NOTICE OF A REGULAR MEETING OF THE
LEAGUE OF ARIZONA CITIES & TOWNS
EXECUTIVE COMMITTEE

Wednesday, August 19, 2015 at 11:45 a.m.
Starr Pass Resort, San Pedro Room
3800 West Starr Pass Boulevard
Tucson, Arizona

Notice is hereby given to the members of the Executive Committee and to the general public that the Executive Committee will hold a meeting open to the public on August 19, 2015 at 11:45 a.m. Members of the Executive Committee will attend either in person or by telephone conference call. The Executive Committee may vote to recess the meeting and move into Executive Session on any item on this agenda. Upon completion of Executive Session, the Executive Committee may resume the meeting, open to the public, to address the remaining items on the agenda. A copy of the agenda is available at the League office building in Suite 200 or on the League website at www.azleague.org.

Agenda

All items on this agenda are scheduled for discussion and possible action, unless otherwise noted.

1. Review and Adoption of Minutes
2. League Policy Committees Process Review; Workgroup/Task Force Requests; Legislative Update
3. TPT Implementation Update
4. PSPRS Task Force Update
5. Executive Session: Annual Evaluation of League Executive Director

Additional informational materials are included in the agenda packet but are not part of the agenda.
Agenda Item #1  Review and Adoption of Minutes

Summary: Minutes of the previous meeting are enclosed for your review and approval.

Responsible Person: President Mark Mitchell

Attachments: May 15, 2015 Executive Committee Minutes

Action Requested: Approval
League President Mark Mitchell called the meeting to order at 10:05 a.m. He led the committee members in the Pledge of Allegiance.

President Mitchell informed the Executive Committee that member and Phoenix Mayor Greg Stanton had resigned from the Executive Committee. Mayor Bob Rivera motioned to approve the appointment of Phoenix Vice Mayor Danny Valenzuela to sit in place of Mayor Greg Stanton; Mayor Gilbert Lopez seconded the motion and it carried unanimously.

The meeting began with Agenda Item 7: CENSUS DISCUSSION UPDATE

League President Mark Mitchell introduced League Executive Director Ken Strobeck to present an update on the ongoing census discussion.

Executive Director Strobeck reminded the Executive Committee that a League Resolution to allow the use of state populations for shared revenue distribution in 2015 and beyond was introduced last year by Prescott Valley. The resolution was defeated. It was stated that the resolution would not be favorable to the majority of the cities, and municipalities wishing to obtain an updated number have the option to go out for a special census.

Because of this decision, several cities indicated interest in going out for a special census. There are now seven cities committed to going forward with a special census from the bureau. Now, several cities are asking for the resolution to be revisited due to the impact on shared revenue distribution.
Mr. Strobeck informed the Executive Committee that the League had hosted a series of meetings to try to come to an equitable solution to the issue. There was general agreement to seek fast-track legislation to allow cities and towns a choice of their population numbers beginning in 2015. While this option was primarily supported, it would lessen the amount received by those who elected to conduct the special census.

Within these meetings, the seven cities inquired about some compensation for what was paid to the bureau for conducting their census. A smaller group of managers is set to meet to negotiate and discuss options.

Discussion was held by the Executive Committee about agreeing to the fast-track legislation that would allow the cities and towns to use the state estimate population numbers and to work with the State Demographer’s office to improve the quality of the state data.

Mayor John Giles moved to seek fast-track legislation to allow cities and towns to develop a new model for state-estimated population numbers; Mayor Harvey Skoog seconded the motion and it carried with two objections.

President Mitchell commented that he hoped the group of managers would continue to meet to discuss the options regarding compensation to those seven census cities.

1. REVIEW AND ADOPTION OF MINUTES

Mayor Harvey Skoog moved to approve minutes of the February 13, 2015 Executive Committee meeting; Councilmember Gilbert Lopez seconded the motion and it carried unanimously.

2. LEGISLATIVE REPORT AND NEW LAWS UPDATE

League President Mark Mitchell introduced League Executive Director Ken Strobeck and League Legislative Associate Dale Wiebusch to give a legislative update.

Executive Director Strobeck noted that there had been a large number of preemptions proposed during this particular legislative session, including residential rentals, photo radar, firearms and others. While there were several potentially devastating items proposed this session, there was not anything especially harmful that was passed.

Mr. Strobeck recognized League Legislative Associates Dale Wiebusch and Ryan Peters for their accomplishments throughout the session, particularly in the absence of a legislative director during the session. He also thanked Greg Karidas, who served as a temporary legislative associate and had recently accepted a position with the Secretary of State’s Office. In addition, Mr. Strobeck recognized Deputy Director Tom Belshe and Tax Policy Analyst Lee Grafstrom for specific work on finance and tax issues.

Mr. Strobeck then called on Legislative Associate Wiebusch to give an update on the League Policy Committees.

Mr. Wiebusch reminded the Executive Committee that last year, a new Policy Committee process was created for the annual resolutions, and that five separate committees had been formed. He informed the Committee that 21 resolution ideas had been submitted, covering a wide variety of issues, including HURF, economic development, local control, Heritage Fund, parks and others. Based on this new process, President Mitchell will assign each idea to a relevant committee and that committee will vet those issues, with League Staff drafting a full resolution. Following the committee process, the full Resolutions Committee will meet at the Annual Conference to review and vote on the proposed resolutions.
3. TPT IMPLEMENTATION UPDATE

League President Mark Mitchell recognized League Deputy Director Tom Belshe to present on the progress of the TPT implementation project.

Deputy Director Belshe informed the Executive Committee that the Arizona Department of Revenue (DOR) had created online training materials for cities and towns and others in the contracting industry. He reminded the Committee of an original concern regarding single audit status; however, he indicated that the single audit process had gone better than originally expected. He said that there had been a number of audit requests, all of which were approved, and many that were also completed by city auditors with DOR involvement.

Mr. Belshe also informed the Executive Committee that an IGA was developed to ensure that there would be no requirement for self-collecting cities to turn operations over to DOR if the department is not prepared with the supplemental software systems. He also noted that the IGA indicated that there would be a review on September 1, 2015. At this time, the cities will be ready for licensing. However, if the department is not ready on this date, cities will continue to hold onto their system until a later date.

Mr. Belshe informed the Executive Committee that the Auditor General had released a report finding performances hindered by the ineffective information technology equipment systems and leadership at the DOR. In addition, he revealed the formation of an Executive Steering Committee, comprised of the Governor’s Office, Department of Administration (DOA), DOR and municipalities, who meet monthly for progress reports. Within this committee, it was announced that DOA would be procuring a replacement to their current tax system in 2016. The League has informed the Auditor General and the Governor’s Office of their dissatisfaction with this approach.

League President Mark Mitchell apprised the Executive Committee of a meeting that he and several other committee members had held with the governor. In this meeting, they outlined the challenges that had been occurring with DOR and expressed the displeasure with the system.

4. LEAGUE BUDGET FOR 2015-2016

League President Mark Mitchell recognized Mayor Thomas Schoaf, Chairman of the League Budget Subcommittee, to present the suggested League Budget for 2015-2016.

Mayor Schoaf pointed out that the proposed budget being suggested for adoption has a projection of $100,000 shortfall between revenues and expenditures. This is similar to the projected budget of 2014-2015, which included a projected shortfall of $110,000. He noted that depending on the revenue received from the annual conference, there would be a change in this shortfall amount.

Mayor Schoaf moved to approve the FY16 budget as recommended by the subcommittee; Mayor Linda Kavanagh seconded the motion and it passed unanimously.

5. PSPRS TASK FORCE UPDATE

League President Mark Mitchell welcomed Mr. Scott McCarty, Finance Director for the Town of Queen Creek and Chair of the League’s PSPRS Task Force to present an update on the Task Force.

Mr. McCarty introduced each of the Task Force members who were in attendance. He gave a brief overview of the accumulation of work of the Task Force and presented the preliminary recommendations, which were placed into the “Yardstick,” a creation of the Task Force that will define standards for evaluating the effectiveness of various PSPRS reform proposals.

He noted that there were five components of the Yardstick and outlined each one briefly.
Mr. McCarty informed the Executive Committee that the Task Force recommendation was for a defined benefit plan, which is the basic design of the current plan. He also reported that the Yardstick calls for any plan to be free from legal challenge, specifying that the recommendation should not affect the benefits of current employees or retirees; instead, the new system should be applicable to public safety employees hired after a certain effective date. In addition, the new system should have a statewide structure rather than 256 separate local boards, should be funded at the 100% level and include pooled assets and liabilities, should require equal cost sharing, and specify that any pension increases are tied to cost of living indexes rather than investment results.

The fifth component of the yardstick recommends a unified governance structure to manage the plan elements including funding and investment policies and administration. The recommendation would also be for independent, qualified experts to make up the board of trustees.

Over the next three months, the Task Force will present the elements of the Yardstick to city and town councils, to employee and labor groups, to legislative leadership, the Governor’s office and other interested parties.

League President Mark Mitchell thanked Mr. McCarty for his leadership and the other Task Force Committee Members for their work and recommendations.

6. 2015 LEAGUE CONFERENCE UPDATE

League President Mark Mitchell recognized League Communication and Education Director Matt Lore to update the Executive Committee on the preparations for the upcoming 2015 League Annual Conference.

Mr. Lore briefed the members on a meeting held in March with members of the League Conference Planning Committee. He described the sessions that will be included at the upcoming conference and informed the Committee that registration information would be sent the following week.

Mr. Lore also told the Executive Committee that the League would send out an e-mail to all Executive Committee Members with information on the sponsorship program, along with a list of current sponsors. He reminded the Committee that they were welcome to share contacts for potential sponsors who were not already included within the League’s outreach.

The committee moved to adjourn the Executive Committee meeting and reconvene into the League Property Corporation.

President Mark Mitchell adjourned the meeting at 12:04 p.m.
Agenda Item #2  League Policy Committees Process Review; Workgroup/Task Force Requests; Legislative Update

Summary: This is the first year for the League’s new Policy Committee Process. Five Committees were created, chaired by members of the Executive Committee. The committees received suggestions for League Resolutions on legislative matters. They discussed the various proposals, asked staff for research and information, and refined the suggestions in final form. Some became Resolutions while others were recommended for non-legislative solutions or required additional research. Those items recommended for further study are before the Executive Committee today for consideration.

Feedback on the new process has been quite positive. This is an opportunity to discuss what went well, what needs improvement next year and any other points related to the Policy Committees.

Responsible Person: Ken Strobeck, Executive Director
Policy Committee Chairs and members
Legislative staff members

Attachments: Non-Resolutions Summary Chart
Legislative Tour locations 2015
Legislative Report PowerPoint Slides
City TPT MOU

Action Requested: Approval of League study groups
<table>
<thead>
<tr>
<th>Number</th>
<th>Committee</th>
<th>Resolution</th>
<th>Sponsor</th>
<th>Action</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Budget, Finance, and Economic Development</td>
<td>Change Professions &amp; Occupations, registration requirement where a commercial tenant improvement project of less than $10,000 would not require an Arizona Registrant to design and stamp the project.</td>
<td>Flagstaff</td>
<td>Stakeholder process</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Budget, Finance, and Economic Development</td>
<td>Equalize the tax credit treatment (maximum allowable credits and collection deadlines) of contributions made to qualified charitable organizations, private schools, and public schools.</td>
<td>Eagar</td>
<td>Support school efforts when appropriate</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Budget, Finance, and Economic Development</td>
<td>Seek a study by the League staff to examine the structure of the state shared sales tax distribution formula and make recommendations on possible improvements.</td>
<td>Scottsdale</td>
<td>Study*</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Budget, Finance, and Economic Development</td>
<td>Seek legislation to provide for additional revenue generation authority to address the changing landscape of the Arizona economy, and address the shift in growth that directly impacts the current statewide revenue models.</td>
<td>Prescott</td>
<td>Study*</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>General Administration, Human Resources, and Environment</td>
<td>Allow publication of ordinances by summary rather than in full, with a statement of where the full text of the ordinance is available; coupled with requirements to publish the ordinances in full on the municipal website and to provide copies free of charge for 30 days.</td>
<td>Jerome</td>
<td>Stakeholder process</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>General Administration, Human Resources, and Environment</td>
<td>Simplification of the rezoning process as it related to supermajority vote and legal protest requirements.</td>
<td>Sedona</td>
<td>Stakeholder process</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>General Administration, Human Resources, and Environment</td>
<td>Protect local control and charter authority.</td>
<td>Yuma Flagstaff</td>
<td>Guiding principle</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Neighborhoods, Sustainability, and Quality of Life</td>
<td>Make provisions to allow towns, in certain circumstances, to bill property owners rather than tenants for utilities</td>
<td>Jerome</td>
<td>Non-legislative solution</td>
<td></td>
</tr>
</tbody>
</table>

These submissions did not move forward as resolutions and will be either be the subject of continued policy committee work or be resolved through League studies, stakeholder processes, or other non-legislative solutions.

* If authorized by League Executive Committee
Legislative Recap Tour Dates and Locations 2015

Tri-City Council, April 22 - Ken
Fountain Hills, May 21 - Ken
Eagar, June 2 - Dale
Sahuarita, June 10 –Dale and Ryan
Prescott Valley/GAMA, June 19 -Dale
League Conference, Tucson, August 20 – Ken, Dale, Ryan

On-site Trainings

Bisbee; Open Meetings Law, June 22 – Ken, Christina
Holbrook; Open Meetings, Conflict of Interest, July 14 – Ken, Christina
2015 Legislative Overview

League of Arizona Cities and Towns

Session at a Glance

• Adjourned *sine die* on April 3, 2015 (81st day)
• General Effective Date: July 3, 2015
• 1,163 bills introduced
• 344 bills sent to the Governor (approx. 30%)
• 324 bills signed
• 20 vetoes
Legislative Focus

• State’s rights
• Common Core
• Elections/campaign finance/ballots
• Micro Breweries
• Tesla/transportation sharing services

Session Challenges

• New Governor, Leadership, and House members
• Statutory punishments
  – “Matter of statewide concern”
• Limited local government experience
• Budget deficit, now surplus
Session Challenges, cont.

• Local Government Preemption
  – Growing trend; several attempts to override local control
  – Able to defeat large economic impact measures
  – Factual education the foundation of our success

Laws Passed
TPT/Budget Bills Passed

- SB 1446 TPT reform; contractors
- SB 1471 revenue; budget reconciliation; 2015-2016, amended by SB2617

League Resolutions Passed

- H2214 majority vote calculation; municipal elections
Preemptions Passed

• SB 1072 local planning; residential housing; prohibition
• SB 1079 solid waste collection; multifamily housing
• SB 1342 responsibility of payment; utility services
• SB 1241 auxiliary containers; regulation;

Failed Bills
League Resolution Failed

- HB 2324 intergovernmental agreements; public agency indemnification

Failed Preemptions

- HB 2254 municipal tax exemption; residential lease
- HB 2570 municipalities; vegetation requirements; prohibition
- SB 1167 photo radar; prohibition
Failed Gun Bills

• HB 2320 firearms; permit holders; public places
• HB 1291 firearms; state preemption; penalties
• SB 1330 prohibited activities; second amendment violations

Failed TPT Bills

• SB1120 fine art; TPT; exemption
• SB 1133 TPT; municipalities; customer refund claims
• HB 2419 prohibited transaction fees; municipalities
Future Challenges

• Budget – school funding, HURF
• Local decision making preemption
• Regulatory reform/“small” government
• Economic development
• TPT Local Authority and State Transition
• Elections
• Census Numbers for Shared Revenue

Questions?

• 1820 W. Washington Street, Phoenix, AZ 85007
• www.azleague.org
• 602-258-5786
• @AZCities, @AZCitiesWork
• League of Arizona Cities and Towns
Memorandum of Understanding

Memorandum of Understanding

Between

Arizona Department of Revenue

and

City/Town of _____________

Background
Administration and collection of local municipal transaction privilege tax and similar affiliated excise taxes imposed under the Model City Tax Code are governed under Arizona Revised Statutes Title 42, Chapter 6.

House Bill 2111 (2013 First Regular Session) and House Bill 2389 (2014 Second Regular Session), as a means of simplifying tax administration, requires the local municipal transaction privilege and affiliated excise taxes to be collected and administered by the Arizona Department of Revenue (“DOR”). In addition, DOR and each city and town shall enter into an intergovernmental agreement to establish a uniform method of administration, collection, audit, and licensing. House Bill 2617 (2015 First Regular Session) requires DOR to impose fees on cities and towns to pay a portion of administrative, program and other operating costs for DOR to provide administrative and collection services to local governments.

Purpose
In furtherance of this mission and the fees imposed by House Bill 2617, this Memorandum of Understanding (MOU) sets forth the understanding between the DOR and the City/Town of ___________ (“City/Town”) to establish performance measures to promote the timely, efficient and accurate processing of municipal tax matters.

Reporting
Appendix A, which was created by a team of representatives from DOR and the cities and towns, focuses on the performance measures in the operational areas of Administration, Customer Service, AZTAXES.gov, Audit, and Collections.

Duration
The term of this MOU shall be from July 1, 2015 through June 30, 2016.

Annual Review
During the term of this MOU, the Appendix A may undergo an annual review to be completed no later than March 31st of each year, however can be delayed or canceled if
determined no review is necessary. The performance measures may be modified by DOR and the cities and towns upon mutual agreement during the annual review process. These performance measures are goals. Payments due from cities and towns are required by law, and not contingent upon DOR meeting the goals.

Arizona Department of Revenue
Attn: Director, Division Code 20
1600 W. Monroe
Phoenix, AZ 85007

___________________ Date:_______  _____________________ Date:_______
Director       Chief Financial Officer/Finance Director
Arizona Department of Revenue  City/Town of _____________________
City/Address
Agenda Item #3  TPT Implementation Update

Summary: The League and several individual cities are actively working with the DOR to reprogram the state TPT collection system in order for DOR to begin collection of all TPT revenue on January 1, 2016. This agenda item is to provide you with a report on progress and challenges to date.

Responsible Person: Tom Belshe, Deputy Director

Attachments: HB 2111 Implementation Timeline
The Single Audit program is proving to be successful, as it continues to evolve to handle new issues. DOR has created a new web page that provides considerable information about the audit process, located at https://azdor.gov/Audits/TPTAudits.aspx.

Construction Contracting changes in SB1446 appear to have been implemented by most taxpayers. Although it is very early and results in any particular town can vary drastically, overall Contracting revenues are down as expected and Retail/Use tax revenues are not compensating for the decline, meaning the predicted revenue loss estimates are on target thus far.

The new IGA between DOR and cities and towns has been completed and many have already been signed by the Attorney General and returned to the cities and towns. The new MOU discussed during budget talks that provides specific performance standards for DOR has been completed. The MOU was distributed yesterday, and we expect them to be sent to DOR for signature soon, preferably along with each city or town’s budget payment for DOR operations.

The State’s Lean Project to address Residential Rental licensing and tax return processing issues delivered their recommendations on June 30th. Finance directors of the self-collecting cities responded that the proposal fails to meet any of their critical needs, while increasing complexity for both taxing jurisdictions and taxpayers and the likelihood of non-compliance. There seems to be greater emphasis on providing a work-around for DOR’s tax system, rather than looking at the proper long-term solution that improves the experience of all stakeholders.

As of July 10, 2015, the TAS development project is estimated at 59% completion and the project’s stoplight status is currently “Yellow” indicating it is not on track for timely delivery, although the Program Manager insists “with 100% certainty” that the project will go live on 1/01/2016. Every deadline up to now has been missed and all key indicator dates have been extended since inception of this plan in October 2013. A significant portion of their plan for getting the project back on track relies on reducing the planned testing.

The city IT and project manager staffers that are working with DOR have expressed an opinion of “No Confidence” that any aspect of the project will go live on time. Accordingly, we have been advising self-collecting cities and towns to prepare for doing their own license renewal process for 2016 licenses, as well as continuing to process their own tax returns well into 2016.

Scottsdale’s Mayor and the League have engaged the Governor's office to discuss halting this project and redirecting all efforts to move up replacing DOR’s antiquated tax software system. A meeting with upper level Governor's staff is planned for August 5th.
Agenda Item #4  PSPRS Task Force Update

Summary: The League’s PSPRS Task Force presented its report and Yardstick to the Executive Committee at its May meeting. Since that time, task force members have met with a wide variety of stakeholders to report on their conclusions and offer assistance in developing reform legislation for the 2016 session. These include several cities and towns, firefighters, union groups, legislators and legislative staff, Governor’s office staff, business groups and others.

Senator Debbie Lesko (R-Peoria) is taking the lead in developing legislation and has expressed support for a number of the principles in the Yardstick.

Today’s agenda item is to approve the Yardstick as the set of guiding principles for cities and towns regarding PSPRS reform legislation. There has also been discussion of whether the League should develop our own legislative proposal if none of the other reforms are acceptable to us as employers and the major users of the PSPRS system. With the number of stakeholders concerned about this issue, this will be an opportunity to discuss strategy moving forward.

Responsible Person: Scott McCarty, Chairman of PSPRS Employer Task Force

Attachments: Pension Task Force Yardstick for evaluating PSPRS reform proposals

Action Requested: Adopt principles of League Yardstick
August 3, 2015

Mayor Mark Mitchell  
President, Executive Committee  
League of Arizona Cities and Towns  

RE: The Yardstick: The Task Force’s Public Safety Pension Reform Recommendations  

President Mitchell and Members of the Executive Committee,  

The Task Force believes reforming PSPRS is one of the most important financial issues facing the taxpayers in the State of Arizona. The current system is not sustainable. For perspective of the magnitude of this issue, the system’s total unfunded liability at June 30, 2014 was $6.2 billion; 72% of this amount ($4.5 billion) belongs to Arizona’s cities and towns for our police departments ($3.0 billion) and fire departments ($1.5 billion). Arizona cities and towns have 120 plans within PSPRS (74 for police and 46 for fire) which include about 22,000 employee and retiree members.

The Task Force began its work in June, 2014 and has provided updates to the Executive Committee on three occasions; sharing our observations and thoughts. Most recently, on May 15th, the Task Force presented our preliminary recommendations (the Yardstick) to the Executive Committee. At that time, the Executive Committee directed us to discuss and receive feedback on the Yardstick from stakeholders before finalizing it. We have completed that process and now transmit the final version of the Yardstick to the Executive Committee.

Over the course of our work, we have done a tremendous amount of education, communication and outreach having met with all stakeholders including:

- Staff from the Governor’s Office;
- Staff from the Treasurer’s Office;
- State Legislators and staff;
- The State Legislative Pension Group led by Senator Senator Lesko and Representative Olson;
- Labor associations;
- PSPRS Board and staff;
- PSPRS’ Actuaries;
- Elected officials and staff at a significant number of cities, towns and counties;
- The Arizona Tax Research Association (ATRA);
- The Reason Foundation, other public pension associations, and national subject matter experts;
- The County Supervisor Association;
- The Arizona City and County Management Association (ACMA); and
- The Government Finance Officers Association of Arizona (GFOAz).

This extensive process has been invaluable; not only did we educate stakeholders but it also provided valuable feedback to the Task Force. For example, the Yardstick recommends creating the “third leg”
of the retirement stool for those members not in the Social Security system by creating a replacement-like program. This recommendation was the direct result of feedback received from the labor associations.

The Task Force feels very strongly the Yardstick can play an important role in reform discussions. It is designed to be a tool the Executive Committee can use to evaluate pension reform proposals and make decisions that are in the best long-term interests of Arizona’s cities and towns.

The Task Force is scheduled to make a presentation on the Yardstick at the League’s Annual Conference on August 19th at 1:30 pm. Additionally, we are currently working on the final report which will be released on that same date.

On behalf of all members of the Task Force, I want to thank the Executive Committee for the opportunity to participate in this process – it is has been our privilege.

Respectfully submitted,

Scott McCarty
Chair
Finance Director
Town of Queen Creek
The Yardstick:
A Tool to Evaluate Public Safety Pension Reform in Arizona

Recommendations of the League of Cities and Towns’ Pension Task Force

The Task Force believes reforming Arizona Public Safety Personnel Retirement System (PSPRS) is one of the most important financial issues facing the taxpayers in the State of Arizona. The current system is not sustainable. The intention of this document is to identify and discuss the Yardstick.

The Yardstick: What is it?
The Yardstick (shown on page 4) identifies the goals, characteristics, and elements of a viable and sustainable public safety pension system for the State of Arizona. Also, as the name suggests, it is an evaluation tool for the current system and reform proposals.

The Yardstick: Its Effects
The anticipated results of the pension system operating with the elements of the Yardstick are presented on pages 5 and 6. The Yardstick is expected to create a more sustainable system which will attract the highest quality employees yet be more affordable for taxpayers.

Using The Yardstick: An Evaluation of the PSPRS
Page 7 shows an at-a-glance evaluation of the current system using the Yardstick. The current system only meets a few criteria of the Yardstick and the evaluation shows the need for comprehensive reform. The current system of individual plans should be closed and replaced with one system which pools all assets and liabilities. Additionally, the governance structure has adversely impacted the financial condition of the system and needs to be reformed.

Using The Yardstick: An Evaluation of the Proposal by the Professional Fire Fighters of Arizona
Page 8 shows an at-a-glance evaluation of this proposal using the Yardstick. The Task Force believes this proposal will be legally challenged and does not provide long-term financial cost savings to taxpayers. Our major concerns with the proposal include changing benefits for existing actives and retirees (which are subject to legal challenge), using a separate account for retiree pension increases (which is funded from fixed employee and employer contributions), and not any making changes to the governance structure (e.g. maintaining the individual plans).
The Yardstick

1. DEFINED BENEFIT PLAN
   • The pension benefit is predetermined by a formula based on employee compensation, age, and tenure of service

2. FREE FROM LEGAL CHALLENGE
   • All current employees and all current retirees remain in the existing system

3. NEW STATEWIDE SYSTEM
   • For employees hired after July 1, 2016

4. PLAN ELEMENTS OF THE NEW STATEWIDE SYSTEM
   • Pooled Assets and Liabilities. Shares risk across the broadest base
   • Fully Funded. Assets at least equal liabilities (at least 100%) over an economic cycle
   • Equal Cost Sharing. Equal employer and employee contribution rates
   • Funding New Benefits or Benefit Increases. Funded as a system component and only if the system is determined to be fully funded before and after the change
   • Pension Increases. To maintain purchasing power
   • In-Lieu of Social Security Program. Mandatory participation in an employer-matched Defined Contribution plan for those members not in Social Security to replicate a Social Security-like benefit

5. GOVERNANCE STRUCTURE
   • System Design. Structure which requires sustainable outcomes
   • Funding Policy. Identifies financial objectives to ensure equity and sustainability
   • Investment Policy. Identifies beliefs and objectives regarding asset allocation
   • Board of Trustees. Independent, qualified professionals with fiduciary responsibility of ensuring compliance with Plan Elements
   • Administration. Consolidated and one independent disability committee of qualified experts
The Yardstick: Its Effects

❖ CREATE AN ATTRACTIVE, SUSTAINABLE RETIREMENT SYSTEM FOR EMPLOYEES
- Achieves Fiscal Sustainability. Provides generous, yet affordable, stable retirement income with pension increases tied to actual inflation conditions.
- Attracts Qualified Employees. Gives employees confidence the system will endure for their full working and retirement life.
- Creates the “Third Leg” of the Retirement Stool for Members Without Social Security. This addresses an issue raised by the labor associations, equalizes the “value” of the system for all members, and eliminates the need for DROP.

❖ LESS EXPENSIVE AND MORE EQUITABLE FOR TAXPAYERS
- Lowers Pension Costs for New Employees. The new system’s cost per employee will not have the current, large unfunded pension liability.
  - Example: Current System, City of Phoenix, $100K Police Officer Salary
    - Employer Contribution: 50% Rate, or $50K contribution
    - $37K Unfunded Liability; $13K Normal Cost
  - $37K Unfunded Liability Eliminated in New System (Taxpayer Savings)
- Reduces / Avoids Interest Costs in Current System. The savings achieved from new hires can be redirected to pay off the current unfunded liability.
- Equalizes Contributions for Employees and Taxpayers. The current employee contribution cap of 11.65% is eliminated.
- Reduces Employer Contribution Volatility. Assets and liabilities are pooled across the entire system thereby smoothing entity specific shocks.
- Creates Affordable Retiree Pension Increases. Increases will be provided to maintain purchasing power; the current dividend based approach has significant adverse financial impacts.
- Reduces Administrative Costs. Consolidating the State’s two public employee retirement systems and eliminating 256 individual plans will reduce administrative costs (e.g. actuary and investment advisory services) at the State and entity level.

❖ STRATEGICALLY GOVERNED FOR IMPROVED OUTCOMES / TRANSPARENT
- Avoids Passing Costs on to Future Taxpayers. A 100% funding objective requires corrective action will be taken in a timely manner.
- Improves Governing, Managing, and Reporting. Independent, qualified professional trustees’ ensure the strategic objectives of one system are achieved.
  - Evaluation of actuary assumptions to actual performance is more transparent.
  - Costs and implications of decisions (i.e. benefit increases) are easier to measure and understand.
### Using the Yardstick:
#### An Evaluation of PSPRS

<table>
<thead>
<tr>
<th>Yardstick</th>
<th>Included in Current System / Comments re. Current System</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Defined Benefit Plan</td>
<td>Yes.</td>
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<tr>
<td>2. Free from Legal Challenge</td>
<td>No. Proposed changes to retirees in 2011 were overturned and changes to active employees are currently in litigation.</td>
</tr>
<tr>
<td>3. New Statewide System</td>
<td>No. New Tier (Tier 2) was created in 2011.</td>
</tr>
<tr>
<td>4. Plan Elements</td>
<td></td>
</tr>
<tr>
<td>Pooled Assets and Liabilities</td>
<td>No. Individual plans.</td>
</tr>
<tr>
<td>Fully Funded (at least 100%)</td>
<td>No. Funding status of individual plans varies.</td>
</tr>
<tr>
<td>Equal Cost Sharing</td>
<td>No. Employee contribution capped at 11.65%; employer responsible for remaining amount.</td>
</tr>
<tr>
<td>Funding New Benefits or Benefit Increases</td>
<td>No.</td>
</tr>
<tr>
<td>Pension Increases to Maintain Purchasing Power</td>
<td>No. Based on investment performance (i.e. a dividend).</td>
</tr>
<tr>
<td>In-Lieu of Social Security Program</td>
<td>No.</td>
</tr>
<tr>
<td>5. Governance Structure</td>
<td></td>
</tr>
<tr>
<td>System Design</td>
<td>No. Current system design is not sustainable.</td>
</tr>
<tr>
<td>Funding Policy</td>
<td>No.</td>
</tr>
<tr>
<td>Investment Policy</td>
<td>Yes.</td>
</tr>
<tr>
<td>Board of Trustees</td>
<td>No. Some board positions are not independent.</td>
</tr>
<tr>
<td>Administration</td>
<td>No. Local pension / disability boards exist.</td>
</tr>
</tbody>
</table>
### Using the Yardstick:
#### An Evaluation of the Fire Proposal

<table>
<thead>
<tr>
<th>Yardstick</th>
<th>Included in Labor Proposal / Comments re. Proposal</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Defined Benefit Plan</td>
<td>Yes.</td>
</tr>
<tr>
<td>2. Free from Legal Challenge</td>
<td>No. The proposal is subject to two legal challenges (pension clause and contract clause) because it applies to existing employees and retirees.</td>
</tr>
<tr>
<td>3. New Statewide System</td>
<td>No. The proposal changes the current system which may result in the two potential legal issues referenced in #2 above.</td>
</tr>
<tr>
<td>4. Plan Elements</td>
<td></td>
</tr>
<tr>
<td>Pooled Assets and Liabilities</td>
<td>No. Individual plans remain and separate inflation protection program created for pension increases.</td>
</tr>
<tr>
<td>Fully Funded (at least 100%)</td>
<td>No. Not addressed.</td>
</tr>
<tr>
<td>Equal Cost Sharing</td>
<td>No. Employee contribution capped at 11.65%; employer responsible for remaining contribution amount or a 10% contribution rate, whichever is greater.</td>
</tr>
<tr>
<td>Funding New Benefits or Benefit Increases</td>
<td>Yes. However, the proposal only addresses pension increases which are funded from a separate inflation protection program via a dedicated employee contribution of 4% and a dedicated 1% employer contribution. All other benefit increases are 100% employer funded because employee contributions are capped at 11.65%.</td>
</tr>
<tr>
<td>Pension Increases to Maintain Purchasing Power</td>
<td>No. Based upon investment performance (with a cap) and subject to retiree eligibility criteria (i.e. age and years retired).</td>
</tr>
<tr>
<td>In-Lieu of Social Security Program</td>
<td>No. Not addressed.</td>
</tr>
<tr>
<td>5. Governance Structure</td>
<td></td>
</tr>
<tr>
<td>System Design</td>
<td>No. Not addressed.</td>
</tr>
<tr>
<td>Funding Policy</td>
<td>No. Not addressed.</td>
</tr>
<tr>
<td>Investment Policy</td>
<td>No. Not addressed.</td>
</tr>
<tr>
<td>Board of Trustees</td>
<td>No. Not addressed.</td>
</tr>
<tr>
<td>Administration</td>
<td>No. Local pension / disability boards remain.</td>
</tr>
</tbody>
</table>
Agenda Item #5  Executive Session: Annual Evaluation of League Executive Director

Summary: Pursuant to A.R.S. 38-431.03(A) 1, the Executive Committee will meet in Executive Session to discuss the annual performance evaluation of League Executive Director Ken Strobeck.

Responsible Person: Mark Mitchell, President

Attachments: Executive session materials can be found in a sealed envelope in the back pocket of this binder.
Additional Informational Materials
Not Part of the Agenda

League Budget Report
Property Corporation Budget Report
ARTICLE: Cities, towns offer new public safety pension proposal
ARTICLE: Don’t waste $13 million on an old computer system
ARTICLE: Phoenix-area cities mired in $1 billion census battle
ARTICLE: Panel: Self-driving cars will cost cities
## League of Arizona Cities & Towns
**FY 2014-2015 Budget vs. Actual**
**July 2014 through June 2015**

<table>
<thead>
<tr>
<th>Ordinary Income/Expense</th>
<th>Jul'14 - Jun'15</th>
<th>Budget</th>
<th>$ Over Budget</th>
<th>% of Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>4057 - Valley Schools Health Pool</td>
<td>25,000.00</td>
<td>25,000.00</td>
<td>0.00</td>
<td>100.0%</td>
</tr>
<tr>
<td>4000 - Affiliate Group Contribution</td>
<td>120,495.80</td>
<td>136,200.00</td>
<td>-15,704.20</td>
<td>88.5%</td>
</tr>
<tr>
<td>4005 - Annual Conference</td>
<td>457,091.90</td>
<td>350,000.00</td>
<td>107,091.90</td>
<td>130.6%</td>
</tr>
<tr>
<td>4010 - Dues</td>
<td>1,749,420.00</td>
<td>1,818,423.00</td>
<td>-69,003.00</td>
<td>96.2%</td>
</tr>
<tr>
<td>4012 - Executive Recruitment Income</td>
<td>50.00</td>
<td>6,000.00</td>
<td>-5,950.00</td>
<td>0.8%</td>
</tr>
<tr>
<td>4020 - Miscellaneous</td>
<td>35,687.75</td>
<td>14,000.00</td>
<td>21,687.75</td>
<td>254.9%</td>
</tr>
<tr>
<td>4030 - Risk Pool</td>
<td>141,254.92</td>
<td>138,898.00</td>
<td>2,356.92</td>
<td>101.7%</td>
</tr>
<tr>
<td>4035 - Seminars &amp; Meetings</td>
<td>39,470.84</td>
<td>50,000.00</td>
<td>-10,529.16</td>
<td>78.9%</td>
</tr>
<tr>
<td>4040 - Interest Income</td>
<td>3,126.12</td>
<td>5,000.00</td>
<td>-1,873.88</td>
<td>62.5%</td>
</tr>
<tr>
<td>4055 - US Communities Purchasing Prog</td>
<td>12,099.98</td>
<td>13,000.00</td>
<td>-900.02</td>
<td>93.1%</td>
</tr>
<tr>
<td><strong>Total Income</strong></td>
<td>2,583,697.31</td>
<td>2,556,521.00</td>
<td>27,176.31</td>
<td>101.1%</td>
</tr>
</tbody>
</table>

### Expense

<table>
<thead>
<tr>
<th>Expense</th>
<th>Jul'14 - Jun'15</th>
<th>Budget</th>
<th>$ Over Budget</th>
<th>% of Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>5005 · Annual Conference (Expense)</td>
<td>278,240.19</td>
<td>220,000.00</td>
<td>58,240.19</td>
<td>126.5%</td>
</tr>
<tr>
<td>5010 · Benefits</td>
<td>528,915.30</td>
<td>525,000.00</td>
<td>3,915.30</td>
<td>100.7%</td>
</tr>
<tr>
<td>5015 · Capital Outlay</td>
<td>10,459.86</td>
<td>20,000.00</td>
<td>-9,540.14</td>
<td>52.3%</td>
</tr>
<tr>
<td>5025 · Contingency</td>
<td>0.00</td>
<td>10,000.00</td>
<td>-10,000.00</td>
<td>0.0%</td>
</tr>
<tr>
<td>5030 · Equipment Rental &amp; Maintenance</td>
<td>21,090.55</td>
<td>25,000.00</td>
<td>-3,909.45</td>
<td>84.4%</td>
</tr>
<tr>
<td>5035 · Executive Committee</td>
<td>10,326.70</td>
<td>12,000.00</td>
<td>-1,673.30</td>
<td>86.1%</td>
</tr>
<tr>
<td>5043 · Executive Recruitment</td>
<td>38.45</td>
<td>3,000.00</td>
<td>-2,961.55</td>
<td>1.3%</td>
</tr>
<tr>
<td>5050 · Insurance</td>
<td>7,556.52</td>
<td>7,600.00</td>
<td>-43.48</td>
<td>99.4%</td>
</tr>
<tr>
<td>5055 · Postage &amp; Shipping</td>
<td>8,763.14</td>
<td>4,000.00</td>
<td>4,763.14</td>
<td>219.1%</td>
</tr>
<tr>
<td>5057 · PR &amp; Communications</td>
<td>71,984.92</td>
<td>110,000.00</td>
<td>-38,015.08</td>
<td>65.4%</td>
</tr>
<tr>
<td>5060 · Printing</td>
<td>10,526.86</td>
<td>10,000.00</td>
<td>526.86</td>
<td>105.3%</td>
</tr>
<tr>
<td><strong>5065 · Professional Services</strong></td>
<td>135,131.92</td>
<td>162,000.00</td>
<td>-26,868.08</td>
<td>83.4%</td>
</tr>
<tr>
<td>5065-1 · Accounting Services</td>
<td>42,105.57</td>
<td>42,000.00</td>
<td>105.57</td>
<td>100.3%</td>
</tr>
<tr>
<td>5065-3 · Legal Services</td>
<td>32,076.43</td>
<td>40,000.00</td>
<td>-7,923.57</td>
<td>80.2%</td>
</tr>
<tr>
<td>5065-2 · Contract Lobbying &amp; Consul...</td>
<td>60,949.92</td>
<td>80,000.00</td>
<td>-19,050.08</td>
<td>76.2%</td>
</tr>
<tr>
<td><strong>Total 5065 · Professional Services</strong></td>
<td>135,131.92</td>
<td>162,000.00</td>
<td>-26,868.08</td>
<td>83.4%</td>
</tr>
<tr>
<td>5070 · Rent</td>
<td>105,000.00</td>
<td>105,000.00</td>
<td>0.00</td>
<td>100.0%</td>
</tr>
<tr>
<td>5071 · Salaries</td>
<td>1,217,273.28</td>
<td>1,255,000.00</td>
<td>-37,726.72</td>
<td>97.0%</td>
</tr>
<tr>
<td>5075 · Seminars and Meetings</td>
<td>54,198.50</td>
<td>50,000.00</td>
<td>4,198.50</td>
<td>108.4%</td>
</tr>
<tr>
<td>5085 · Subscriptions &amp; Dues</td>
<td>57,474.11</td>
<td>55,000.00</td>
<td>2,474.11</td>
<td>104.5%</td>
</tr>
<tr>
<td>5090 · Supplies</td>
<td>36,048.41</td>
<td>35,000.00</td>
<td>1,048.41</td>
<td>103.0%</td>
</tr>
<tr>
<td>5095 · Telecommunications</td>
<td>33,382.06</td>
<td>32,000.00</td>
<td>1,382.06</td>
<td>104.3%</td>
</tr>
<tr>
<td>5100 · Travel</td>
<td>17,424.38</td>
<td>26,000.00</td>
<td>-8,575.62</td>
<td>67.0%</td>
</tr>
<tr>
<td><strong>Total Expense</strong></td>
<td>2,603,835.15</td>
<td>2,666,600.00</td>
<td>-62,764.85</td>
<td>97.6%</td>
</tr>
<tr>
<td><strong>Net Ordinary Income</strong></td>
<td>-20,137.84</td>
<td>-110,079.00</td>
<td>89,941.16</td>
<td>18.3%</td>
</tr>
<tr>
<td><strong>Net Income</strong></td>
<td>-20,137.84</td>
<td>-110,079.00</td>
<td>89,941.16</td>
<td>18.3%</td>
</tr>
<tr>
<td>Ordinary Income/Expense</td>
<td>Jul '14 - Jun 15</td>
<td>Budget</td>
<td>$ Over Budget</td>
<td>% of Budget</td>
</tr>
<tr>
<td>-------------------------</td>
<td>-----------------</td>
<td>--------</td>
<td>---------------</td>
<td>-------------</td>
</tr>
<tr>
<td>Income</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4000 · Rental Income</td>
<td>119,774.40</td>
<td>119,400.00</td>
<td>374.40</td>
<td>100.3%</td>
</tr>
<tr>
<td>4005 · Miscellaneous</td>
<td>0.00</td>
<td>3,100.00</td>
<td>-3,100.00</td>
<td>0.0%</td>
</tr>
<tr>
<td>4010 · Interest</td>
<td>56.65</td>
<td>50.00</td>
<td>6.65</td>
<td>113.3%</td>
</tr>
<tr>
<td>Total Income</td>
<td>119,831.05</td>
<td>122,550.00</td>
<td>-2,718.95</td>
<td>97.8%</td>
</tr>
<tr>
<td>Expense</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5000 · Maintenance Services/Agreements</td>
<td>37,506.27</td>
<td>32,000.00</td>
<td>5,506.27</td>
<td>117.2%</td>
</tr>
<tr>
<td>5015 · Utilities</td>
<td>31,707.33</td>
<td>36,000.00</td>
<td>-4,292.67</td>
<td>88.1%</td>
</tr>
<tr>
<td>5020 · Repairs and Maintenance</td>
<td>7,636.67</td>
<td>12,000.00</td>
<td>-4,363.33</td>
<td>63.6%</td>
</tr>
<tr>
<td>5025 · Operating Expenses</td>
<td>6,157.66</td>
<td>5,000.00</td>
<td>1,157.66</td>
<td>123.2%</td>
</tr>
<tr>
<td>5030 · Accounting and Auditing</td>
<td>6,450.00</td>
<td>6,450.00</td>
<td>0.00</td>
<td>100.0%</td>
</tr>
<tr>
<td>5035 · Insurance</td>
<td>6,422.35</td>
<td>4,900.00</td>
<td>1,522.35</td>
<td>131.1%</td>
</tr>
<tr>
<td>5040 · Capital Outlay</td>
<td>9,609.58</td>
<td>25,000.00</td>
<td>-15,390.42</td>
<td>38.4%</td>
</tr>
<tr>
<td>Total Expense</td>
<td>105,489.86</td>
<td>121,350.00</td>
<td>-15,860.14</td>
<td>86.9%</td>
</tr>
<tr>
<td>Net Ordinary Income</td>
<td>14,341.19</td>
<td>1,200.00</td>
<td>13,141.19</td>
<td>1,195.1%</td>
</tr>
<tr>
<td>Net Income</td>
<td>14,341.19</td>
<td>1,200.00</td>
<td>13,141.19</td>
<td>1,195.1%</td>
</tr>
</tbody>
</table>
The League of Arizona Cities and Towns is calling for major changes to the financially troubled retirement system for first responders because its members have been hard hit by rising public-safety pension costs.

The 91-member league wants a new statewide retirement system for employees hired after July 1, 2016. It wouldn't change the pension plan for current members and retirees.

The league also wants to replace the seven-member Public Safety Personnel Retirement System board, which has only three private-sector members, with an independent body of "qualified experts with fiduciary responsibility."

The league's plan has been in the works since June 2014. It was presented Wednesday before the PSPRS board, with one member expressing skepticism. The board took no formal action.

The proposal comes amid another reform effort pushed by the Professional Firefighters of Arizona and a work group at the Capitol.


MORE: Complete coverage of public pensions (/topic/14f8736a-2d19-4842-8ce0-b9f493cc5bc8/public-pensions/)

Most of those involved have publicly acknowledged the current system is financially broken and needs an overhaul as cities and towns have been forced to cut services and put a freeze on hiring police and firefighters because of increased public-safety pension costs. Teachers and other public employees are part of the Arizona State Retirement System and not covered by this proposal.

Costs have increased because of generous benefits for retirees, years of poor investment returns and an Arizona Supreme Court decision that rolled back cost-saving reforms.

The Legislature would need to make any significant changes to the public safety pension system.

The league's plan would:

• Create a different pension system for new employees hired after July 1, 2016.

• Have employers and employees pay the same amount of money or contribution rate into the trust. Currently, employers pay four to eight times the contribution rate of employees.

• Pool assets and liabilities to spread the risks among all government bodies.

• Have a pension board of trustees who are independent, qualified experts. The current board has four public employees with three — a firefighter, police officer and county supervisor — who benefit from the system.

"We have to change the system, and the way it's designed," said Scott McCarty, Queen Creek's finance director and league pension-task-force chairman.

McCarty said the league wants to make changes for future employees to avoid court challenges. Arizona courts and those across the country have struck down numerous pension-reform laws that have reduced benefits for retirees or changed the system for current employees.

Greg Ferguson, PSPRS Vice Chairman and a Yuma County supervisor, told McCarty that the league's pooled-asset plan amounted to a cost shift for some governments that would have to pay more to offset the burden of other communities that have high contribution rates. Ferguson also said the current system would suffer even more if new members were not allowed to join.

McCarty, later in an interview, complained that it was unfair to ask new employees to continue to prop up an ailing system, calling it a "death spiral."
Sen. Debbie Lesko, R-Peoria, has been running a pension-reform work session at the Capitol since February. Lesko, in a phone interview, said she hoped to have a plan in place for the 2016 Legislature to consider in January.

Lesko said the league is a major player in discussions because its members employ thousands of police officers and firefighters and are major financial contributors to PSPRS.

Lesko said the league's plan and the firefighters' proposal, which would change the funding mechanism for pension increases, have good points and that she's not ruling anything out.

"We are close to a breaking point and everyone realizes we need to do something," Lesko said. "I'm excited we have all been in the same room talking about this. We may get something done."

Brian Tobin, PSPRS chairman and a Phoenix deputy fire chief, said he's attended Lesko's meetings, and he believes they have been productive.

"It's a healthy, collaborative effort to determine a reasonable solution to pension reform," Tobin said.

The Arizona Republic in 2010 published a weeklong series detailing the burdens that state governments faced because of generous pension benefits and rising costs.

The Legislature responded in 2011 by passing cost-saving reforms, but the state Supreme Court in 2014 restored cost-of-living raises to PSPRS retirees, costing the system hundreds of millions of dollars.

Since 2011, the health of the PSPRS has deteriorated, and the funded ratio — the percentage of pension-fund liabilities that could be paid with current assets — has dropped from nearly 62 percent to about 50 percent.

As funded ratios drop, more money is needed from taxpayers to shore up the nearly $8.3 billion trust.

Read or Share this story: http://azc.cc/1HdzJ0
Don't waste $13 million on an old computer system

Our View: It's not worth spending $13 million on a computer system the Department of Revenue will replace next year.

Does an election year ever pass without some know-it-all candidate or other vowing to run government like a private business? Not that we've noticed.

Government work has different goals and motivations than the private sector. Its missions are not always comparable. Crucially, it doesn't exist to make money. We're perfectly prepared to cut the public sector slack when it comes to unavoidable inefficiencies.

The pointless, expensive decision by the Arizona Department of Revenue to spend as much as $13 million (story/news/local/tempe/2015/05/25/arizona-revenue-department-spending-millions-outdated-computer-system-plans-replace/27810949/) to upgrade a computer system it intends to scrap isn't one of them, however.

The department is upgrading its computer system, a long-overdue investment. It is difficult to fathom a more worthy state expense than technological improvements that enhance the state's handling of (and respect for) the taxpayer's dollar. The agency could begin installing the new system as soon as next year.

At the same time, however, the Legislature has mandated that the revenue department in January begin handling the sweeping sales-tax reforms it enacted in 2013. It won't be able to meet that deadline with the new computer system, which will take time to install. But by spending at least $13 million on upgrades to the inferior, old system? Yeah, we can do that.

Only they shouldn't be doing that. The department is under intense pressure from advocates of the state's sales-tax reforms to implement them on time. Rep. Debbie Lesko, R-Peoria, is lashing the agency with a particularly stinging whip.

But she also is whipping up on taxpayers, who will foot the bill for at least $13 million in computer "improvements" that may be junked in less than a year. It's a wasteful choice.

Arizona's construction-materials sales-tax laws are the oddest in the nation. The coming, simplifying reforms are a good thing. But contractors have worked with the state's bizarre tax-collection system for a long time. They can handle a bit more of it.

A bigger issue is the chronic inability of government agencies generally to keep up with technology.

It isn't just the revenue department. Computer issues have dogged the state Department of Education for years. And it isn't just Arizona agencies. The Internal Revenue Service system is notoriously archaic. And, of course, one of the biggest computer-system belly-flops of all time was the Department of Health Services' roll-out of the Affordable Care Act.

Explanations and excuses range from lack of funding to plain, old bungled choices by management.

The state revenue department's conundrum appears to involve the latter. These are taxpayer dollars being wasted. A spending hawk like Lesko, of all people, ought to know that.

Read or Share this story: http://azc.cc/1Hw2jNz
Phoenix-area cities mired in $1 billion census battle

A power struggle among Valley cities over population figures and more than $1 billion in state revenue remains unresolved after months of wrangling.

City leaders from across Arizona have held formal talks and last month voted to seek special legislation, but the issue continues to threaten regional trust and cooperation.

See our infographic below.

The dispute stems from Arizona’s competitive shared-revenue system, which uses a population-based formula to calculate each community’s cut of state income tax, sales tax and vehicle fees.

Phoenix gets about $450 million a year, for example, while Scottsdale gets about $70 million. Cities use the money to help fund services such as police and fire protection and road construction.

Arizona currently uses population data from the most recent decennial census, taken in 2010, to divvy up the state funds.

Rather than wait 10 years to update the formula, cities have legal authority to conduct a mid-decade census. That can cost millions.

RELATED: Census: Phoenix area population grew rapidly (https://story/news/arizona/politics/2015/03/26/census-phoenix-area-population-grew-rapidly/70507534/)

In May, the League of Arizona Cities and Towns decided it would ask the state Legislature next year to give cities another option — using readily available data from the state and utility companies to count residents.

That proposal has strong support among Arizona’s 91 municipalities, but the timing has sparked an emotional row among city leaders.

Seven Arizona communities — Chandler, Gilbert, Peoria, Queen Creek, Buckeye, Goodyear and Maricopa — have already launched full-blown census efforts this year at a combined cost of about $16 million. That’s about enough money to run Gilbert’s entire park system for a year.

Those communities decided to order a special census only after other cities, including Phoenix and Mesa, blocked similar legislation last summer that would have allowed them to use state data.

Phoenix Mayor Greg Stanton and then-Mesa Mayor Alex Finter confirmed they voted against the resolution at a League of Arizona Cities and Towns meeting in 2014.

Finter said the city opposed using state population estimates because the state’s process is “deeply flawed” and provides inaccurate counts. Stanton shared a similar sentiment through his chief of staff, Seth Scott.
But after opposing the plan last year, the cities reversed course after seeing how much funding they'd lose if a handful of communities proceeded with their own census, likely claiming larger slices of the funding pie as a result.

Phoenix, for example, stood to lose nearly $8 million a year, according to a league estimate. Mesa's loss was projected at more than $2 million annually.

While cities now seem to be united in pushing for the legislation, it's unclear whether state lawmakers will provide the supermajority needed to grant an emergency clause for the law to take immediate effect in 2016.

RELATED: Special census will cost 5 Arizona cities big (/story/news/local/southwest-valley/2015/01/29/arizona-cities-special-census/22507379/)

Either way, it would still be too late for the communities already paying millions to the U.S. Census Bureau.

Peoria, for example, has spent $1.1 million so far for a special census and is in the process of recruiting and hiring enumerators, said Katie Gregory, deputy director of finance and budget. Gilbert has paid the bureau about $1.6 million and expects to spend about $2.6 million more.

The seven communities taking part in the mid-decade census are asking other communities to help cover the cost, arguing that they never would have taken that road if the legislation had been supported a year ago.

Mesa, at least, appears to be open to some sort of reimbursement for the census, with City Manager Chris Brady speaking in support of the idea at a Maricopa Association of Governments meeting in April and Mayor John Giles expressing support at last month’s league gathering.

RELATED: Gilbert population passes Glendale for No. 4 in Valley (/story/news/local/gilbert/2015/05/22/gilbert-population-passes-glendale-valley/27726975/)

Some other city leaders have been less supportive, though, including Fountain Hills Mayor Linda Kavanagh and Lake Havasu City Mayor Mark Nexen.

"For Lake Havasu City to say we're going to compensate you for a decision that was never going to benefit us in the first place — that's a real struggle for us," Nexen told members of the league’s executive committee.

Kavanagh said Fountain Hills is growing economically but has a large snowbird population and no room to add residents.

"That being said, we certainly know we're going to see a loss, and we don't want a double loss by saying we may have to compensate those other cities that are gaining on us," Kavanagh said.

The reimbursement issue unresolved, the league committee on May 15 voted to move forward with the legislation only.

Gilbert Mayor John Lewis and Maricopa Mayor Christian Price were the lone "no" votes. They wanted to give a group of four city managers more time to work out a comprehensive solution.

Lewis told the group he felt like he'd been beaten up during an "ugly last couple of months."

"I'm not sure if everything is going forward ... that the seven census cities are still going to be listened to," Lewis said. "Because we certainly haven't been."

Lewis hinted that his town and other communities had been threatened with being "blackballed" at regional groups like the Maricopa Association of Governments and the Arizona Municipal Water Users Association in retaliation for pursuing the census.

Several leaders have called for regional unity on the issue, including Ken Strobeck, head of the League of Arizona Cities and Towns. Strobeck in May warned city leaders to keep the argument within "the family" to avoid repercussions at the Legislature. "This is an issue that we have to solve ourselves," Strobeck said. "If we are seen as being against each other as municipalities, we all lose in that process."

Read or Share this story: http://azcc.cc/1IA7NN8
Self-driving cars and other emerging technologies are going to cut into municipal budgets nationwide, a panel of futurists at Arizona State University says.

Imagine this brave new world:

- Autonomous cars that never speed, never run red lights— and owners who never get popped for drunken driving or pay a dime for traffic tickets.

- Robotic vehicles that deliver people and goods anywhere — and choke off income taxes from displaced taxi drivers and delivery-truck drivers.

The financial impact of driverless cars represents just one of many ways emerging technologies will disrupt local governments, according to the authors of a report published by the Brookings Institution, a non-profit public-policy organization based in Washington, D.C.

Technology already is affecting social behavior, the authors wrote.

Social media has enabled quick-forming communities of like-minded residents to lobby local leaders in a nearly unprecedented manner. The concept of municipal-level, flash-mob political movements hardly existed before Twitter.

Similarly, governments will have opportunities to brand their municipalities as centers for immigrants and the creative class who will hold jobs that survive — and benefit — from emerging technologies.

"In order to be a relevant and critical player in the future, local governments will need to rethink their design, strategy, operations and processes in fundamental ways," the researchers wrote.

"We assert that changes on the not-too-distant horizon will require local governments to be agile, nimble and dynamic," they wrote.

Local governments have until about 2035 to figure it out.

The 27-page report was written by two ASU professors and four students. The professors: Kevin Desouza, an associate dean in the College of Public Service and Community Solutions, and David Swindell, director of the Center for Urban Innovation.

The students: Kendra Smith, a postdoctoral student in public service and community solutions; Alison Sutherland, a doctoral student in liberal arts and sciences; Kena Fedorschak, a graduate student in business; and Carolina Coronel, a recent graduate in public service and community solutions.

Driverless cars illustrate potentially sweeping change, said Desouza, who was reached in Australia. "That was one of the easier points to make, because it's one of those points that everybody can relate to," he said.

Google, Tesla, Mercedes and other manufacturers are testing driverless vehicles and are getting close to making them available to consumers.

"It turns out that automated vehicle technology — unlike humans — abides by the law. And that's bad news for local government revenues," the researchers wrote. "Deep revenue sources acquired from driving-related violations, such as speeding tickets and DUls, will decrease sharply."

Others differ with their vision of the future.

Ken Strobeck, executive director of the League of Arizona Cities and Towns, believes the futurists' concerns are misplaced.

"I'm assuming that these statements are coming from people that don't have any idea how city budgets operate, because revenue from traffic tickets and DUls is not a significant source of revenue," he said.

Traffic tickets aren't money generators for most municipalities, he said. Police expenses, court costs and related expenditures typically offset or exceed the revenue that tickets bring in. Traffic laws are enforced to promote safety, he said.

"I don't think anybody is worried about driverless cars impacting their municipal revenue — maybe impacting their guard rails and curbs," Strobeck
said.

In Phoenix, bad-driver-funded revenue generates slightly more than 1 percent of the city's budget, said Tracy Reber, director of the city's Department of Budget and Research.

Phoenix collected $9.6 million in fines from most moving violations in fiscal 2014. Fines from DUls brought in an additional $1.2 million for a combined $10.8 million.

Traffic-ticket revenue represented approximately 1.1 percent of the city's entire general fund of $1.03 billion in 2014, a percentage that has remained fairly steady since at least 2011.

Circumstances are similar in Mesa.

Mesa collected $4.2 million in traffic-ticket revenue, which accounted for roughly 1.3 percent of the city's $326.5 million general fund in fiscal 2014, said spokesman Steven Wright.

A selection of other metro Phoenix cities could not immediately identify the amount of funding received from traffic-ticket fines, often because the revenue is lumped in with revenue derived from fines for littering, jaywalking and other non-driving offenses.

In Phoenix, a potential loss of $10 million to $12 million a year would be noticeable, Reber said.

"You're talking about millions of dollars, so yeah, that's paying for some police officers' salaries, a few of them, at least. It would be something that we would have to make up in some other way," she said.

But Reber doesn't share the futurists' vision of American roads in 2035. "I'm kind of doubtful about that self-driving car, myself," she said.

The potential loss of revenue from traffic tickets is just part of the picture, Desouza said.

If driverless cars are synced to parking meters, parking-ticket revenue similarly would dwindle.

Other technology-charged changes to the transportation system would choke other existing revenue sources, according to the researchers.

Increased use of public transportation, more peer-to-peer ride services and wider acceptance of car-sharing programs also will trim revenue sources from registrations, emissions testing and similar fees, Desouza said.

Car sharing, which allows people to rent cars for a couple of hours at a time, already is well-developed in large urban centers like New York and Washington. Car-sharing companies such as Car2Go, Zipcar, Enterprise CarShare and Hertz 24/7 appeal to consumers who want to use cars but not own them.

Desouza said that after the report was published in May, he fielded about 100 e-mails from city managers and budget directors from across the U.S. and Canada. None had previously considered the financial implications of driverless cars.

He was pleased with the outcome.
"Our goal was to evoke a reaction," he said.

**Bad-driver revenues**

Fees from traffic tickets have made up about 1 percent of Phoenix's general-fund revenues for the past several years. The breakdown:

**Fiscal 2015**

Projected total budget: $1.1 billion.

Projected traffic-ticket fees: $9.7 million.

Projected portion of the budget: 0.9 percent.

**2014**

Total budget: $1 billion.

Traffic-ticket fees: $10.8 million.

Portion of budget: 1.1 percent.

**2013**

Total budget: $981 million.

Traffic-ticket fees: $11.2 million.

Portion of budget: 1.1 percent.

**2012**

Total budget: $948 million.

Traffic-ticket fees: $12.4 million.

Portion of budget: 1.3 percent.

**2011**

Total budget: $958 million.

Traffic-ticket fees: $12.3 million.

Portion of budget: 1.3 percent.

Figures are rounded.

Source: Phoenix Department of Budget and Research

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