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TOWN OF JEROME, ARIZONA

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MINUTES

SPECIAL MEETING OF THE JEROME TOWN COUNCIL JEROME CIVIC CENTER - 600 CLARK STREET - COUNCIL CHAMBERS TUESDAY, MAY 24, 2016 AT 6:30 P.M.

<p>ITEM #1:</p>	<p>CALL TO ORDER/ROLL CALL</p> <p>Mayor/Chairperson to call meeting to order. Town Clerk to call and record the roll.</p> <p><i>Mayor Currier called the meeting to order at 6:32 p.m.</i></p> <p><i>Town Manager/Clerk Candace Gallagher called roll. Present were Mayor Currier, Vice Mayor Freund, Councilmember Barber, Councilmember Stewart and Councilmember Vander Horst. Other staff present were Joni Savage, Deputy Clerk, and Rebecca Cretti, Finance Director.</i></p>															
<p>ITEM #2: 6:32</p>	<p>2016-17 BUDGET</p> <p>Council will continue their discussion of the 2016-17 budget. Discussion will include rental properties and revenues, and may include any or all other aspects of the budget.</p> <p><i>Mayor Currier reflected on his experience over the weekend of being a docent at Town Hall for the 51st Annual Jerome Home and Building Tour. "We have long said that we put a million or so people through here every year," he said, "and that turns out to be about 3,500 every day. Instead of thinking of us as a town of 444, we should think of us as a town of 4,000, because that's really what we are. We're being supported by 444, but 4,000 is a better way to look at our needs."</i></p> <p><i>Ms. Gallagher had provided a memo detailing changes made to the budget since the last budget meeting. She reviewed the memo with Council. The changes made, based on discussion at the last meeting, were:</i></p> <ul style="list-style-type: none"> <i>Included an across the board 2% wage increase (approx. Impact \$20,000)</i> <i>Added \$2,000 to Town's contribution to JFD Pension</i> <i>Added provision for one additional crew member, budgeted for six months (approx. impact \$20,000)</i> <i>Added funds for engineering and R&M Infrastructure as follows:</i> <table border="1" data-bbox="407 1402 1325 1549"> <thead> <tr> <th></th> <th>R&M Infrastructure</th> <th>Engineering</th> </tr> </thead> <tbody> <tr> <td>Water</td> <td>+\$15,000</td> <td>+\$13,000</td> </tr> <tr> <td>Sewer</td> <td>+\$20,000</td> <td>+\$4,000</td> </tr> <tr> <td>HURF</td> <td>+\$5,000</td> <td>+\$3,000</td> </tr> <tr> <td>TOTAL ADDED</td> <td>\$40,000</td> <td>\$20,000</td> </tr> </tbody> </table> <p><i>She added that a few other changes were made, which had not yet been discussed by Council. Those changes were:</i></p> <ul style="list-style-type: none"> <i>She eliminated the \$10,000 previously budgeted under General Government for litigation and adjusted the amounts budgeted under sewer for bond principal and interest (they had previously been estimated).</i> <i>Based on sales tax revenues to date, she increased the sales tax revenues anticipated in FY2017 by \$10,000.</i> <i>She included, under Operating Grants (in both revenue and expense), \$30,000 in FY2017 funding from Yavapai County Flood Control District.</i> <i>She included use of existing monies in the Capital Fund toward the possible purchase</i> 		R&M Infrastructure	Engineering	Water	+\$15,000	+\$13,000	Sewer	+\$20,000	+\$4,000	HURF	+\$5,000	+\$3,000	TOTAL ADDED	\$40,000	\$20,000
	R&M Infrastructure	Engineering														
Water	+\$15,000	+\$13,000														
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of a garbage truck, and balanced the fund with a carryover of prior year funding.

- She made very minor tweaks to a few line items, including updated revenue figures provided by the League.

As a result of all of these changes, she said, the water account now shows a deficit of \$24,000, the sewer account shows a deficit of \$28,500, and the General Fund shows a surplus of \$12,500. She provided several possible options for covering those deficits:

- The use of fund balance.
- Extending the sales tax increase. For every month it is extended, the Town would see \$8,000 in additional revenue.
- Increasing the water and sewer fees. The draft budget anticipates a 5% increase already. For every percentage increase in rates, we would see approximately \$1,350 added revenue in each account (prorated in this budget).
- Finding new revenue streams.
- Reducing expenditures.
- Eliminating or reducing the administrative charges by General Government to the other funds. Although this is an option, she said, the existing admin charges are based on percentages of various general government expenses that can be realistically allocated to water and sewer, to properly reflect the actual cost of those operations. To eliminate or reduce the admin charges would effectively result in a subsidy; therefore, if it is Council's intent to subsidize water or sewer from the general fund in some manner, she feels that it would be "cleaner" to simply provide the subsidy directly.

She noted that Council has yet to consider the rental rates for Town properties, and provided a list of same.

Regarding the water and sewer deficits, Mayor Currier stated, "This being a Town of 4,000, I believe it is legitimate that the utilities should fund themselves. If we try to do that this year, we would have to raise the utility rates by 25 percent. That's a lot of money for most people. There is some legitimacy to have general fund subsidize the utility bills. We are dealing with all those people that don't live here." He said that he is open to letting the general fund subsidize the utilities to some extent, but maybe not all. Discussion ensued, the highlights of which are presented below (not necessarily in chronological order).

- It was noted that it appears at present that the General Fund will show a surplus for the current year that would increase our fund balance, but that is subject to adjustment by our auditors.
- Councilmember Barber said that she would be opposed to increasing utility rates, but is in favor of extending the sales tax increase. She noted that Sedona's bed tax is at 3.5%, and added that she feels sales taxes should increase for retail also. Vice Mayor Freund agreed.
- Councilmember Stewart said that he does not wish to raise utility rate for residents, but businesses should be paying more. "I have nothing to do with all the people coming to town," he said, "and I don't want to pay extra for utilities." He said that he doesn't believe it is a fair balance.

Kevin Savage, president of the Chamber of Commerce, commented that most of the traffic goes through the businesses, "but we're in this together, and I believe we're all responsible to help pay for this. The burden shouldn't be put on just the businesses."

"I don't care if the tourists come," Mr. Stewart said. "They are taxing our water system and infrastructure. The 4,000 people that come here are tourists, and that is for the businesses, and they are making the money."

Ms. Gallagher pointed out that tourism provides the sales tax revenue that funds our operations.

Ms. Vojnic pointed out that all of the tourists who come here shop, and the gift shops should have to pay the added tax also. "It should be across the board," she said. Mr. Stewart agreed.

- Councilmember Barber suggested increasing the sales tax on retail purchases by one

percent. "We need to get the tourists to pay the extra without hurting the business owners," she said. Mayor Currier pointed out that "every penny these people bring in is not all profit. They have overhead, people to pay."

Councilmember Vander Horst said that he believes there are a greater percentage of local people in our restaurants and bars than in the shops. He expressed support for Ms. Barber's position. "We should be fair to all of the businesses," he said. "I believe locals are paying that tax, not at the hotels, but at the restaurants and bars."

- Council discussed sewer projects, which includes the septic system in the Gulch and the road to the sewer plant. Ms. Gallagher explained that, if we are required to upgrade our plant, the road will need to be improved in order to get heavy equipment down there. It was briefly discussed and generally agreed that the sewer plant road would not be done this year. Mr. Stewart recommended that no monies be cut from the utility budgets. "We should put as much money into infrastructure as we can," he said, "and try to cut other areas. ... There are sewer lines and water lines all over town that need to be replaced." Councilmember Barber and Mayor Currier agreed. The Mayor said that he would like to take enough money out of the General Fund to balance the utility accounts.
- Mayor Currier questioned the notion of "the crew doing this and that," noting that they have not been able to finish half of what they had been asked to do this year. "They couldn't. Things go wrong," he said. "We give them 20 things to do, and if they get five done, we're lucky."
- Councilmember Stewart recommended that wages be increased in the public works department in order to attract more skilled people. Mayor Currier informed him that, at the last meeting (which Mr. Stewart has missed) Council had put a 2% across the board wage increase in the budget. Mr. Stewart called that "silly," and said that there needs to be a large increase for public works, and "maybe everyone else needs to stay flat for awhile."
- The Mayor also informed Mr. Stewart that, at the last meeting, Council decided to fund one additional crew member for half the year. "He'll end up weed eating and cutting trees," Mr. Stewart said. "It's going to be another \$12.35 an hour for more basic stuff. There are projects that the Town crew should handle."
- Vice Mayor Freund said that he thought that the six-month person was intended to help us with infrastructure upgrades. He noted that some priority projects from 2014, including the School Street regulator, are still languishing.

Resident Ellen Vojnic asked why the Town does not contract out for these major repairs. She agreed that our crew does not have the skill set needed to do those. "We hired a contractor for the regulator," Mayor Currier said. Ms. Gallagher said, "Part of the problem with the School Street regulator has been that everybody has a different idea about what has to be done. I think we have gone back to the drawing board four times. We've had a new engineer and a new public works director." She added that she is hopeful that it will get done before the end of this fiscal year.

Mayor Currier likened the Town crew to "a SWAT team that plugs the leaks that come up." "To do major projects is not their role," he said. "Their role is to handle day to day crises. We've had a string of bad luck with all this stuff."

"Until it's repaired, you will have it this way every year," Ms. Vojnic said.

Councilmember Stewart stated again that we should not cut the budget for sewer and water. "If we're not going to pay our crew," he said, "we'll have to get all outside contractor labor." Ms. Gallagher noted that, between water, sewer and streets, Council had added \$40,000 for repairs/maintenance and \$20,000 for engineering. "Do you think that is sufficient?" the Mayor asked Councilmember Stewart. "No," he replied. "You have to look at the projects and what needs to be done. You need to have a Public Works director that has the idea/vision of what needs to be done and be able to operate equipment."

The Mayor asked Councilmember Stewart to put a price tag on his ideas. Mr. Stewart responded, "You probably could find a public works director that is a skilled equipment operator for about \$62,000 a year plus benefits, and you would need a couple of others making \$18 an hour, which would be about \$42,000 plus benefits." Mayor Currier asked how would we pay for that. Mr. Stewart suggested cuts in other

	<p>departments – fire, police and administration. “I don’t believe that is viable,” the Mayor said.</p> <ul style="list-style-type: none"> • Ms. Vojnic questioned why the Town needs a full-time librarian, and asked how many people are paid in the library, in the fire department and at Town Hall, and whether they are all “absolutely necessary.” • Vice Mayor Freund noted that Ms. Gallagher had mentioned to him the idea of creating a task force to determine what we need to do in regards to infrastructure over the next 20 years. • Councilmember Stewart said that the Fire Department has added a fulltime position now, and that the person is under-qualified and overpaid. He added that the police department budget has stayed pretty much the same, “Town Hall has a lot of personnel,” and “our public works is lacking.” • Councilmember Vander Horst mentioned a study done a few months ago regarding a consolidation of the Clarkdale and Jerome police departments with an estimated savings of \$150,000 without any degradation of services. • Councilmember Stewart asked how long they will be cutting down trees in Jerome. “There won’t be any trees left,” he said. “if you don’t use herbicide, they will grow back in eight months,” Councilmember Vander Horst said. “It should be a pretty steady job for a few years.” • Regarding Mr. Stewart’s suggestion about major cuts in fire, police and administration, Mayor Currier said, “If Council wants to cut these departments, then the department heads need to come in and talk with us. I don’t think we can sit up here like on Olympus and throw lightning bolts.” The Mayor, Vice Mayor Freund and Councilmember Barber each said that they were not in favor of such a radical move at this time. Regarding the police department, the Mayor said, “We don’t have 24/7 coverage now. Should we go back to a watchman? He had no authority to arrest.” Vice Mayor Freund noted that the department heads came before Council at the beginning of the budget process, and “personally, I was satisfied. I think it’s unfortunate that we have to have a police force that large, but when you look at the tourism, we have to have it.” Mayor Currier agreed. “It’s expensive,” he said, “but I don’t think it’s difficult to justify.” Councilmember Vander Horst noted that the Town of Clarkdale has a population of 4,000 and they have more police officers than Jerome has. • Ms. Vojnic recalled that the Town once had a judge that was paid \$3,600 per year, and asked, “How many people does this judge see that they need \$67,000 in the budget?” She was advised that the police department generates revenue for the court, and it was noted that Jerome, at one time, utilized Clarkdale’s court, and we did receive money from them every month, but it was brought in house because it was determined at the time to be more cost effective. Mayor Currier said that he has often wondered if it would be worth our while to contract once again with Clarkdale for magistrate court. • Councilmember Stewart said that he would like to see the Town budget going back seven years. Ms. Gallagher said that she will provide that information, and noted that, in 2006, there was a \$50,000 deficit in the general fund, and we now have a fund balance of nearly \$500,000. “Things have improved,” she said. • Councilmember Vander Horst said that one approach to trimming department budgets is to cut ten percent. The Mayor asked if we should do that with each department budget. Ms. Gallagher advised against this, and said that it is arbitrary to cut 10% across the board. “Some expenses can’t be cut,” she said, such as insurance costs. • Ms. Gallagher noted that, because Jerome operates under Home Rule, the budget we set is our statutory spending limit, and if we exceed it, there are significant penalties. “You don’t want to cut your budget and cut yourself short,” she said. “It is better to over budget and not spend it all.” “if you do that, they will spend the whole amount,” Ms. Vojnic said. “No,” Ms. Gallagher replied. “They don’t do that.” She explained that this accounts
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for part of the fund balance we have accumulated over the last several years, and noted that fund balance is not all "money in the bank," but an excess of assets over liabilities.

- Mayor Currier asked Councilmember Vander Horst if he was suggesting that we ask all departments to cut 10%. "No," Councilmember Vander Horst replied, "but I would like all department heads to show us what a 90% budget would look like, or a 95%." "Is there a second on that idea?" the Mayor asked. No one spoke up. "That's not going to fly," Mayor Currier said.

- There was further discussion regarding the skills of the public works crew. The Vice Mayor said that he would be willing to budget funds for training, and wondered if there was state funding available for that.

Ms. Gallagher suggested, regarding the crew, that "rather than do anything radical," we allow attrition to work over the years to replace lower skill-set people with more skilled employees. "Eventually," she said, "we will get the skill set we need, rather than upset the apple cart."

- Discussion returned to how to balance the existing budget, and the deficits in water and sewer. Ms. Gallagher summarized what Councilmember Barber had suggested earlier: maintain the 2% bed tax, maintain the added tax on restaurants and bars, and add 1% to retail sales tax. "You would have plenty," she said, "to subsidize the water and sewer."

Vice Mayor Freund recommended that we consider raising the bed tax to 3%. "That is what most communities have in the Verde Valley," he said.

Mr. Savage said, "Getting hit with another tax in one year's time, I believe, is drastic. I'd rather see you take the money from somewhere else."

Councilmember Stewart asked if vacation rentals will be subject to the bed tax. The Mayor said that he believes that they will be.

Councilmember Vander Horst stated that, if we are comparing ourselves to others in the Verde Valley with respect to bed tax, we should also note that everyone else has zero additional restaurant and bar tax.

- It was noted that retail has been doing pretty well lately, and that part of the increase has to do with the fact that we found that one of our shops had been paying their sales tax for years to Clarkdale rather than to Jerome. Another had not been paying tax at all. And some of our hotels had not been paying the added bed tax. We have gotten all of that fixed.
- Ms. Vojnic spoke of the confusion that results due to the difference in taxation of packaged goods (taxed at the retail rate) and alcohol sold for consumption on the premises (taxed at the higher rate). "That is the most confusing, time consuming rule," she said. She said that she would rather charge the extra 1% "on everything."
- Mr. Savage asked if we have looked at what other small communities are doing, such as Bisbee. Mayor Currier explained that the League of Cities does a study every year, and we know what everyone is making in the municipalities within the state. It's public information. He added that he doesn't believe there are any other towns like Jerome. Vice Mayor Freund noted that Bisbee "is in dire straits right now."
- Ms. Gallagher recapped the discussion regarding sales tax. The budget would be amended to reflect that the added tax on restaurants and bars would remain in place, retail sales tax would increase by one percent, and the bed tax would increase to three percent. It was generally agreed that these adjustments would be sufficient to subsidize the water and sewer budgets.
- Discussion then turned to whether or not to retain the 5% water and sewer rate increase that had been included in the draft budget. Ms. Gallagher recommended that Council consider raising utility rates slightly every year, in order to avoid getting to a situation where we have to raise them substantially all at once. She explained that the 5% increase included in this budget provides about \$6,700 in the water budget, and due to the process required, would become effective on November 1.
- Ms. Cretti asked if we could establish a new rate category for vacation rentals. Ms. Gallagher noted that, if we do, the rates must be equitable.

	<ul style="list-style-type: none"> • Council then discussed rental rates for Town properties. Ms. Gallagher reviewed the rates currently being charged. <ul style="list-style-type: none"> ○ The Blue Bee Boutique (Wynne Walker) has requested a rate reduction. Ms. Gallagher checked with the Town Attorney, who advised that, if we do wish to lower the rent, the space should be put back out to bid at the lower rate. Ms. Gallagher reviewed the process with Council. <p>It was discussed and generally agreed to lower the rent by 10% to \$1.85 per square foot (approximately \$215 per month). Ms. Gallagher will advise Ms. Walker, and inform her that it would need to be put back out to bid at the lower price. If she agrees, we will proceed to re-advertise. If she does not, the lease will continue as is.</p> ○ Ms. Gallagher noted that the Artists Co-op lease expired in November 2015, and two leases of spaces below it are on a month-to-month basis. All other leases are not subject to increase yet. The Co-op lease included an option (which was never exercised) for a 10% rate increase each year, but the other leases do not. ○ It was suggested that all rents should be increased slightly each year. Mayor Currier recommended that all future leases include the option for a 10% annual increase. ○ There was discussion regarding the rate charged to the Artists Co-op, which is significantly less than rates charged to other comparable spaces. Vice Mayor Freund and Mayor Currier expressed their opinions that this is a group (our local artists) that we should be supporting. The Mayor added that, when they initially agreed to lease that space, the building had been "a white elephant for years," and he believes the lease was based on market value at the time. It was also noted that the Co-op maintains a public restroom there. <p>Councilmember Vander Horst said that we need to have a lease with the Co-op and said that he would like to know if it is legal to subsidize them.</p> • On the topic of revenue, Councilmember Vander Horst reported that there are currently four parties that are interested in restoring the Hotel Jerome. He has advised each that they would need to address parking, and would need to deal with the Artists' Co-op. He has also told them that the Town would need to retain ownership of the building, so a long-term lease would work best. • Mayor Currier asked if commercial rentals are being taxed. Ms. Gallagher replied that currently they are not. We do have that option, she explained, but the Town has never exercised it. She said that she would look into this.
<p>ITEM #3:</p>	<p>ADJOURNMENT</p> <p>Upon motion by Vice Mayor Freund, seconded by Councilmember Stewart and unanimously approved, the meeting was adjourned at 8:35 p.m.</p>

Edited by Town Manager/Clerk Candace Gallagher from minutes taken and transcribed by Deputy Town Clerk Joni Savage.

APPROVE:

ATTEST:

Lew Currier, Mayor

Candace B. Gallagher, CMC, Town Manager/Clerk

Date: _____