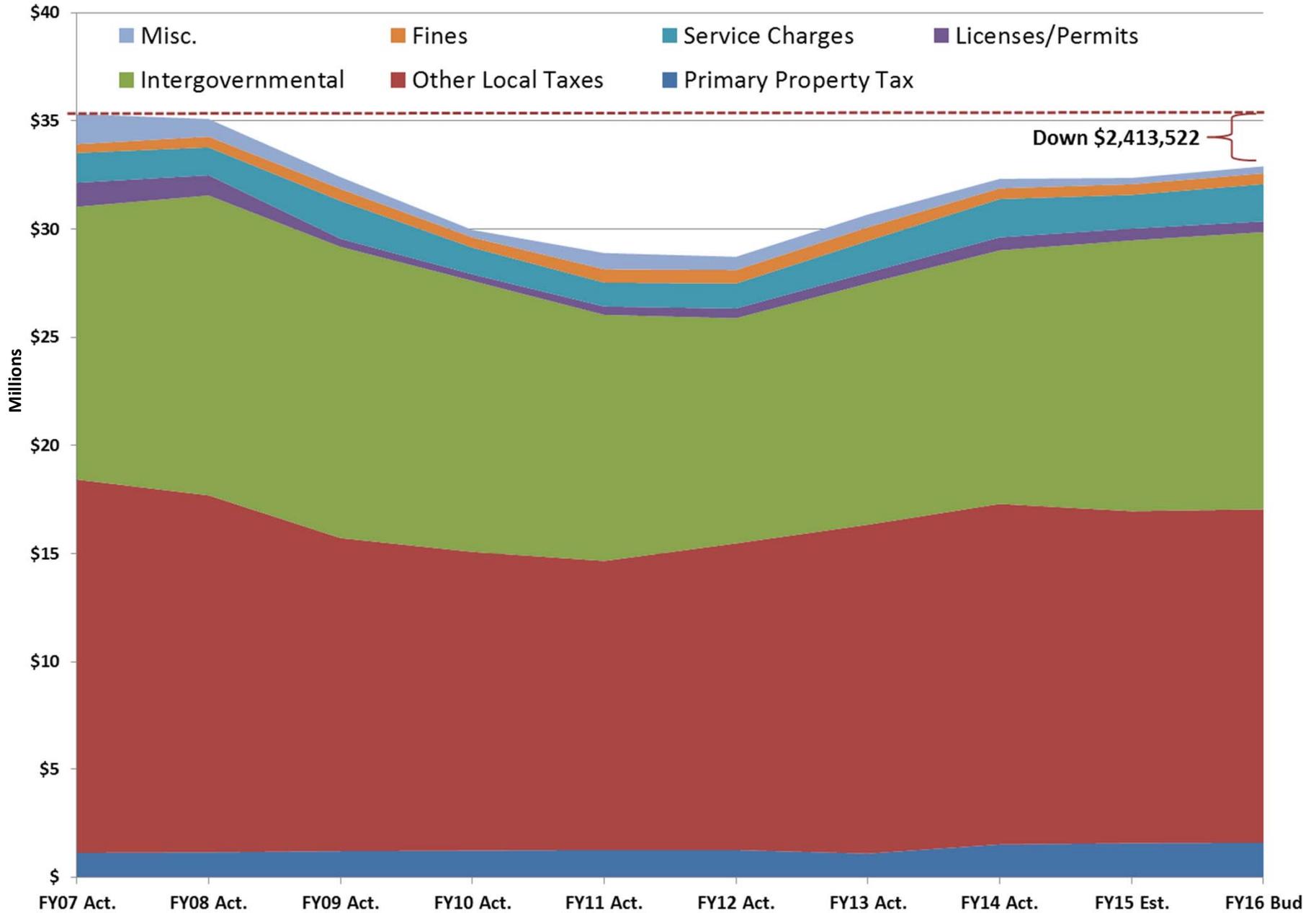
Total Full Time Equivalent Positions



General Fund Revenues

	FY15 Budget	FY16 Budget	Change	% Chg Budget	% of Total
Local Taxes					
Sales/Use Tax	\$ 13,840,000	\$ 13,840,000	\$ -	0.0%	42.1%
Primary Property Tax	1,570,938	1,596,518	25,580	1.6%	4.9%
Franchise Taxes	1,636,000	1,610,000	(26,000)	-1.6%	4.9%
Total Local Taxes	\$ 17,046,938	\$ 17,046,518	\$ (420)	0.0%	51.8%
Intergovernmental Revenues					
State Sales Tax	\$ 3,600,149	\$ 3,806,325	\$206,176	5.7%	11.6%
State Income Tax	4,822,959	4,797,092	(25,867)	-0.5%	14.6%
State Vehicle License	2,199,130	2,361,145	162,015	7.4%	7.2%
Joint Dispatch	1,327,197	1,279,864	(47,333)	-3.6%	3.9%
Library	564,444	567,270	2,826	0.5%	1.7%
Other	357,223	357,423	200	0.1%	1.1%
Total Intergovernmental Revenues	\$ 12,871,102	\$ 13,169,119	\$298,017	2.3%	40.0%
Licenses and Permits	\$ 547,900	\$ 495,600	\$ (52,300)	-9.5%	1.5%
Service Charges	1,201,499	1,364,800	163,301	13.6%	4.1%
Fines and Forfeitures	492,400	498,900	6,500	1.3%	1.5%
Miscellaneous and Interest	292,300	322,300	30,000	10.3%	1.0%
Total General Fund Revenue	\$ 32,452,139	\$ 32,897,237	\$445,098	1.4%	

General Fund Revenues FY07-16



Property Tax Rate Comparison – Residential

Property Tax on \$200,000 Residence Tax Year 2015

TAXING ENTITY	COUNTY			CITY			DIFFERENCE
	PRIMARY	SECONDARY	TAX DUE	PRIMARY	SECONDARY	TAX DUE	
YAVAPAI COUNTY & AHCCCS/ALTCS	388.84	-	388.84	388.84	-	388.84	-
SCHOOL EQUALIZATION	101.78	-	101.78	101.78	-	101.78	-
DEPT OF REVENUE JUDGMENT	2.76	0.40	3.16	2.76	0.40	3.16	-
PRESCOTT UNIFIED SCHOOL #1	352.26	70.54	422.80	352.26	70.54	422.80	-
JTED	-	10.00	10.00	-	10.00	10.00	-
YAVAPAI COMMUNITY COLLEGE	372.12	44.62	416.74	372.12	44.62	416.74	-
FIRE DISTRICT ASSISTANCE***	-	20.00	20.00	-	20.00	20.00	-
YAVAPAI COUNTY LIBRARY DISTRICT	-	30.00	30.00	-	30.00	30.00	-
YAVAPAI FLOOD CONTROL DISTRICT	-	42.32	42.32	-	42.32	42.32	-
CENTRAL YAVAPAI FIRE DISTRICT	-	524.10	524.10	-	-	-	(524.10)
CITY OF PRESCOTT	-	-	-	60.14	2.84	62.98	62.98
TOTAL	1,217.76	741.98	1,959.74	1,277.90	220.72	1,498.62	(461.12)

*** The Fire District Assistance Tax (FDAT) is a state mandated tax, levied on all properties within a county, to provide additional financial support to each fire district in the county. All property owners in the county pay the tax, regardless of whether the property is located within or receiving service from a fire district. Revenue from the tax can be used for all maintenance and operations as well as to repay general obligation bonds.

Property Tax Rate Comparison - Commercial

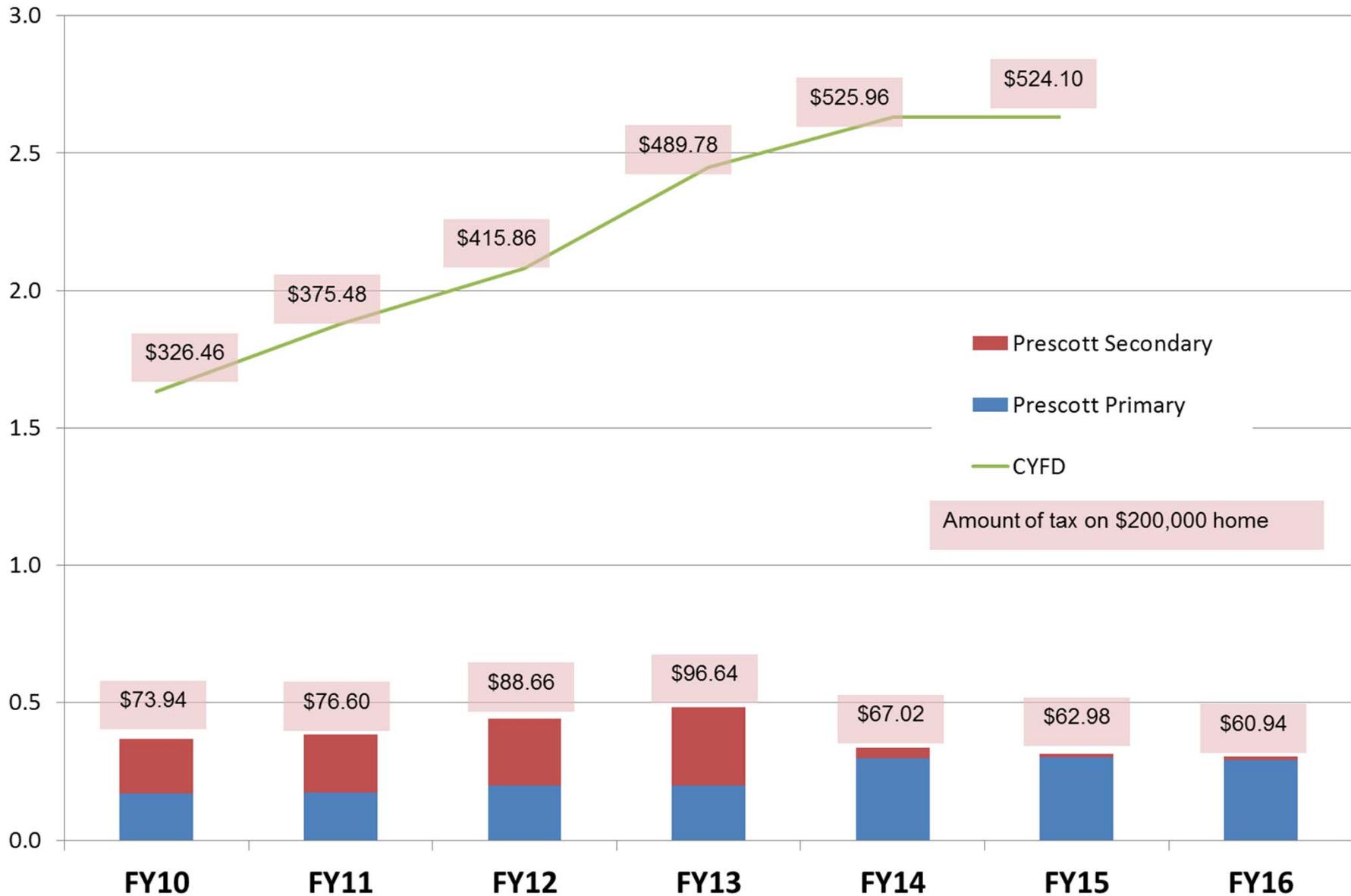
Property Tax on \$200,000 Commercial Tax Year 2015

TAXING ENTITY	COUNTY			CITY			DIFFERENCE
	PRIMARY	SECONDARY	TAX DUE	PRIMARY	SECONDARY	TAX DUE	
YAVAPAI COUNTY & AHCCCS/ALTCS	719.35	-	719.35	719.35	-	719.35	-
SCHOOL EQUALIZATION	188.29	-	188.29	188.29	-	188.29	-
DEPT OF REVENUE JUDGMENT	5.11	0.74	5.85	5.11	0.74	5.85	-
PRESCOTT UNIFIED SCHOOL #1	651.68	130.50	782.18	651.68	130.50	782.18	-
JTED	-	18.50	18.50	-	18.50	18.50	-
YAVAPAI COMMUNITY COLLEGE	688.42	82.55	770.97	688.42	82.55	770.97	-
FIRE DISTRICT ASSISTANCE***	-	37.00	37.00	-	37.00	37.00	-
YAVAPAI COUNTY LIBRARY DISTRICT	-	55.50	55.50	-	55.50	55.50	-
YAVAPAI FLOOD CONTROL DISTRICT	-	78.29	78.29	-	78.29	78.29	-
CENTRAL YAVAPAI FIRE DISTRICT	-	969.59	969.59	-	-	-	(969.59)
CITY OF PRESCOTT	-	-	-	111.26	5.25	116.51	116.51
TOTAL	2,252.86	1,372.66	3,625.52	2,364.12	408.33	2,772.45	(853.07)

*** The Fire District Assistance Tax (FDAT) is a state mandated tax, levied on all properties within a county, to provide additional financial support to each fire district in the county. All property owners in the county pay the tax, regardless of whether the property is located within or receiving service from a fire district. Revenue from the tax can be used for all maintenance and operations as well as to repay general obligation bonds.

Fire and EMS – a Valuable Benefit for City Property Owners

Prescott (Total Primary + Secondary) Tax Compared to Only CYFD

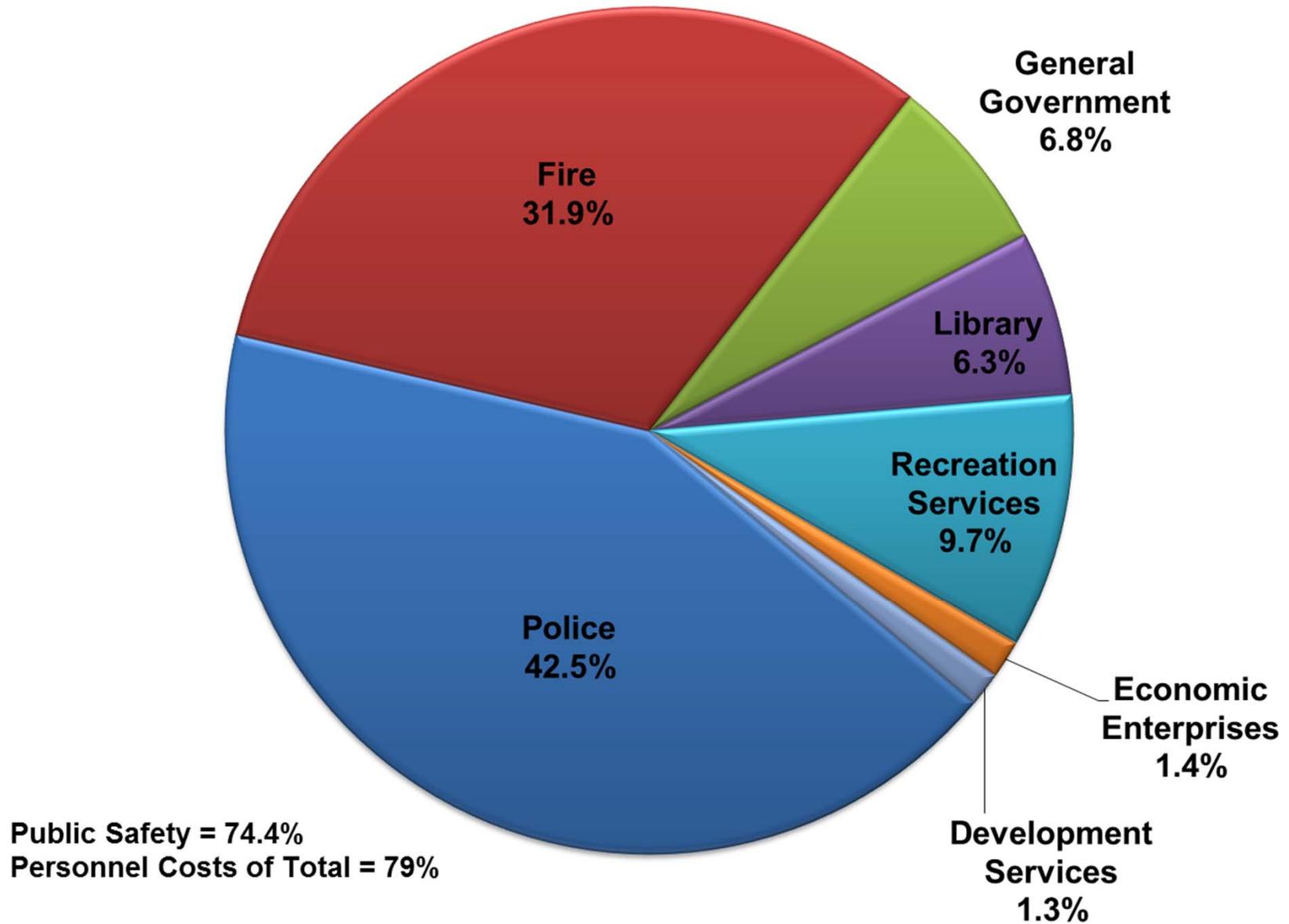


General Fund

Operating Expenditures by Department Less Internal Cost Recoveries

	FY15	FY16	%
	<u>Budget</u>	<u>Budget</u>	<u>Change</u>
City Council	\$ 48,275	\$ 40,761	-15.6%
City Clerk	114,402	121,444	6.2%
City Court	581,411	600,161	3.2%
City Manager (HR, IT, Pub Comm)	582,863	544,568	-6.6%
Legal Department	373,802	329,225	-11.9%
Field and Facilities (Rodeo, Pkg Gar)	102,946	105,386	2.4%
Economic Initiatives (ED, Spec Events)	651,071	473,107	-27.3%
Finance Department	414,125	393,421	-5.0%
Development Services	1,197,172	1,118,073	-6.6%
Recreation Services	3,004,214	3,104,676	3.3%
Library	2,316,955	2,360,794	1.9%
Police Department	12,233,934	12,166,621	-0.6%
Regional Communications	1,431,978	1,279,864	-10.6%
Fire Department	8,910,570	9,186,340	3.1%
Total General Fund Operating	<u>\$ 31,963,718</u>	<u>\$ 31,824,441</u>	-0.4%

FY 16 General Fund Operating Expenditures Net of Program Revenues and Cost Recovery



Pension Costs

The Dilemma of the Public Safety Personnel Retirement System (PSPRS) for Prescott and the Other Cities, Counties and Districts Statewide

- ❑ Prescott's Police and Fire Public Safety Personnel Retirement System (PSPRS) unfunded long-term liabilities currently total \$70 million, and the cost to pay them off is projected to grow to \$165 million over the next 22 years
- ❑ Prescott didn't create PSPRS, but is a member
- ❑ PSPRS is a defined benefit pension which means retirement benefits are based on a formula which includes years of service and salary. It is organized as an agent multiple-employer plan which means all 256 agencies that are part of PSPRS are administered by the retirement system, but accounted for individually (each must stand on its own)
- ❑ Prescott's employer-paid rates for FY 16 are 55.12% for Police and 63.44% for Fire (every dollar paid to employees has to be marked up by these percentages, and paid by the City to PSPRS)
- ❑ This situation is neither the fault of the City nor its public safety employees—we each contribute what PSPRS tells us to—as an employer, we have obligations to our retirees
- ❑ There are legislative and League of Arizona Cities and Towns efforts for “pension reform,” but these won't reduce the growing unfunded long-term liabilities
- ❑ There has been no serious discussion at the state level of bailing out the 256 individual agency PSPRS accounts which in aggregate have \$6.5 billion in unfunded liabilities

History of Increasing City Pension Costs

	ASRS (Employees 426)			PSPRS (Employees 120)		
	City Cost	Increase	Cumulative	City Cost	Increase	Cumulative
			Increase			Increase
FY 2012 Actual	2,001,063			2,466,747		
FY 2013 Actual	2,036,038	34,975	34,975	2,865,213	398,466	398,466
FY 2014 Actual	2,148,797	112,759	147,734	3,151,164	285,951	684,417
FY 2015 Actual	2,142,080	(6,717)	141,017	4,127,508	976,344	1,660,761
FY 2016 Budget						
Actuarial Rate	2,267,296	125,216	266,233	5,478,274	1,350,766	3,011,527
Phase-in-Rate				4,566,657	439,149	2,099,910

ASRS = Arizona State Retirement System

PSPRS = Public Safety Personnel Retirement System

Phase-in Rate = An alternative that was offered in 2015 by PSPRS to spread the impact of a sharp increase in actuarial costs to employers over FY 2016, FY 2017, and FY 2018

FY16 Pension Costs and Increases

	<u>FY 15</u>	<u>FY 16</u>	<u>Increase in</u>	<u>Estimated</u>	<u>Estimated</u>	<u>Estimated</u>	<u>Estimated</u>
	<u>Rate</u>	<u>Rate</u>	<u>Contribution</u>	<u>Increase in</u>	<u>FY 16 Budget</u>	<u>Change per</u>	<u>Annual Cost</u>
			<u>Rates</u>	<u>FY 16 Budget</u>	<u>Amount</u>	<u>Employee</u>	<u>per Employee</u>
Az State Retirement System (Employees 426)							
City	11.60%	11.47%	-0.13%	\$ (26,000)	\$ 2,335,063	\$ (59)	\$ 5,480
Employee	11.60%	11.47%	-0.13%			(59)	5,480
Public Safety Retirement System							
Fire (Employees 53)							
City Actuarial Rate *	59.66%	74.49%	14.83%	\$ 659,585	\$ 2,698,578	\$ 9,563	\$ 48,035
City Alternative 3 year phase-in	59.66%	63.44%	3.78%	238,334	2,277,327	2,438	40,909
Employee	11.05%	11.65%	0.60%			387	7,513
Police (Employees 67)							
City Actuarial Rate *	50.27%	66.97%	16.70%	\$ 691,181	\$ 2,779,696	\$ 10,356	\$ 41,527
City Alternative 3 year phase-in	50.27%	55.12%	4.85%	200,815	2,289,330	3,007	34,179
Employee	11.05%	11.65%	0.60%			372	7,224
Total Actuarial Rate *				<u>\$ 1,324,766</u>	<u>\$ 7,813,337</u>		
Total Alternative 3 year phase-in				<u>\$ 413,149</u>	<u>\$ 6,901,720</u>		

Note*

The large increases resulted from repeal of certain aspects of SB1609 related to the Permanent Benefit Increase (PBI). The City opted for the 3-year phase-in of the large increases offered by PSPRS.

Projected FY17 – FY 21 Pension Costs and Increases

	PSPRS 3-Year Phase-In			PSPRS Non 3-Year Phase-In		
	Total PSPRS Contribution	Increase from Previous Year	Increase from FY16	Total PSPRS Contribution	Increase from Previous Year	Increase from FY16
FY17	\$ 5,214,254	\$ 647,597	\$ 647,597	5,730,250	\$ 1,163,593	\$ 1,163,593
FY18	6,012,799	798,545	1,446,142	5,959,460	229,210	1,392,803
FY19	6,253,311	240,512	1,686,654	6,197,838	238,378	1,631,181
FY20	6,503,444	250,132	1,936,787	6,445,752	247,914	1,879,095
FY21	6,763,581	260,138	2,196,924	6,703,582	257,830	2,136,925

Note 1: These are projections. PSPRS is completing the FY 2015 actuarial with specific actuarial assumptions. The final rates for FY 2017 will be set as part of the FY 2015 PSPRS actuarial, which is anticipated in November 2015.

Budget Reductions

General Fund

Candidates for Fiscal Year 2016 Reductions Effective 1/1/16

(Additional cuts will be required in Fiscal Year 2017)

Recreation Services

- Reduce service levels for tournaments – loss of tournaments and sales tax revenue
- Close some facilities – negative impacts to tourism and quality of life
- Increase user fees –negative impacts to tourism and quality of life

Library

- Reduction of personnel
- Reduction in hours open
- Reductions to programs, services, materials, periodicals, databases
- Increased wait times for library materials and services

Fire

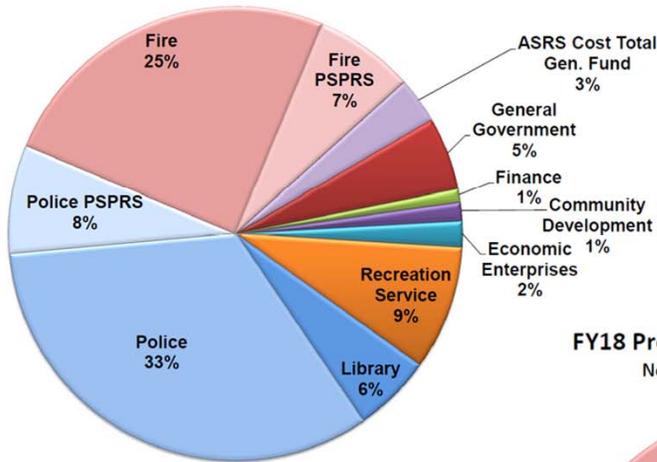
- Brown out fire station (restrict hours and/or reduce staffing level) – diminish response to multiple events and eventually impact ISO (insurance) rating
- Reduced support of Airport operations – possible impact to Essential Air Service
- Eliminate staffing of one engine (effectively close a fire station) – adverse to mutual aid agreements and Citywide increase in commercial insurance rates

Police

- Reduction of personnel
- Reduced response, enforcement, community programs and services

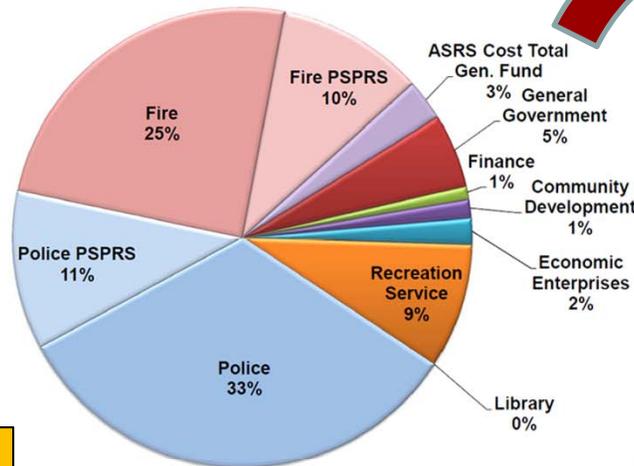
Cuts Required to City Services and Amenities in the Absence of New Revenue to Pay Off Unfunded Public Safety Pension Obligations

FY15 General Fund Operating Budget
Net of Program Revenues and Cost Recoveries

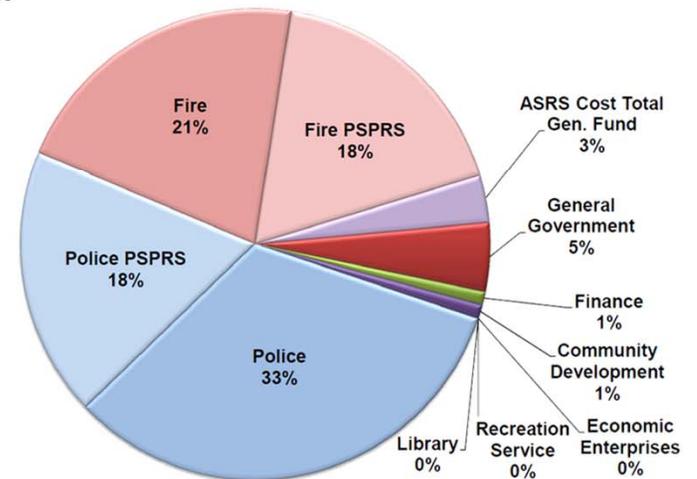


In Year 18 (2033), four years before the present \$70 million of unfunded public safety pension obligations is required to be eliminated, if no new revenue sources are provided, the annual debt obligation payment will have increased by \$6.15 million. By then, to make the annual payments, public safety services will have been reduced; and funding of other quality of life services and amenities will have ceased years before. During the remaining four years (until 2037), even more reductions in public safety personnel and services will be necessary.

FY18 Projected General Fund Operating Budget
Net of Program Revenues and Cost Recoveries



FY33 Projected General Fund Operating Budget
Net of Program Revenues and Cost Recoveries



In the next 24 months, without voter approval of the proposed 0.55% sales tax to pay off the City's unfunded public safety pension obligations, \$1.8 million in operating expenses will need to be cut – this amount is equivalent to annual City funding of the Prescott Public Library.

Budget Adjustment Considerations

- ❑ Preservation and Enhancement of Revenue
 - ❑ Tournaments hosted by Recreation Services generate bed and sales tax revenue
 - ❑ Library performance and hours of service dictate amount of shared funds from Yavapai County Free Library District and State Library
- ❑ Mandated Services Must Be Preserved
 - ❑ Financial reports and an annual audit must be completed and filed with the State
 - ❑ Agendas and minutes must be completed and posted timely to comply with Open Meeting Laws
 - ❑ Reports must be created, maintained, and filed with the Federal Government with regard to Affordable Care Act mandates
- ❑ Reductions to Cost-Recovered Departments Less Effective
 - ❑ Internal services often viewed as “overhead” are significantly funded from non-General Fund Revenue based on service provided
 - ❑ Reducing administrative positions in cost-recovered departments may only benefit the General Fund by 26%: four positions must be cut to save the cost of one
- ❑ Other Considerations
 - ❑ The City must be competitive in the market to retain and attract capable personnel to effectively and efficiently deliver services to our community
 - ❑ Contractual obligations to maintain grant funds or other revenue streams

Longer-Term Operational Discussions

- ❑ Regionalization of library services in partnership with Yavapai County Free Library District
 - Limitations and current structure
 - State requirements remain for access to State funding/databases
- ❑ Public safety response models/alternatives including regional partnerships
 - Joint Powers Authority (JPA)
 - Inequity in funding options for a city vs. fire district
 - Voter approval to create or join a fire district
 - Increase reliance upon Sherriff's Office
- ❑ Parcel fees/charges for public safety services
 - House Bill 2378, approved in 2014, prohibits a municipality from levying a tax for public services on property based on the size or value of the property
 - This preemptive legislation was a response to a parcel fee instituted by Paradise Valley for fire prevention and control services

Process for Implementing Budget Reductions in Fiscal Years 2016 and 2017

09/01/15	Executive Session Liability Aspects of Service Level Reductions
09/08/15	Today's Presentation of Background and Approach
10/06/15	Presentation by General Fund Department Heads of Draft Reductions in Expenditures, Revenue Enhancements, and Impacts to Services
November	PSPRS to Release Updated Actuarial Costs for Fiscal Year 2017
11/03/15	Discussion of Cost Reduction Proposals
11/10/15	Discussion/Direction re Cost Reduction Proposals
01/01/16	Fiscal Year 2016 Mid-Year Budget Adjustments Effective
January 2016	Fiscal Year 2017 Budget Process Begins – Additional Expenditure Reductions Required; Employee Classification, Compensation and Pay Plans to be Addressed
June 2016	Adoption of Fiscal Year 2017 Budget