

**\*PLEASE NOTE: Since the Glendale City Council does not take formal action at the Workshops, Workshop minutes are not approved by the City Council.**



**MINUTES OF THE  
GLENDALE CITY COUNCIL WORKSHOP SESSION  
Council Chambers – Workshop Room  
5850 West Glendale Avenue  
June 19, 2012  
1:30 p.m.**

**PRESENT:** Mayor Elaine M. Scruggs, Vice Mayor Steven E. Frate and Councilmembers Joyce V. Clark, Yvonne J. Knaack, H. Phillip Lieberman, and Manuel D. Martinez,

Councilmember Norma S. Alvarez participated by telephone.

**ALSO PRESENT:** Horatio Skeete, Acting City Manager; Craig Tindall, City Attorney; and Pamela Hanna, City Clerk

1. **AMEND CITY TAX CODE BY ADOPTING LOCAL OPTION V TO THE MODEL CITY TAX CODE TO IMPLEMENT A TWO-LEVEL TAX STRUCTURE ON ITEMS OVER \$5,000**

Diane Goke, Chief Financial Officer, and Sherry Schurhammer, Executive Director, Financial Services, presented this item.

This is a request for City Council to consider options for an adjustment in the amount of the sales and use tax rate on single retail items over \$5,000 that was adopted as part of the Fiscal Year (FY) 2012-13 budget. These options would require adoption of Local Option V of the Model City Tax Code to tax sales for any single retail item exceeding \$5,000. The effective date to implement this option would be August 1, 2012.

On May 22, 2012, Council adopted a preliminary budget for FY 2012-13 which included an increase to the privilege (sales) and use tax rates to 2.9% for select categories. Increasing these select rates by seven-tenths (.7) of one percent is expected to raise approximately \$23 million for the General Fund in FY 2012-13.

Since presenting the increase of the privilege (sales) and use tax rates to 2.9% for select categories, staff received input from the local business community, including the Glendale Chamber of Commerce, requesting the city explore implementing an alternative tax rate similar to other West Valley cities. Given the close proximity of Glendale's local businesses to competitors in other cities with this alternative tax structure, the concept of an alternative tax rate for single-item purchases was investigated. The Model City Tax Code provides for such an option, Local Option V, and other local cities have used this option to remove or reduce competitive disadvantages to their business community.

Staff concluded Council has four options to consider regarding an alternative tax rate for single retail large ticket item purchases. The options are as follows:

- Apply the proposed increase of seven-tenths (.7) of one percent as originally presented in the June 12, 2012 meeting thereby leaving the rate at 2.9% for single-item purchases;
- Implement a rate of 2.2% for single-item purchases exceeding \$5,000;
- Implement a two-tiered tax structure for single-item purchases with a rate of 2.5% for first \$5,000 and 2.2% applied to the remainder; or
- Implement a two-tiered tax structure for single-item purchases with a rate of 2.9% for first \$5,000 and 2.2% applied to the remainder.

A review of the impact on revenue projections indicates the potential loss of revenue associated with the second, third and fourth bulleted options for single-item purchases, as noted above, could be estimated at \$900,000 to \$1.1 million. Businesses only submit gross sales in total, not individual transactional details, on their sales tax returns. Consequently, the amount of sales at businesses in Glendale that are attributable to single-item purchases of \$5,000 or more is not available.

Staff recommends adopting a local option to the city tax code that effectively adjusts the privilege (sales) and use tax rates by seven-tenths (.7) of one percent from 2.9% to 2.2% for single-item purchases exceeding \$5,000. This action is expected to mitigate the potential for some consumers to change their shopping habits for more expensive single-item purchases especially as compared to the flat 2.9% rate.

In the event Council chooses to move forward with the adoption of Local Option V of the Model City Tax Code, public notice was posted in the Glendale Star on May 31 and June 7, 2012 for a public hearing to occur on June 26, 2012 and would take effect on August 1, 2012.

On June 12, 2012, Council adopted an ordinance amending Glendale City Code Chapter 21.1 to 2.9%, a seven-tenths (.7) increase for select rates.

On May 22, 2012, Council adopted the preliminary budget for FY 2012 -13.

At the April 23, 2012 Budget Workshop, staff presented the City Manager's Recommended Budget for FY 2012-13 that reflected the input Council provided during the eight budget

workshops. The recommended budget called for a seven-tenths (.7) increase to the privilege tax rate.

Adopting Local Option V of the Model City Tax Code will allow the city to capitalize on the recovering economy, while encouraging large purchases within the city. This lesser sales and use tax rate associated with single-item purchases of more than \$5,000 will further encourage local spending to the benefit of the city.

Staff is seeking guidance from Council regarding which option to proceed with as an adjustment in the amount of the sales and use tax on single-item purchases exceeding \$5,000. The effective date to implement any of these options would be August 1, 2012.

Horatio Skeete, Acting City Manager, provided the introduction. He said staff is seeking guidance from Council regarding which option to proceed with as an adjustment in the amount of the sales tax two-tier system and the use tax on single-item purchases exceeding \$5,000. Last week, City Council adopted its 2012/13 budget with a transaction privilege tax sales tax increase. That increase was necessary in order to maintain a minimum level of service. This was discussed extensively during the workshop presentations. Since presenting the increase of the privilege sales and use tax rates to 2.9% for select categories, staff received input from the local business community, including the Glendale Chamber of Commerce, requesting the city explore implementing an alternative tax rate similar to other West Valley cities specifically for single large retail sales items. The business community pointed out the disadvantage the city was creating competitively particularly in the West Valley. Therefore, in order to assist the business community, The Model City Tax Code provides for such an option, Local Option V. Other local cities have used this option to remove or reduce competitive disadvantages to their business community.

Diane Goke, Chief Financial Officer, provided a brief summary explaining several options under consideration.

Councilmember Lieberman inquired as to what Avondale was charging. Ms. Goke stated Avondale's current rate base is 2.5%; however, they have adopted this model Local Option V. Councilmember Lieberman noted he recently made a major purchase in Avondale over the weekend and the rate was 2.9%.

Mayor Scruggs said maybe over in Avondale they only have their car rate for auto dealers but you are saying that if he had gone to Cabelas', like he should have to make the purchase, that if something is purchased at Cabelas' there would also be the lower rate if the purchase over \$500 not just at car dealerships.

Ms. Goke explained the information provided was if the purchase is \$5000 and above, the rate is 1.5% across the board.

Mayor Scruggs questioned over in Avondale you mean? Ms. Goke replied yes.

Mayor Scruggs said she read in one of the letters from Sands Chevrolet that it's 1.2% in Goodyear.

Ms. Goke explained that on the third option, taxing the first \$5000 at 2.5% and the remainder at 2.2% it is an impact to the General Fund of \$1 million and to the taxpayer an impact of \$15 million. The fourth option is 2.9% for the first \$5000 and 2.5% for the remainder of the purchase. That would impact the General Fund by \$900,000 and the taxpayer by \$35 million.

Mayor Scruggs said that's kind of surprising that such a little difference, she would have expected the differences to be greater on the different rates.

Councilmember Clark summarized that on a dollar they currently pay 2.2 cents. The 7/10<sup>th</sup> increase will increase that to 2.9 cents. She said on \$10 they currently pay .22 cents and the increase will be to .29 cents for a .7 cent increase. She continued that on \$100 they currently pay \$2.20 and with the new rate it will be \$2.90 for a .70 cent increase and so forth. She said that on \$5000 which seems to be the cutoff point, they currently pay \$110 in tax and will increase to \$145 for a \$35 dollar increase. She explained that up to the \$5000 line, they were basically talking about a \$35 difference in tax.

Ms. Goke continued her slide presentation. She said the option staff was recommending is the 2.2% rate since they believe that was the least amount of impact on the consumers in the area. She stated staff has been very busy getting all departments together to come up with some cuts to cover the possible \$1.1 million impact to the budget.

Councilmember Lieberman commented on several car dealership owners being present today. He noted one dealer disapproves of any increase and threatens a referendum and the other agrees with staff recommendation.

Mayor Scruggs said Mr. Sands likes the one that staff is recommending. His letter is from June 18<sup>th</sup> to Mr. Skeete with copies to all of us stating in part...wanted to assure you and Council that we wholeheartedly endorse your recommendation to exempt purchases of \$5000 or more from the city's tax". She questioned he likes option 2 that Ms. Goke said staff is recommending. Correct? Ms. Goke said she was correct.

Mayor Scruggs said Glendale businesses are still absorbing a huge tax increase. She didn't know who remembered when the city was working with Mr. John Lund and putting together a development agreement – there is a huge amount of their income that comes from parts and service and so forth. So it's not like the car dealers would be getting off with no tax increase because they have a huge revenue stream – she didn't know how profitable it is. If they sell a car, their profit can be somewhere between \$25 and \$50, that's it. At least, that is what she'd heard from these folks. So it's not like they don't have a loss; they are going to be paying a lot more or charging a lot more in taxes so they still have a lot of their business at risk – quite honestly. She knew some people think nobody is going to travel somewhere to pay less tax, she didn't agree.

Councilmember Martinez asked to review some things about the budget that have occurred up to this point. He explained there had been difficulties with the budget for the last four to five years. He stated that in 2008, their General Fund (GF) balance peaked at \$184 million. This year it was \$138 million, a decline of \$46 million or 25%. He noted that in 2010 their budget shortfall was \$14.4 million, in 2011, \$31.6 million, 2012 \$27.1 million and for next year it will be \$35 million. He explained that many steps have been taken to address these shortfalls including furloughs, service cuts, and layoffs. He noted state shared revenues have also declined as well as building permits and impact fees. He said the housing market devaluation has also hurt the city's revenues greatly. He mentioned the eight workshops Council and staff went through in order to find ways to balance the budget. He commented on the meeting he and Councilmember Knaack had with members of the Chamber's Executive Board and Mr. Rinehart to discuss the two-tier system for the sales tax. After their meeting, they both thought this was something worth pursuing and immediately brought this to Mr. Skeete's attention.

Councilmember Martinez noted a few facts about the city's finances and their operating budget. The city's operating budget is \$347.7 million and that is what pays for the day to day operations. The Capital Improvement Projects budget (CIP) is \$106.2 million, the debt service is \$86 million, and contingency fund is at \$39.1 million. At the last meeting, several people threatened a referendum should this sales tax increase pass. He would like to explain to them what would happen if the referendum were to pass. He stated the city would be faced with a \$23 million shortfall with no way to make it up. He said the only other way to make up the shortfall was to draw from operations which might mean cuts in police, fire and parks and recreation which were the largest budgets. He asked Mr. Skeete to expand on the situation.

Mr. Skeete noted the discussions staff and the Council had over the last three months on what can be cut and what should be kept. He agreed with Councilmember Martinez on the two areas that had the largest budgets that will have to be looked at for additional cuts. He said if they were presented with a scenario where the city cannot raise the additional sales tax revenues because of a referendum, then everything will be on the table. He does not believe they can continue to offer the same kind of services to the public and still cut \$23 million from the budget. Additionally, they will not be able to pay the arena management fee of \$17 million as well and have the potential consequences of not being able to pay it per their agreement. He said he does not see where staff and Council can seriously consider cutting \$23 million out of the operating budget next year. He explained that every one of those cuts from here on out, are going to have specific and very clearly defined consequences. He noted the consequences will possibly impact streets, parks, and safety. Also important to note, the proposal also includes looking at possibilities of refinancing some of the existing long term debt which will also have an impact without a balanced budget.

Councilmember Martinez commented on the arena management fee of \$17 million and its impact on the budget. He explained that even without this deal, the city will still have to pay an average of \$10 million to operate the arena. Therefore, this impact to the city was not only because of the arena management fee the city had approved. He expressed his concern with possibly having to close fire station and libraries in order to reach the \$35 million shortfall. He was not trying to

scare anybody but had thought long and hard as to where they would get the money and it would have to be services. He stated that was the reason why this sales tax increase was so important. He reiterated this was something none of them wanted to do but it was necessary since there were no other choices. Mr. Skeete said he would like to caution everyone about the potential consequences for a referendum and the possibility of cutting \$23 million. He noted that a year ago, they did not think they could take \$9 million out of the budget; however, they were able to do so without totally eliminating any specific service during that process. He cautioned about making any comments of what can happen if the referendum should occur since they were only guesses. He has a lot of confidence in staff's ability should that happen and the city is faced with that predicament. He was confident staff will be prepared to bring options to the table, however it will be a difficult process and not all will agree with the recommendations since they will be suggesting additional cuts in service that were already at their limit. He noted that the process would be difficult and services would have to be reduced or cut. However, he wants to make sure they do not create a situation where they set themselves up for an argument that they cannot win. He reiterated that it was important they recognize the danger and perils they would be in if they had to deal with that situation, however, they should not presuppose what will be surviving that process since that will have to be a very public process. He noted it was a real possibility this could happen but does not want everyone to start acting scared since the city will be prepared to work through the process.

Councilmember Martinez noted he also had a lot of faith in staff. However, he realizes a lot of the departments were down to the bare bones. He indicated he was not trying to use scare tactics but he truly believes it would be a disaster for the city and the citizens of Glendale if this referendum goes through. He believes the city will not be the same city as far as services and will be completely different. He explained they have talked about transparency, therefore, he believes there has to be transparency on all sides. He wanted the public to know that if the sales tax does not go through, not everything will be OK because it will not.

Mayor Scruggs asked since there has been quite a bit of talk about the execution of the arena management agreement; she wanted to know if either Mr. Beasley or Mr. Skeete signed the agreement with Mr. Jamison yet? Mr. Skeete replied no.

Mayor Scruggs said the issue might be settled anyway, if the NHL realizes that the money that Mr. Jamison needs to be able to afford the Coyotes is at risk. Also, if Mr. Skeete or maybe Ms. Goke or Ms. Schurhammer can do some real quick math, out of the \$347 million operating budget, not all is going to the citizens for services because she noticed every project is backed by sales tax, in that same amount.

Mr. Skeete replied yes. However, he stated that every penny in the budget is going to the benefit of the community.

Mayor Scruggs responded exactly but for instance, the beautiful conference center, she would like to suggest Mr. Skeete open up some conversations with the Hammond's Group about them buying what the city owns over there at the Renaissance. Why does the city have to own part of the conference center, why does the city have to own the parking garage, why does the city have

to own the Expo Hall, why does the city have to have \$9.5 million every year? She thought it was about \$9.5 million out of sales tax that goes to pay that debt. Maybe, Hammond's Group would like to be owners of it and that would be a real quick way to start looking at reducing the operating budget. The operating budget, the baseball debt is in there, the Cabelas' debt is in there, she thought the public safety training facility debt was in there, the arena debt is in there. It's not all for services to the community and that's part of transparency too. The city has to own up to the actions that they felt were good ideas at the time and maybe they are not so good now. So when those debts come due and the sales tax is not there, it's got to come from somewhere and she thought that was very important to remember. She continued also in looking at the \$17 million again, she realizes she is on a different page. If a professional manager was hired to run that arena – the city would get the advertising revenues, it would get the concession rent leases, and the city would get everything. A professional manager does not take the revenue as well as the money for operating the arena plus some on top of it. A professional manager operates for a flat fee. That's what they do. And the revenues come to the city. She started the \$10 million thing, because she didn't have all the information. She started asking a year ago; please can Council look at how this might work in another way. Nobody was interested. So little by little it dribbled in as to what professional managers do, they work for a fee. The city would have to cover the expenses but it also gets the revenues. So it's not just a straight subtraction of \$10 million. She remembered when this whole thing started with \$25 million. Council was told at that time that the cost to operate the arena was \$21 to \$22 million. She went out and told citizens at her meetings that it was only like another \$3 million that the city was paying them for their services and it's certainly worth it. Well then that number dropped to \$17 million and then it dropped to maybe \$14 million and it's gone all over the place here. Council has to look not just to this year of \$17 million but look at the next three years with \$20 million and the year after that with \$18 million. She honestly felt that a professional manager would earn the city money but that's another topic – Council is dealing with these people's problem.

Councilmember Clark commented on a discussion she had with Fire Chief Burdick after a budget workshop. She asked him if there was anything more they could cut from their budget. She said he looked at her and asked which fire station would she like him to close. Therefore, that was a real possibility with more cuts. Another point she wanted to make was that AZSTA which manages the University Phoenix Stadium has gone to a flat fee of \$300,000 a year. With that they receive a performance bonus for every event they book which she believes will come in higher than \$10 million.

Councilmember Clark commented on the Monarch Group the Goldwater Institute keeps mentioning in their statements. She said this start-up group has only been in business since April, has no track record and no experience in managing events or bringing events. The only event they were doing was a Tex-Mex event for a Peoria Councilmember. She stated that group wants \$7.5 million from what they are supposed to by paying the Jamison Group. Additionally, they also requested additional capitalization to host 25 events, not the 41 guaranteed by the Jamison deal. The Monarch Group also wants a \$4.50 ticket surcharge. Under the Jamison deal the ticket surcharge was \$2.75. They also want 10% of the booking fee. Therefore, this start-up group was asking for a lot of money for the 25 events they are proposing. She reiterated that the \$17 million was the fee to manage the arena and guarantees 41 hockey nights. She believes Mr.

Jamison was very adept at securing and booking other events. She said she does not believe this was a terrible deal for Glendale since it guarantees a manager for that arena for 20 years and also guarantees that Glendale will not lose millions of dollars and will actually make money on this deal. Therefore, she was still committed to the Jamison Group and the \$17 million lease management fee and believes it was a good deal for Glendale. She agreed with Councilmember Martinez's comments regarding the devastating effects a referendum will cost the city in city services. She restated Mr. Skeete's comment that nothing will be off the table. She stated it was not farfetched to ask the citizens if this referendum succeeds, which services they want to cut since there will indeed be deep cuts.

Mayor Scruggs said remember that she led the charge to retain the public safety tax, and Councilmember Knaack was the chief promoter of the new public safety 4/10<sup>th</sup> of a cent. She stated at that time, she would only do it if it did not tax food. So different things, different solutions at different times, but as bad as the referendum is and as good of an idea as the Coyotes and Mr. Jamison are and all of that— how does Council feel about this two-tier tax issue? Because, this is really what we are suppose to be talking about today. Does Council feel that it is a good idea or do they think that's not a good idea? That's where we need to focus our attention on now.

Mayor Scruggs asked Councilmember Lieberman what he wanted to talk about.

Councilmember Lieberman said he would like to discuss the Monarch Group and the \$7.5 million.

Mayor Scruggs asked and how did they get hooked up with the Goldwater Institute? She didn't understand. All she knows was Councilmember Alvarez wanted her to meet with somebody.

Councilmember Clark explained the Goldwater Institute has quoted the Monarch Group as a model that the city should consider as an alternative lease management group.

Councilmember Lieberman reviewed the figures the Monarch Group provided using the \$7.5 million and the 25 events. He said the figures were for attendance of 13,000 on average for 26 events and that will take in \$930,000. If the city gives them \$330,000 off of that figure that will leave \$660,000. In addition, the group will take 7% for their profit and the rest will go to the city. He explained if the city receives \$500,000 in 20 events, that was \$10 million and will pay almost the entire debt just using 25 nights a year that is owed on the arena for debt service. He noted a good manager works for the city not for himself. He commented on a meeting with Mr. Jamison in Executive Session in which it was clear there were some difficulties completing the deal. He noted the point he was making was that the Jamison Group has failed for one year to complete this transaction on the Coyotes. He believes Mr. Jamison was waiting for the city's payment; however, he will not receive that payment until he buys the team, and that still has not happened. He hopes for the best but in his mind, they can do better hiring a private manager for the arena who will work for the city and himself and turn the profits back to the city of Glendale.

Vice Mayor Frate called for a point of order. He would like to start discussing the matter at hand.

Councilmember Lieberman explained he was only commenting on Councilmember Clark's observations on this matter. He noted the importance of supporting the car dealerships in Glendale.

Mayor Scruggs said she would like to take a moment now to welcome Councilmember Alvarez. She asked Councilmember Alvarez if she could hear the meeting. There was no response.

Mayor Scruggs said she thought this was a good time to get to the topic at hand if everybody's agreeable with that? Yes okay.

Vice Mayor Frate stated his support of staff's recommendation. He believes this option will be beneficial to the city. He was disappointed that one of the car dealers was still moving forward with the referendum even though his business will not be affected. He explained this car dealership owner had a business in Glendale; however, he was not a resident.

Mayor Scruggs asked Councilmembers if they supported staff's recommendation and also support the budget reductions that were shown on the other page, because it's a two-tier approach. So let's go back to the reductions? She asked Mr. Skeete if the city would be closing any fire stations in order to accommodate this reduction in the fire services budget.

Mr. Skeete replied no.

Mayor Scruggs asked him if he could guarantee Council that a fire station wouldn't be closed.

Mr. Skeete replied yes. He said these were simply minor adjustments to the operation budget of the various departments listed.

Mayor Scruggs said she just wanted to bring it up because in one week, less than one week, the staff has found one million dollars. And is anybody being laid off?

Ms. Goke replied no. She said only vacant positions were being eliminated.

Mayor Scruggs said so what she thought Mr. Skeete was trying to tell Council is that there may be other situations that are- she meant in one week to come up with that – that's pretty incredible. She emphasized not every department has a reduction. Mayor Scruggs asked Councilmembers if they were in support of the staff recommendation – 2.2% hold the line on all purchases that are \$5000 or more and the two-tier reductions as proposed in order to accomplish that?

Vice Mayor Frate replied yes. He added he was not pleased with the reductions, however, realizes these reductions have to be done in order to satisfy the businesses. He noted this was the first time he has seen a reduction in the Mayor's office of \$74,000.

Mayor Scruggs said yes, 4.5% of the Mayor's office budget, there was a position that moved and there will be no replacement of that individual.

Vice Mayor Frate said he realizes that everyone will have to work harder and employees will have to multi-task. He commented on the things that will have to be pushed back or not done at all. He questioned the strain the employees were under and how long they can continue at that pace. He said the reason why he voted for the .7/10<sup>th</sup> of a penny was because he wants the organization to be functional and for the next group of elected officials to come in with a little relief. He questioned people driving miles to a neighboring city only to save 7/10<sup>th</sup> of a penny on their purchase. He said they would be spending more money on gas doing that. He remarked it was really easy to say the city can sell that building or that center, however, that would have been a better idea four or five years ago in which they would have probably had made a profit.

Mayor Scruggs said Council asked for it. Councilmember Knaack brought it up three years ago. It was brought up and brought up and it was not provided. The only things that were provided to Council were the ones that were unrealistic. She believed it will relieve a tremendous burden on the operating budget but that was not brought up. But yes Council asked for it, like Council has asked for much more information.

Vice Mayor Frate remarked they should not sell when things were at rock bottom.

Councilmember Clark stated her support for both of staff's recommendations. She said that to compare cuts of \$1 million to cuts of \$23 million was just ludicrous. The \$1 million in cuts were being absorbed by various departments; however, trying to absorb \$23 million will be a far different animal.

Councilmember Martinez asked how many vacant positions were being eliminated to reach this goal of one million. Ms. Goke replied that four vacant positions were being eliminated, however, some still remained.

Mayor Scruggs said at our budget workshops Council had a huge discussion about whether we were going to leave any vacancies, and that was kind of Councilmember Clark's issue. Council did not taking away any critical positions. How many positions were there because, Council went through that entire math and took out the police and the fire and came down to some small number. And the next thing that she read was in a newsletter from the city manager saying that everybody that was being laid off was being offered a position in another department. She didn't even know we had that many positions opened. So 49 people left and they are all going to be offered positions in other departments. So she called Mr. Skeete and said how does that happen? How many positions are there open? Councilmember Clark really led the charge to cut those out for savings, so what is our situation with open positions?

Mr. Skeete explained that at this point, he was not sure how many more vacant positions were created since the last budget cuts. He explained the process the city will be using when vacancies become available. The Human Resources Department will send those vacant positions to him for review before they are filled on a weekly basis starting next week.

Mayor Scruggs asked if Mr. Skeete would let Council know what those numbers are because it seems like it's moving all over the place.

Mr. Skeete replied yes and they will continue to do so.

Councilmember Knaack stated her support for staff's recommendation. She believes this will leave them in the same competitive advantage with Goodyear and Avondale car dealers. She commented on the strain the departments were under in trying to accommodate the cuts in their departments. She remarked on the tight budget Judge Finn currently has to work with. She explained some departments were mandated by law and positions have to be filled by law to keep that department running.

Mayor Scruggs said that was a direction given by Council. That the police, fire and city court were all mandated and they were not to be reduced further. She continued that she didn't believe the city attorney was in the mandated category.

Councilmember Knaack noted the city attorney and city clerk were included in the mandates. She stated the car dealerships were very important to Glendale and believes this whole issue could have been handled differently. She believes the city should have contacted these businesses before getting to this point. She hopes that in the future they will first reach out to the community on issues of this type. She hopes Mr. Kimmerle will reconsider his action of a referendum and realized the city was now trying to be fair.

Councilmember Lieberman stated he will be communicating by telephone on the agenda next Tuesday. He hopes the phones work.

Vice Mayor Frate noted that in an effort to be transparent he would like both Chiefs to address the Council and public on these new reductions.

Mayor Scruggs said she would just like to make a statement. Mr. Kimmerle has been – well some things have been said about him that are less than attractive and she wanted to make sure everyone is aware that the statement of organization or whatever you call it that was filed...

Mayor Scruggs said hello Councilmember Alvarez?

Councilmember Alvarez joined the meeting by phone.

Mayor Scruggs said the statement of organization has a chairman that is a Glendale resident and the campaign treasurer is the Executive Director of the Central Arizona Homebuilders Association. It seems to her there is a bigger problem than Mr. Kimmerle here. We heard the legislative director or whatever he is from the Homebuilders Association speak last Tuesday night. So she felt very badly that it is all being put on Mr. Kimmerle's head when clearly there are others people who, for whatever reasons, feel this is a bad action in the city of Glendale. And she would like Glendale residents to know that. A city of Glendale resident is the chairman and

it was rather astounding to her, to see the President and CEO of the Central Arizona Homebuilders Association as the treasurer. So this goes way beyond one man who has done a lot for this community. She thought that has to be acknowledged.

Mayor Scruggs said Councilmember Alvarez, Vice Mayor Frate has asked for Chief Black and Chief Burdick to join the presenters table to talk about what expenses in their department are being cut in order to make up the money that the revenue that will be lost by giving the retailers of large items the reduced sales tax. She knew Councilmember Alvarez does not have this sheet of cuts.

Councilmember Alvarez asked how much a referendum will cost the taxpayers. She asked if the city clerk would know.

Mayor Scruggs said she didn't know. She asked Ms. Hanna if she wished to gather her thoughts or if she had an answer. She continued that if Ms. Hanna did have an answer she would have to come forward so everybody could hear it.

Pam Hanna, City Clerk, stated there would be no additional cost in putting a referendum on the ballot assuming it was for the general election ballot in November. However, there will be an additional cost in doing the publicity pamphlet so that the voters will receive information on that issue. The cost for that was approximately \$60,000 to \$75,000 including the mailing.

Councilmember Alvarez agreed with Mayor Scruggs' comments related to Mr. Kimmerle. She said Mr. Kimmerle has been in Glendale for many years and has contributed a lot to the city. She noted he was simply voicing his opinion as was his right. She disagrees in moving forward with any tax which might cause additional expenses to the city. She has heard comments from citizens that the Council was not listening to them when they were the ones paying the taxes. She also said they should back-off from any issue that will cause a referendum because of the high cost.

Mayor Scruggs said she had to ask a question because Councilmember Alvarez said that the printing for the referendum was too expensive so we should back off. First of all, she was going to ask Ms. Hanna, would a publicity pamphlet be printed for any candidate that will be going into the November election? Ms. Hanna replied no.

Mayor Scruggs commented so no, the city doesn't, just issues. She said when Councilmember Alvarez, says that that's very expensive and we should back off, she did not understand what she was telling us.

Councilmember Alvarez commented that she believes the city keeps spending to fight issues that were not going their way on lawyer fees and so forth.

Mayor Scruggs said but what can the city do? It's the public who decides if there is going to be a referendum. So if they decide they want a referendum, and then it's some law, she assumed, that says the city must publish a publicity pamphlet which costs money. So the city is not in control

of either of those decisions. So she was trying to make sure she understood what Councilmember Alvarez was suggesting the city should do to not cause the money to be spent.

Councilmember Alvarez reiterated her earlier comments of the city spending money they don't have to spend as well as not spending it on community matters. She expressed her discomfort in having to read continuous negative statements about the city of Glendale.

Mayor Scruggs said what she thought she was hearing Councilmember Alvarez say was Councilmember Alvarez would have liked some of the decisions that have been made, reversed or never have been made.

Councilmember Alvarez stated she was correct.

Councilmember Alvarez stated the Council should not place the blame on any one employee because it was Council's fault. She believes they should have paid more attention.

Councilmember Clark inquired as to the deadline for ballot material for the November elections. Ms. Hanna replied it was mid-July.

Councilmember Clark asked when it would be legal for people to start collecting referendum signatures on a sales tax increase. Mr. Craig Tindall, City Attorney, stated it can be filed 30 days after the ordinance is signed on a referendum. Councilmember Clark asked if the ordinance had been signed and if so on what date. Mr. Tindall replied it had been signed and the date signed would be the date they can start collecting signatures. Ms. Hanna commented about the deadline for signatures and advised that statute reads that it is when the measure is adopted not when it is signed. Councilmember Clark estimated the adopted date as June 14, therefore, people who wish to mount a referendum drive with regards to the sales tax must submit by July 14<sup>th</sup>.

Mayor Scruggs said why don't we take a pause on this part? This whole thing is supposed to be about the two-tier tax and it's been totally about the referendum. So let's go back to Chief Black and Chief Burdick. And she directed Ms. Hanna to get the notes that she had to get to answer all questions that have to do with a referendum election.

Mayor Scruggs said the Council would like to know what reductions they are making in their departmental budgets to come up with the numbers that Council sees here. Councilmember Alvarez, are you still there? The reduction that's has been proposed and the sheet that Council is looking at here, the slide shows the police department is going to reduce their budget by 1.4% which amounts to \$398,817. The fire department is going to reduce their budget by 0.8% which amounts to \$208,679. And the Councilmembers would like to know what goes into those two numbers.

Chief Black stated the police department identified four areas for this reduction. The areas are in uniforms not related to any MOU item, new furniture, shop charges and fuel charges.

Mayor Scruggs asked how Chief Black can know that there will be less shop charges. She stated this was a big discussion Council had on how can you lower the shop charges and go out and do

Jiffy Lube and all that and everybody said no that wouldn't work. So how do you know you can reduce your shop charges by \$200,000 and your fuel by \$70,000? Chief Black stated the department has not exhausted this budget amount for the current year and feels confident they will be able to manage this budget reduction.

Mayor Scruggs asked councilmembers do you have any more questions for Chief Black. No. Okay Chief Burdick.

Chief Burdick explained their reductions were similar to the Police Department in shop charges from \$347,000 to \$138,000. He said these were funds that maintain their fire trucks and equipment.

Mayor Scruggs asked Chief Burdick how he felt that it could be done. What makes him comfortable – she assumed the entire \$208,000 is out of shop charges. And how did Chief Burdick feel that is realistic and a reasonable thing to do? And that all of the Fire Department's equipment will be maintained to the level we want it maintained.

Chief Burdick stated it will be an effort on their part to manage within that budget next year; however, they will have to make those adjustments. He indicated they will make every effort to come into budget using all opportunities and techniques available to them.

Mayor Scruggs asked councilmembers do you have any questions for Chief Black or Chief Burdick.

Councilmember Alvarez inquired what would happen if they were to lose a fire truck and where would the money come from to replace that. Chief Burdick explained that issue would be more of a capital purchase. Councilmember Alvarez asked what will happen if they run out of funds. Chief Burdick stated they can only do what they can and no one knows what will happen in the future. He added there were many other ways in which they can come up with solutions. Councilmember Alvarez explained this was one of the ways the city got into trouble by overreaching, borrowing and transferring money from other accounts when they did not have enough money. She said this was not a good way to start. She noted it was not fair to have these departments deal with this issue and believes this will hurt services.

Mayor Scruggs said well right now we are not going to transfer anything; right now there is a direction to the city manager to come up with – whatever he has to come up with – the model city tax code, whatever it is we have to do to implement the tax structure so that all purchases of anything in this city not just automobiles that are over \$5000 will be taxed at 2.2% from the \$1.00 to the top. She continued the anticipated reduction in revenues that will cause will be made up by these reductions in city budgets. Mr. Skeete stated she was correct.

Mayor Scruggs asked would anybody like to ask any questions about any of the other department's reductions and what went into making those reductions?

Councilmember Martinez stated he would like to hear from Parks and Library.

Councilmember Clark stated she would like to hear from Human Services.

Erik Strunk, Parks and Recreation, stated the reduction was a vacant Deputy Director position. They had an individual who took a job elsewhere which occurred after the budget process.

Mayor Scruggs asked if there were any other cuts. Mr. Strunk replied no.

Vice Mayor Frate asked what would have been the next thing to cut if they did not have this position to cut. Mr. Strunk indicated there were two positions that were currently vacant that could have been used, however, both were needed to maintain the hours of operation for next year. He explained the operating funds they have available are getting very tight. He said they are to the point where if they have to find additional operational funds, there would be more significant consequences with respect to some of the services and programs they provided.

Councilmember Alvarez noted that by her observations, some parks are not being kept up. She asked if there had been a reduction in that budget. Mr. Strunk explained they were maintaining their parks as best they can with the resources they have available. He noted they did have some turf issues but they have been resolved.

Mayor Scruggs asked who will speak for Neighborhood and Human Services. She advised Councilmember Alvarez that Sam McAllen was going to talk to Council about what constitutes the reduction in Neighborhood and Human Services. The reduction is \$100,060 which is a reduction of 4.8% of that budget. Was she correct does this now fall under you Mr. McAllen, Neighborhood and Human Services?

Sam McAllen, Neighborhood and Human Services, stated the Neighborhood Partnership Office is now with Code Compliance. The reduction presented is from a Neighborhood Partnership administrator position which was recently vacated.

Mayor Scruggs said does anybody have any questions?

Vice Mayor Frate stated he had a question about code compliance. He asked if the vacant position in the code department will be filled. Mr. McAllen noted that the position will go before the city manager for review. Vice Mayor Frate noted that because of the cuts, the city no longer had code inspectors on the weekend. Mr. McAllen explained they have temporarily made adjustments so that the staff is available when they have the highest number of calls from residents.

Mayor Scruggs said to Mr. Skeete that the code compliance issue was one that the Councilmembers had very definite ideas on during the budget cycle and Council gave very specific direction regarding how many code compliance inspector positions they wanted. She thought staff had recommended a lower number and then Council raised it. So, she guessed the question is - is Mr. McAllen being given whatever he needs to match the direction that these Councilmembers asked for in terms of positions?

Mr. Skeete explained the position that recently became vacant by code compliance was working its way through the evaluation and justification process and will soon be reviewed by him. He will take into consideration the direction provided by Council at the budget workshop as he makes that decision

Mayor Scruggs said when the budget was presented, she knew they had very specific directions but she didn't know what it was.

Mr. Skeete explained that there were two cuts and Council's direction was to reinstate one of those positions.

Mayor Scruggs asked any other questions for Mr. McAllen? Okay are there any other departments up there that you would like to ask about? No.

Mayor Scruggs asked Ms. Hanna to tell Council about referendums and the November election.

Ms. Hanna stated referendum petitions are due 30 days after the passage of the ordinance. The ordinance was approved at the Special City Council meeting on June 8, 2012. In order for the referendum to be on the November 6, 2012 General Election, it must be submitted to the county by July 24. She noted there was statutory language that talks about how much time the clerk and county have to review of the petitions. She added voter registration is checked by the county.

Councilmember Clark inquired if the time frames cannot be met by the November election; would that require a special election? Ms. Hanna said she was not able to answer that at this time; however, that matter was being researched. Councilmember Clark asked how much a special election would cost the city of Glendale. Ms. Hanna replied approximately \$100,000.

Mayor Scruggs asked any other questions? No. Thank you Ms. Hanna.

Mayor Scruggs called for a short recess. The meeting was called back to order.

## 2. HISTORIC PRESERVATION PROGRAM UPDATE

Jon Froke, AICP, Planning Director, presented this item.

This is a request to provide an update to City Council on the Historic Preservation Program and activities of the Historic Preservation Commission.

The Historic Preservation Program was created in 1991 when Council adopted the Historic Preservation Plan and Ordinance. In 1995, the City of Glendale was designated as a Certified Local Government by the State Historic Preservation Office, which makes Glendale eligible for federal pass-through grants. Council adopted the current Historic Preservation Plan on November 23, 2003, and adopted the Historic Preservation Element of the General Plan on November 28, 2006.

Glendale's historic districts are located primarily in the City Center which helps encourage visitors to Historic Downtown Glendale through cultural tourism. There are three historic properties located outside of the City Center. These include Manistee Ranch, Sahuaro Ranch Park, and the Thunderbird Tower, located on the campus of Thunderbird School of Global Management.

During the February 15, 2011 workshop, Council received an update on the Historic Preservation Program.

During the March 17, 2009 workshop, Council received an update on the Historic Preservation Program.

The City of Glendale embraces its unique heritage and is committed to honoring the past and preserving the future through thoughtful preservation planning. Through this effort the city has enriched the lives of its residents and visitors alike by supporting and encouraging the restoration of historic homes and historic districts.

The National Trust for Historic Preservation established the month of May as National Historic Preservation Month in 1973. The purpose of the event is to honor and raise awareness of the importance of our nation's history and cultural heritage. The City of Glendale has participated in this national event since its inception by honoring this occasion with a proclamation signed by the Mayor. Some of the events during the month long celebration include the Annual Historic Preservation Bus Tour which allows the city to showcase historic places, promote heritage tourism, and create a greater awareness of the social and economic benefits of historic preservation.

Another event is the Annual Ruth Byrne Historic Preservation Award, established in 1996. The purpose of the award is to recognize individuals or organizations that have made significant contributions to the preservation of Glendale's historic and cultural resources. This prestigious award is named after Ruth Byrne, a Glendale native, in honor of her dedicated work and ongoing efforts to preserve Glendale's history. Each year the Historic Preservation Commission asks the community for support with this very important historic preservation activity.

This is for Council information only. Staff is available to answer any questions regarding the information provided.

Jon Froke, AICP, Planning Director, provided a slide presentation and provided a brief summary on each.

Vice Mayor Frate inquired how these buildings and areas were picked for historic consideration. Mr. Froke stated a number of years ago; the city's architectural historian prepared a study that looked at potential historic districts. The primary criteria to add another district was for a neighborhood to be at least 50 years old. The two selected, Glendale Gardens and Sage Acres, had the most potential to be added as historic districts.

Councilmember Knaack noted her concern regarding vandalism. She asked Mr. Froke to address that issue.

Mr. Froke noted they recently had some vandalism at the Myrtle Avenue Cultural Gateway and staff was working to repair or replace those features. Unfortunately, this is the world that we live in. Staff will have to remain diligent and will try to stay on top of maintenance.

Councilmember Lieberman suggested putting up iron grills on windows which might make areas less of a target. Vice Mayor Frate suggested bullet proof glass.

Councilmember Clark inquired if all locations had a district destination marker. Mr. Froke explained that not every historic district has those yet. He stated that Mr. Ron Short, in his capacity with the Glendale Historical Society, has been working on additional historic district street signs with cooperation from the Transportation Department and they hope to be able to have those signs in every location as funds become available.

Mayor Scruggs asked are there any organizations – she knew Congressman Pastor helped the city with some grant money to use on the Myrtle Avenue Cultural Gateway, but are there other organizations that we can put requests for grant funds into?

Mr. Froke explained that many of the federal and state grants have been swept over the last two to three years based on the economy. However, there are other avenues staff have been exploring and are looking at other opportunities for funding.

Mayor Scruggs asked what your projects ahead are. What was being looked at next? With your very limited resources, understanding those limited resources.

Mr. Froke commented on the work being done on the Myrtle Avenue Cultural Gateway, Historic Street signs, and individual bronze plaques for contributing properties.

Mayor Scruggs asked Councilmember Alvarez if she had any comments or questions regarding this item on the Historic Preservation Program.

Councilmember Alvarez asked if the people from Catlin Court East were also receiving those plaques. Mr. Froke replied yes. He noted the plaques were available, however, due to staffing issues; staff has not had time to distribute all of them yet. He indicated that any property owner inquiring about the plaques can call him or his office directly.

Councilmember Martinez commented on possibly securing grants for security cameras for problematic locations of town that have vandalism issues, specifically in the Myrtle Avenue Cultural Gateway. Mr. Froke stated staff can certainly explore that issue.

Mayor Scruggs said this is all very exciting. She thanked Mr. Skeete, for scheduling this, commenting that it's been a long time since Council had an update on Historic Preservation. She

thought every single one of them was very committed to seeing this continue in the city. Thank you.

Mayor Scruggs noted Ron Short, who was attending a family reunion in Tennessee, had e-mailed her. He wanted to tell her that he had just done a self-guided tour of the Historic Properties in Franklin, Tennessee. Of course they go back to the mid 1700's. But it was nice to hear from him and he is still out there, committed and impassioned about history.

### 3. LEASE-LEASEBACK FINANCING

Diane Goke, Chief Financial Officer, and Sherry Schurhammer, Executive Director, Financial Services, presented this item.

This is a request for City Council to review the details of the proposed lease-leaseback of city buildings.

As part of the Fiscal Year (FY) 2011-12 and FY 2012-13 financing strategy for the city, and based on input received from Council during the budget workshops, staff is recommending a lease-leaseback of the City Hall and Public Safety buildings as an alternative mechanism to fund the FY 2011-12 Arena Management Fee to the National Hockey League (NHL) and possibly the FY 2012-13 Public Facilities Corporation (PFC) debt service payment. This action is expected to supply approximately \$41 million in proceeds for the city. The lease term will be for 10 years at a rate range of 3 to 5%.

#### **Proposed Use of Lease-Leaseback Funds**

**FY 2011-12 Arena Management Fee:** The city is currently in negotiations with the NHL on the payment terms for the balance of the FY 2011-12 Arena Management Fee that is currently in escrow and has been tentatively considered to be an inter-fund loan from the Water and Sewer fund. However, upon Council approval, the proceeds from the lease-leaseback can be used to fulfill the city's obligation to the NHL. The total amount of the Arena Management Fee for FY 2011-12 is \$25 million; the following structure is proposed for fulfilling this obligation with lease-leaseback proceeds:

- \$15 million will be used in place of the Water Enterprise Fund reserve thus restoring those funds to the Enterprise Fund and repaying the inter-fund loan in full;
- \$5 million to the Vehicle Replacement and Technology Replacement Funds in the General Fund; and
- The remaining \$5 million to the NHL for the balance of the Arena Management Fee

**FY 2012-13 PFC Debt Service:** The city plans to pursue a restructuring of the PFC debt which will greatly reduce the FY 2012-13 debt service payment. However, if market conditions are not conducive to a restructuring, the city would like the option to use the remaining lease-leaseback proceeds to fund the debt service payment for FY 2012-13. If restructuring goes as planned, the remaining lease-leaseback proceeds will be repaid.

On May 24, 2011, Council approved the lease refinancing of various city leases.

Upon Council approval, the lease-leaseback proceeds will be used as an alternative funding mechanism to fulfill the city's legal obligations to the NHL and PFC thus ensuring that other funding sources, namely the General Fund and Water Enterprise Fund, are available for other purposes in the community.

This action is expected to supply approximately \$41 million in proceeds for the city. The lease term will be for 10 years at a rate of 3 to 5%. The average annual lease payment will be approximately \$4.5 million, with repayment beginning in FY 2013-14.

Staff is seeking guidance from Council regarding the proposed lease-leaseback of the City Hall and Public Safety buildings as part of the FY 2012-13 financing strategy for the city's operating budget.

Horatio Skeete, Acting City Manager, provided an introduction on this item. He pointed out that general inflation was not included in the projections for the operating budgets in the upcoming years. He indicated staff took the specifics and included those items, therefore, there was no built-in inflation or any cost adjustments in the budget balance process. The assumption is staff will continue to make any necessary adjustments as inflation takes over.

Councilmember Clark noted the possibility of a referendum was not figured into these equations. Therefore, should this referendum succeed, would it affect this strategy of lease, leaseback? Mr. Skeete replied yes. He said the indication they received from the market was the uncertainty around the Coyotes deal and the city's inability to balance the budget was considered as a negative. He said it was safe to say if those things continue, this and any other refinancing opportunity will continue to be difficult to achieve in the open market.

Mayor Scruggs said she remembered reading in the budget book – she thought it was in Mr. Beasley manager's letter - that just our continued involvement in the whole sports thing as far as Moody's was concerned was a troublesome factor that could lead us to further down grades and this was way before anybody heard about any referendum or anything like that. She just likes to go back to this, this question that we talked around in the first item. Given the situation that is going on right now, there are nine different potential actions based on people taking out packets of information from the city clerk's office. Nine different potential actions that will not be pleasant for this city including a possible referendum of the sales tax increase which kills any ability to pay for the arena lease agreement and other things.

Mayor Scruggs said if Mr. Bettman called up - and she told Mr. Skeete she was going to ask this question ahead of time and he was going to tell Mr. Tindall and everybody could know ahead of time so there are no surprises... if Mr. Bettman calls up and says "good news, the board of governors voted and we are selling this team to Greg Jamison, you guys execute your deal", knowing what you know right now, that there may not be any money to go forward with this, are you required to go forward because of the vote of the majority of the Council to go enter into the

agreement and executed? Would you do that or would you come back saying I don't know if there is money to do this? Are you required to go forward legally?

Mr. Craig Tindall, City Attorney, explained that at this point, the lease agreement has not been signed and there are conditions on the agreement and ongoing discussions. Therefore, the best answer to that question might be in Executive Session since it requires legal advice.

Mayor Scruggs said then she would like to do that because Council heard very graphic discussions earlier about possibly not being able to deliver service and one thing and another. And she's very concerned about going ahead and committing the city to a 20 year debt with so many things uncertain. So she will look forward to the discussion in Executive Session.

Diane Goke, Chief Financial Officer provided the summary with a slide presentation. She explained the challenges they are facing to complete this refinancing and the possibility of a referendum on the arena management agreement and on the sales tax and any law suits from citizens or the Goldwater Institute.

Mayor Scruggs said we need to talk about why we are doing this versus what else because what the Councilmembers have been saying is that Council wants to understand the options, not just one thing. And she understood the expected interest rate of 3% to 5%, her understanding of lease-leaseback is you pay a certain amount per square foot of the building. Is that correct?

Ms. Goke explained the lease-leaseback was very similar to what was done last year with the Hickman, Motorola and Northern Crossing refinancing of their leases. The city put up as collateral the Glendale Public Safety Regional Training Facility.

Mayor Scruggs said Ms. Goke projected an average annual so she assumed this was one of those stair step kind of things. An average annual lease payment of \$4.5 million but she doesn't see that up there on the slide.

Ms. Goke stated she was correct. She explained they built it into the payment restructuring which was approximately \$4.5 million over the life of the loan.

Mayor Scruggs asked if that was out of the General Fund.

Ms. Goke replied yes.

Mayor Scruggs asked is it \$4.5 million per year or for over the whole 10 years? Ms. Goke said it was approximately \$4.5 million per year.

Mayor Scruggs said and that is going to come out of the GF?

Ms. Goke replied yes.

Mayor Scruggs asked for an explanation for where that will come from because the city was going to take the whole \$40 million and is going to spread it out and spend it right away. So where does the new \$4.5 million come from along with the \$3 million that's going to come next year when the Coyote thing goes up. And you are right, she pointed that out during budget, it was very interesting that expenses were left flat. She even asked how do you manage something like that. How do you keep your expenses flat? Well that's to make the budget balanced. So where does this new \$4.5 million come from?

Ms. Goke explained the \$4.5 million will be built into the FY 14 and future budgets.

Mayor Scruggs said what? All of the city revenue is accounted for. The city kept expenses artificially flat to make it all work. This fund balance is important to these people that we build up, only builds up to – what was it? Only \$11 million in 2017, but the only reason its \$11 million is because the arena management fee was misquoted \$3 million less than what it really is going to be. So the buildup of the fund balance will only be to \$8 million in 2017. How do you fit in another \$4.5 million?

Ms. Goke stated that by making some of these restructuring options and working with the bond rating agency, they will be able to refinance the debt they have for the PFC and part of this money will be used to prepay some of that loan.

Councilmember Lieberman commented on the large interest rate the city will pay on this refinancing plan. He also remarked on the city owing \$40 million total to replace funds on water and sewer, however, the city was showing only \$20 million. He wonders how the city will be able to pay that \$40 million as well as the interest.

Ms. Goke asked to make a clarification. She explained \$21 million was taken from the landfill fund and \$4 million from the sanitation fund to pay for the \$25 million last year. That loan is currently built into the budget at a payment of \$1.1 million a year with an interest rate of 3.8%. She indicated this year's payment currently in escrow is \$15 million from the water and sewer funds, \$2 million from the technology replacement fund and \$3 million from the vehicle replacement fund for a total of \$20 million. However, the city owes \$25 million; therefore the other \$5 million will be taken from the water and sewer fund. Additionally, if the Council decides to not do this loan, they will have an inter-fund loan payable to the water and sewer fund over 10 or 20 years depending on their needs. The city would have to repay this from the GF anyway.

Councilmember Lieberman inquired about a \$5 million loan transfer from the HURF fund to the arena. However, he believes that should not be possible because those HURF funds are dedicated to transportation. Ms. Goke explained that the actual \$25 million expense was a GF expense and not an expense from water and sewer, landfill or sanitation funds. Those were simply funding mechanisms for the GF to be able to pay that payment.

Sherry Schurhammer, Executive Director, Financial Services, explained the transfer Councilmember Lieberman was referring to was a transfer of spending authority, not cash, just

the spending authority. She stated they were well aware they cannot pay this expense out to the HURF fund. Councilmember Lieberman inquired where the \$5 million was coming from to cover this expense to the NHL. Ms. Goke restated her earlier comments. She explained the \$5 million has not gone in yet and has to be taken from some place. Councilmember Lieberman noted the city was taking \$20 million from the water and sewer fund, \$2 million and \$3 million from the two other funds. Ms. Goke replied he was correct. She stated the interest rate payment for FY 13 was \$975,296 at 3.82% for this loan.

Mr. Skeete explained the benefits of this option and what this does for the city. He said that as indicated earlier, this was by no means a money saving exercise. This option will allow them the freedom to do a couple of things. This will allow them to spread the payments of \$20 million currently owed to the NHL over 10 years. It will also provide opportunities for the PFC debt that is coming due for next year.

Mayor Scruggs asked how the payments to the NHL could be spread out over 10 years.

Mr. Skeete explained they will pay the NHL the \$25 million with these proceeds then spread the payments to repay these funds over 10 years at a premium of approximately 3% to 5%. He said the important thing in making this decision is that they will put the debt in its rightful place on the balance sheet. He said this belongs in the GF and will have to be incorporated into the operations of the city over the next 10 years. Additionally, this also allows for them to not take the funds from the utility department which they need for their capital improvement programs.

Mayor Scruggs said we just got through talking about how horrible it was that we were going to cut \$1.1 million out of the budget and the next time there is a cut one of our fire stations gets closed, no two ways about it. And we are not going to have libraries. Where is the \$4.5 million going to come from out of our GF next year? Ms. Goke said you will plan around it but she didn't think the way we are going with rebuilding our fund balance is going to be all that attractive because it seems like it keeps going down. She asked Mr. Tindall what he is projecting in legal fees with all this latest commotion that is going on. Somebody told her Mr. Birnbaum charges \$750 an hour. She didn't know if that was true or not but there are new legal fees coming in, new expenses coming in and now we are going to find \$4.5 million to go out when we just didn't like taking \$1.1 million out. Where do you see the money coming from?

Mr. Skeete explained that assuming all the strategies involved are allowed to play out. The opportunity for the city to refinance some of the MPC debt will become available to them and will benefit the city. He was confident the economy will begin to stabilize allowing for the projections in the budget to even themselves out over the next two to three years. The city will have to continue to evaluate city services as they prepared each and every year's budget in the next coming two to three years.

Councilmember Alvarez asked if Mr. Jamison had already bought the team. Mr. Skeete said he believes he has not. Councilmember Alvarez commented on the money she believes should not have been taken out starting with the \$15 million from the water and sewer enterprise fund. She said Mr. Skeete remarked that they may have to keep doing this for two to three years. She noted

this was a constant reminder to the citizens that the city was doing something they do not approve of and still continuing to do so. She said the city cannot continue with something that was not paying off such as the Coyote deal that has never made the city any money. She believes the buyer needs to have the money up front or they should move on so the city can go to plan B. She said the city should have done this from the very beginning instead of waiting and waiting. She expressed her concerns with the city borrowing money from the water and sewer funds and questioned the legality of doing that. She said she cannot agree with paying all this money from city funds. She believes they should just get it over with and pay the \$15 million to the NHL. They cannot continue with something that was not paying off. She restated she cannot agree to this proposal or wait for an answer from the NHL.

Mayor Scruggs said she was just going to make her comments now and they could decide what they want to do. She hadn't talked to Mr. Skeete but she emailed him so he knows where she was going with this. She was not going to support this idea at all and at the same time she wanted to express her appreciation. She honestly felt Mr. Skeete was doing everything in his power to bring the very best solutions possible to Council. She said she had confidence in him and his staff. She trusted him and she believed that he was only making this recommendation because he believed it's the best. But as she said in an email, with everything in the flux that it is in right now, she sees this as a band-aid. The city needs a holistic approach to a huge problem and it isn't known what the size of the problem is and it won't be known until July the 5<sup>th</sup> or whatever the date is. It doesn't make any difference what the date is. Council doesn't even know the size of the problem they are dealing with and every time this – this is just the way she saw it. Every time the city takes one step that closes the door on maybe something else. And she believed that, number one, the city needs to wait and see what is falling out in this whole thing. Maybe there is no referendum, maybe there is a referendum, there is a lawsuit, and there's not a lawsuit, whatever. But the city needs to wait and see the scope of the entire problem before taking little steps. Number two she thought Council needs to get together during the summer. They are the policy making body of this city and their number one job in the whole shebang according to the charter is to put out a budget every year.

Mayor Scruggs said it's going to be inconvenient because everyone has plans. Because Council always expects to go away after the 4<sup>th</sup> Tuesday in June and not come back until whenever they are coming back in August. But Council has let too many things go on automatic pilot for the last few years where Council hasn't been involved and just said okay, staff you just take care of it. So whether Council meets on the telephone, teleconference, or whether they meet in person or a combination of both, she didn't know. But you go ahead and if the rest of Council wants to give direction to go forward with this, you give direction to go forward but she was saying until we can see the scope of our entire situation and all of the things we need to address - and one of the questions she asked Mr. Skeete to talk to Mr. Tindall about was if this referendum does go through, do we start implementing the tax on August 1<sup>st</sup> anyway and collect the money. Okay we don't. So we don't even know on August 1<sup>st</sup> what we are going to have to work with. But it's not that far until we find out. The 30 day clock, what Ms. Hanna did tell us is that the 30 day clock began with all the actions that were taken. So, 30 days from June 8<sup>th</sup>, she thought was for the Coyotes thing, 30 days from June 12<sup>th</sup> for the tax thing. She just wanted to wait until we know what we are facing and not take one action then we find out something else would have

been better. And she really doesn't believe we can find \$4.5 million a year. But she wanted to thank Mr. Skeete. And she had talked about this with him and about the importance of not shooting the messengers. So she wanted to say thank you for every effort that you made. She just can't support it at this time.

Councilmember Clark stated that three years ago after Moyes declared bankruptcy, this Council met and set up priorities in regards to the Coyotes and arena. Those three priorities were to keep the Coyotes in Glendale, retain the revenue from the arena and if possible, enhance the revenue. She noted those priorities, despite all they have heard in the past year, have never changed. Therefore, until those priorities change, staff has been given direction to move forward with those priorities. She indicated that hindsight is 20/20 for those people coming forward now telling them they should have or could have, or would have or why didn't they. However, today they have this situation because of decision they made over the past three to four years. She said that none of them had a crystal ball and none knew how all of this was going to fall out. Nevertheless, at this point, staff has given them the best recommendations they have to pull them out of this financial calamity over the next four to five years. But, all she was hearing was they can't do this and they can't do that and what if this or that happens. She remarked that waiting to see what will happen is like burying their head in the sand. She believes they need to be aggressive and they have to make some moves now. She supports this idea because it was one of the four components that staff recently stated in regards to the resolution of the Coyote's situation, stabilizing general fund revenues, resolution of the GO debt service and restructuring of the debt. She indicated this meets one of those four pillars that staff has advised them will help them get back on track and all the Council was doing was giving them 15 reasons why they shouldn't do it. She said staff was giving them their best opinion and she accepts staff's recommendation.

Mayor Scruggs said she was not saying this was not the best thing to do. Her clarification is that there are some new situations that have occurred, some just in the past day or two since this idea came forward. And the waiting that she's talking about is not waiting a long time, waiting until we have some indication of which if any of those nine actions that are pending – you can put your head in the sand all you want – those things are real. They are real, they are real, and they are being brought by people with money and people with influence. And there is some reason why – all she said was, wait until its known what's happening with those. Which is what, two to three weeks? And then develop a holistic approach which may very well include this. So she would just like to clarify to the public. She's not saying, let's just wait till next year, she's saying let's wait until we know what we are dealing with in totality.

Councilmember Martinez asked if they wait as suggested by the Mayor, would it put this plan in jeopardy. Mr. Skeete explained the actions currently pending could influence the market and influence the interest rates should they decide to wait. He wanted to make clear, that the \$40 million potential lease-leaseback being proposed really is an opportunity that puts the city in the best possible position. He explained that if they do not need it; they will not have to use it. He indicated the opportunity of a possible payment plan to the NHL. He noted if both proposals are available to them; they can evaluate the payment plan against this plan to determine the better option for the city.

Councilmember Martinez remarked staff was simply asking for another option to consider while this whole dilemma plays out. He restated that staff will not use this option if they do not need it.

Councilmember Martinez said that coming back to the Coyotes issue; he believes based on what the Council heard from Mr. Bettman and Mr. Jamison was that in two to three weeks, the deal would be finalized one way or another. He inquired if there was a deadline for the Coyote schedule. Mr. Skeete noted he was not sure, however, he believes it was towards the end of June. Councilmember Martinez indicated that based on what he has heard, he supports moving ahead with this because at this point, they have nothing to lose and perhaps were even getting a little ahead of the game.

Mayor Scruggs asked if Council would be setting any parameters. Because Council won't even be here to – they'll just decide to take the bids or not to take them?

Councilmember Martinez agreed that the Council should possibly get together in the summer and will support moving ahead with this. He restated this was Mr. Skeete's best advice at this point and was something that will put them in a better position.

Councilmember Alvarez remarked on the publicity and the public opinion surrounding this issue and believes the Council needs to listen and they were not. She said the public was telling them they don't want any more of what has been happening. She stated they need to treat the city's money as taxpayer money not their money.

Councilmember Lieberman discussed the PFC loan and the interest rate associated with it. He asked who will be the lease holder in this lease-leaseback deal. Ms. Goke replied the bank will hold the lease. She added they have been researching with several banks on this issue and have also issued an RFP in the financial community which they were receiving quotes and bids for this financing.

Councilmember Alvarez inquired who authorized the RFPs. She said she had no knowledge of this process being implemented.

Mayor Scruggs said she recalled receiving a memo, maybe on May 30, from Mr. Skeete and/or Mr. Beasley and it informed the Council that the next day they would be issuing an RFP for this lease-leaseback. So it didn't come to any of us for a vote or approval.

Councilmember Knaack remarked that Ms. Goke made a statement about the restructuring of the debt and all the unresolved issues going on as well as their inability to do anything about it at this point. Therefore, she feels the same about this leaseback and believes there were too many variables. She noted this was an option that will be available to them a month from now. She said it might be beneficial to wait until some of these other things get resolved. She will not support this plan at this time.

Mayor Scruggs said when it does come to Council, if it does at some point in the future – first of all, if those things are resolved, that may open up the whole PFC financing thing. She said Councilmember Martinez pointed out that there are bad things if Council waits. Well there are going to be good things if Council waits too. If all these bad things that might happen go away, then the world of finance is going to be much more favorable towards us. But what she was really going to ask is that when you bring whatever it is forward to Council – especially if it's this – with a \$4.5 million dollar payment from the GF, she wanted to see a chart just like the one today as to where that \$4.5 million is going to come from. The days are gone when Council can just say, okay, yes let's do that and never ask and how are we going to pay for it. So she's going to ask at that time staff to tell her the accounts that it's going to come out of, tell her which fire stations Chief Burdick is going to close and all those other things types of things because we cannot continue to make decisions in a vacuum.

Councilmember Lieberman remarked Mr. Bettman and Mr. Daly had given the city a 30 day extension, however, his figures show that ends tomorrow. Mr. Tindall explained the agreement went until June 27<sup>th</sup>.

Vice Mayor Frate stated he supported the strategy on this item. He said staff had already done a lot of work on this proposal. He supports their initiative in doing this and believes this was just the first step in finding a solution. He explained that even if the Council decides to support this item, it will still have to come back to Council if they decide to use this strategy and sell any bonds after some of these issues get resolved.

Mayor Scruggs said she wanted to see if Council has direction for staff. So Councilmember Clark says go ahead and move right now. And Council's direction is what?

Vice Mayor Frate stated his direction is to move forward, however believes staff's hands were tied at the moment. He asked staff if they were to wait, how much time would they need to get this going should they need to implement it.

Mr. Skeete explained the process requires that they inform the institutions who have expressed some interest and some concerns as well. At this point, staff will inform them they will have additional time to look and evaluate their situation before they make their decision and what offers they are willing to make to the city. They will keep this proposal open for another month as they continue to see how these circumstances evolve with the issues facing the city today. After that time, staff will evaluate their offers and possibly get the Council together if they receive a good offer over the summer break.

Councilmember Clark asked if staff was looking for Council direction to move forward however will still have to wait anyway to see what occurs with the pending issues. Mr. Skeete replied yes. He said they will be moving forward with the conversation and with exploring their options that might become available through these financial institutions and when conditions were more favorable.

Mayor Scruggs said that's better and that is what she said in the first place? She said until Council knows more about the scope of the whole situation rather than just go out and place these things right now. So that's what she was trying to say in the first place and she could agree with that. But she wants to see where the money is going to come from when the city has to pay whatever it is. She asked but what happens in the meantime when the NHL comes and says we want the money to come out of escrow because she'd asked Mr. Tindall and the city has no control over it. They just say we want it and they are going to take it now and so forth. Then the city has to do the inter-fund loan.

Mr. Skeete replied yes.

Mayor Scruggs asked so does staff set up the inter-fund loan? Staff doesn't need any Council action to do that? Staff can do that on their own? Is that what happens?

Mr. Tindall stated a Council action would be appropriate for this action of the inter-fund loan.

Mayor Scruggs said so staff might need to call Council back shortly after if this doesn't happen? So management might have to call Council back into action to set up the inter-fund loan then? Did she understand, correctly? But then we are outside of the last quarter of the year or whatever.

Mr. Tindall replied they have until July 1<sup>st</sup>.

Mayor Scruggs responded that Mr. Skeete and Mr. Tindall should work the timing out on the lease-leaseback idea and also keep working on other options? She requested they prepare a chart that compares paying back the utility versus doing this lease-leaseback and which has the greater effect on the city's bond ratings as best as staff can figure out. Would the city be violating any covenants of the water and sewer bonds by having these loans out there? All of those types of things Council never really talked about before, she wanted to hear about.

Mr. Skeete stated staff will prepare a complete and comprehensive proposal and presentation to Council as to the options and results they have available.

Councilmember Knaack stated she will go along with this proposal as long as there was Council action on the final decision. She believes the city will not get a good interest rate until some of these issues are settled.

Ms. Goke explained this plan was a little different than going out for bonds. This is actually putting up as collateral their buildings. However, they will not know those different financing scenarios or rates until we hear from them.

Councilmember Lieberman inquired if there was any debt presently on this building. Ms. Goke replied no.

Mayor Scruggs asked which police station? The Public Safety Building, is that what you are putting up? Ms. Goke stated it was the Police Station on 57<sup>th</sup> Avenue.

Councilmember Alvarez stated she agrees with waiting and thinking things over.

Mayor Scruggs asked Councilmember Alvarez if she was okay with convening a meeting during the summer if they needed to, to discuss this more.

Mayor Scruggs said all of Council wants to thank staff for the work that's been put into it but the situations are evolving and changing daily and Council just needs to learn more.

Mr. Skeete stated he appreciated her comments. He said that as they go through the next six months, there will be a lot of discussion and decisions that will require extensive discussion as they move forward.

As no additional comments were made, Mayor Scruggs concluded the workshop.

#### ADJOURNMENT

The meeting was adjourned at 5:30 p.m.