

MINUTES

LEAGUE OF ARIZONA CITIES AND TOWNS

EXECUTIVE COMMITTEE MEETING

Friday, February 12, 2016 at 10:00 a.m.
League of Arizona Cities and Towns
1820 W. Washington St.
Phoenix, Arizona

MEMBERS

President

Mark Mitchell, Mayor, Tempe

Vice President

Jay Tibshraeny, Mayor, Chandler

Treasurer

Mark Nexsen, Mayor, Lake Havasu City

Doug Von Gausig, Mayor, Clarkdale
Gilbert Lopez, Councilmember, Coolidge
Lana Mook, Mayor, El Mirage
Gerald Nabours, Mayor, Flagstaff
Linda Kavanagh, Mayor, Fountain Hills
John Lewis, Mayor, Gilbert

*Jerry Weiers, Mayor, Glendale
Thomas L. Schoaf, Mayor, Litchfield Park
Ed Honea, Mayor, Marana
Christian Price, Mayor, Maricopa
John Giles, Mayor, Mesa
Kenny Evans, Mayor, Payson
Cathy Carlat, Mayor, Peoria
Daniel Valenzuela, Vice Mayor, Phoenix
Harvey Skoog, Mayor, Prescott Valley
W.J. "Jim" Lane, Mayor, Scottsdale
Daryl Seymore, Mayor, Show Low
Rick Mueller, Mayor, Sierra Vista
Sharon Wolcott, Mayor, Surprise
*Bob Rivera, Mayor, Thatcher
Jonathan Rothschild, Mayor, Tucson
Douglas Nicholls, Mayor, Yuma

**Not in attendance*

League President Mark Mitchell called the meeting to order at 10:04 a.m. He welcomed Prescott Mayor Harry Oberg, who addressed the Executive Committee, noting that he was happy for the passing of PSPRS legislation. President Mitchell also welcomed Avondale Mayor Kenn Weise, who noted that Avondale was concerned with the current rental tax issue and that he was willing to lend support to the Executive Committee on that issue and any others.

1. REVIEW AND ADOPTION OF MINUTES

Mayor Kenny Evans moved to approve minutes from the November 13, 2015 Executive Committee Meeting; Mayor Jonathan Rothschild seconded the motion and it carried unanimously.

2. LEGISLATIVE POLICY DISCUSSION AND UPDATE

President Mark Mitchell informed the Executive Committee that representatives from Proposition 123 would be joining them for the meeting and they could suspend discussion on Agenda Item # 2 when they arrived and continue once their presentation was over.

President Mitchell recognized League Executive Director Ken Strobeck to present the Legislative Policy Discussion and Update.

Executive Director Strobeck told the Executive Committee that it was the 33rd day of the session and that this year, 1,324 bills, memorials and resolutions had been introduced. He noted that this year was the most intense he had ever seen in terms of anti-city legislation, as many bills were out to limit municipalities, not just financially, but also with authority. He went on to discuss a few prominent bills.

Mr. Strobeck first discussed the PSPRS package of bills – two of the bills are being taken to the May 17 ballot. He noted that this bill was successful because of the work of the League and the creation of the Yardstick by the PSPRS committee, chaired by Scott McCarty. Mr. Strobeck then outlined the principles of the new PSPRS system, noting that it would create a new tier for future employees in the public safety sector beginning July 1, 2017. Current Tier 1 and Tier 2 employees will continue as is, but the new Tier 3 will require everyone in the plan to make a 50/50 contribution and it will be fully funded for the plan and any benefit increase. The new plan also provides an optional defined contribution plan for firefighters who do not have Social Security coverage. In addition, the new plan raises the retirement age from the current 52 ½ to 55 years, after 25 years of service, and decreases the cap of pensionable pay to \$110,000 from the current \$265,000. This can only change based upon the Maricopa County average wage index. He also noted that the new board would be made up of 50 percent employees and 50 percent representing employers, including three members from cities and towns appointed by the Governor, Senate President and House Speaker from a list of candidates, and the ninth member who will be recommended by a new advisory committee.

Mr. Strobeck informed the Committee that the one unresolved issue was related to pooling, as the League had advocated for all members to be included in one pool, as opposed to the 256 current separate plans. The bills call for the new board to make the decision in that area and move forward. He also indicated that the ballot proposition also included a change to the existing retirees, which was not originally recommended, however, the labor groups advocated for the change and the League agreed to support the ballot proposition.

Mr. Strobeck then recognized League Legislative Director Patrice Kraus to provide the remainder of the legislative policy discussion.

Legislative Director Kraus informed the Committee that Representative Mitchell had once again introduced legislation related to residential rental tax. She reminded the Committee that the previous year's related bill was estimated to include approximately \$87 million in lost revenues, however, the bill was never voted on the floor. This year, the original proposed to eliminate the tax in cities with a population of at least 100,000; the estimate was \$74 million in lost revenue. Since that was introduced, a new proposal was created that includes an exemption only for those who own two or fewer homes in one community. Ms. Kraus informed the Committee it was difficult to estimate the current proposal's cost to cities and towns.

President Mitchell thanked Ms. Kraus on the League's work on this bill and also indicated that, along with Vice President Jay Tibshraeny, Goodyear Mayor Georgia Lord, and Phoenix City Councilmember Sal DiCiccio, he had met with Representative Mitchell to discuss the bill. Ms. Kraus informed the Executive Committee that the League would be sending a fact sheet regarding this bill and encouraged members to continue speaking with their legislators about this issue. Executive Director Strobeck also reminded the Committee that an important speaking point on this issue is that this tax is not paid by the renters, but by the owners as a transaction privilege tax. Some owners pass the tax on, however, it is a business expense that can be deducted from income tax and is not a major factor in the cost of rent.

Ms. Kraus also reminded the Executive Committee of the census legislation introduced to allow for an alternative to the special census. It was introduced by Representative Olson and had passed out of the House Appropriations Committee unanimously and would be heading to the House floor.

Ms. Kraus then informed the Executive Committee that the League Staff has been involved as a stakeholder with a group convened by Representative Cobb regarding changes to the construction sales tax. She reminded the Executive Committee that since TPT implementation in 2013, there have been concerns with this portion, as it appears confusing. Representative Cobb approached the League with a concept to go back to the construction sales tax system prior to the 2013 change, which included a 35 percent labor deduction and the tax was applied to the remaining 65 percent. Representative Cobb's proposal included a reduction to 55 percent, which would be applicable for four years. Ms. Kraus indicated that she believes the ultimate goal of construction industry is to tax materials only at point of sale and that potential legislation on this could be introduced as early as next year. She noted that the bill would be heard in Committee the following Monday and asked for direction from the Executive Committee on the approach they believed the League should take.

Executive Director Strobeck also said that should legislation be introduced for point of sale in 2017, there would be a significant tax reduction, lowering it to 35 percent. He noted that this proposal would also create a reduction, however, it wouldn't be as considerable and it would give a 3-4 year period of cooling off before a point of sale legislation would be introduced. He noted that many are counting on the current confusing system to continue so that the point of sale system would be easier to introduce at a later date.

Mr. Strobeck also clarified that the most the League would likely do is sign in neutral on Representative Cobb's bill.

President Mitchell noted that if this proposal were to go through, it would cause a ten percent reduction, however, it would give a moratorium for three years. He noted that the fight for point of sale would not be going away and a moratorium would give them time to build partnerships and come up with alternatives.

The Executive Committee discussed the impact of a ten percent reduction, as well as the possibility of creating a League-appointed taskforce similar to PSPRS to review and develop solutions.

Mayor Jonathan Rothschild said that they should propose going back to the old system and leave the amount at 65 percent. He believed the proposed reduction is too great and we should be opposed as it is too big a financial debt to cities.

Mayor Jim Lane agreed and said that a proposal moving forward with the current distribution of percentages would be an option he would support.

Ms. Kraus said that she would sign in opposed at the Committee, testifying that the League liked the concept of moving forward with the old system, but that cities and towns could not take any deduction in percentage at this time.

Executive Director Strobeck then informed the Executive Committee about a bill introduced by Senate President Andy Biggs that says that any member of the Legislature can file a complaint with the Attorney General and the Attorney General is required to investigate any city or town in case they are violating state law or the State Constitution. If the Attorney General determines the city is in violation, their shared revenue would be suspended and distributed to other cities and towns. That city would also be required to file a bond in the amount of six months of shared revenue should the city appeal the decision to the Supreme Court. Mr. Strobeck emphasized the League's opposition towards this bill and also noted that it may be unconstitutional.

3. RESOLUTION OF SUPPORT FOR PROPOSITION 123

President Mark Mitchell recognized League Executive Director Ken Strobeck to introduce the agenda item on support for proposition 123.

Executive Director Strobeck told the Executive Committee that because many cities and towns are invested in the quality of schools within their municipalities, many mayors had already signed in support of Proposition 123 and it was open for discussion whether the League should publicly support the proposition.

Mr. Strobeck introduced J.P. Twist and Christian Palmer from the Prop 123 campaign team. Mr. Twist thanked the Executive Committee for allowing them to present on the proposition. He informed the Committee that many leaders from the business community and elected officials from the state, including many mayors, had already voiced support for the proposition and offered to answer any questions from the Committee.

It was asked that the Prop 123 campaign provide a fact sheet to the members of the Executive Committee.

Mayor Von Gausig voiced concern about Proposition 123, citing the use of funds from the state land trust and questioned whether it was a League issue. Mr. Twist and Mr. Palmer acknowledged Mayor Von Gausig's concerns and indicated that the fund exists to fund education and that the new proposition was just increasing the percentage that was already being taken.

Mayor John Lewis remarked that there is a correlation with municipal economic development and the quality of education, noting that when companies come from outside Arizona to look at cities, they often ask about the quality of the area K-12 schools.

Mayor Christian Price also remarked that the support of this proposition could result in the building of partnerships and coalition. He indicated that it was important to show support as cities on the goals of the governor's office.

Mayor Kenny Evans made a motion to approve a resolution of support for Proposition 123; Councilmember Gilbert Lopez seconded the motion and it carried unanimously.

4. RESOLUTION OF SUPPORT FOR PSPRS REFERRAL

President Mark Mitchell recognized League Executive Director Ken Strobeck to introduce the agenda item on support for PRPRS referral.

Executive Director Strobeck informed the Executive Committee that the new PSPRS plan would be included on the same ballot as Proposition 123 and opened it to public support from the League Executive Committee.

Mayor Harvey Skoog made a motion to approve a resolution of support for PSPRS referral; Mayor John Giles seconded the motion and it carried unanimously.

5. TPT IMPLEMENTATION UPDATE

President Mark Mitchell recognized League Deputy Director Tom Belshe to give a TPT Implementation Update.

Deputy Director Belshe informed the Executive Committee that the new Department of Revenue director had come on and was quietly making some big changes aimed at changing the culture of the department, along with changes in operational efficiency. He noted that it was suggested the TPT 2 form, which would be filled out by taxpayers, was nearing completion and would begin testing in July. If testing on that portion goes well, he indicated that the next portion would likely happen near the end of 2016.

6. REPORT FROM BUDGET SUBCOMMITTEE

President Mark Mitchell recognized Mayor Thomas Schoaf, Chairman of the Budget Subcommittee.

Mayor Schoaf informed the Executive Committee that the Budget Subcommittee had met to discuss the preliminary budget for FY 2017. He reminded the Committee that they would need to be voting on the dues fee structure.

Directing the Committee to the preliminary budget, he noted that the FY 2016 budget included a \$117,000 shortfall, however, due to revenue from the 2015 League Summer Conference, there was a \$100,000 surplus. He also noted that the FY 2017 budget included a significant increase in salaries, as the League now had filled all 15 positions, some of which had been vacant in prior budget years.

Mayor Schoaf told the Executive Committee that the proposed 2016-17 dues would increase by \$160 for those cities and towns not included in the cap structure and would increase by 1.65 percent for those seven cities currently in the cap structure.

Mayor Doug Von Gausig made a motion to approve dues as presented; Councilmember Gilbert Lopez seconded the motion and it carried unanimously.

7. RESOLUTION OF APPRECIATION

Mayor John Giles moved to approve a resolution of appreciation for former Executive Committee Member Greg Stanton, Mayor of Phoenix; Mayor Doug Nicholls seconded the motion and it carried unanimously.

8. EXECUTIVE DIRECTOR UPDATE

President Mark Mitchell recognized League Executive Director Ken Strobeck to provide an Executive Director Update.

Executive Director Strobeck reminded the Executive Committee that League Conference sponsorship was an important source of revenue for the League and referred members to the conference sponsorship packet in their agenda. He asked them to use it as a resource when making contacts with various businesses within their community and encourage them to become partners with the League Conference.

Mr. Strobeck also reviewed the schedule of the NLC Congressional City Conference being held in Washington, D.C. in March.

Mayor Von Gausig also announced that the Clarkdale Town Manager Gayle Mabery had received the Arizona City/County Management Association's highest honor, the Jack DeBolske Award at their conference.

Seeing no further business, President Mitchell adjourned the meeting at 11:59 a.m.



EXECUTIVE DIRECTOR



PRESIDENT