

**THE WORKSESSION  
OF THE MAYOR AND CITY COUNCIL OF BENSON, ARIZONA  
HELD APRIL 13, 2015 AT 6:00 P.M.  
AT CITY HALL, 120 W. 6TH STREET, BENSON, ARIZONA**

**CALL TO ORDER:**

Mayor King called the meeting to order at 6:04 p.m. with the Pledge of Allegiance.

**ROLL CALL:**

Present were: Mayor Toney D. King, Sr., Vice Mayor Lori McGoffin, Councilmembers Pat Boyle, Jeff Cook, Joe Konrad, David Lambert and Chris Moncada.

**NEW BUSINESS:**

1. **Presentation and discussion on the proposed Transaction Privilege Tax (TPT) Rate increase**

City Manager William Stephens stated this presentation is the public education piece for any person who wishes to understand the proposed sales tax increase. Mr. Stephens then stated the new Finance Director, Dustin DeSpain will be giving the presentation and be available for questions, as well as previous Finance Director Megan Moreno.

Councilmember Lambert wanted the record to show there were 15 residents in attendance.

Mr. DeSpain addressed Council with the presentation on the proposed 1% sales tax increase beginning with misconceptions he has heard about from members of the public. Mr. DeSpain stated one misconception is that the proposed increase will cause an overall 40% tax burden, adding the correct national average tax burden is actually 22% and includes federal, state and local tax. Mr. DeSpain then stated another misconception is that sales tax is 4% cheaper in Tucson and that Benson is the only city charging sales tax on food. Mr. DeSpain then stated while it is correct that Tucson doesn't charge sales tax on food, which would be a 2.5% savings, over 50 other cities in the state do charge tax on food items. Mr. DeSpain then stated he has also heard that the City of Benson charges tax on fuel and that is not correct, adding the federal and state governments reserve that right. Mr. DeSpain then briefly addressed the City's sales tax history, stating the City has a .5% tax that will sunset in 2018, noting that increase was implemented for debt on the wastewater treatment plant and then stated the debt the City currently has is the Wal-Mart payment ending in Fiscal Year 2018 and the Bond Payment which will end in Fiscal Year 2030. Mr. DeSpain then stated the City has not increased sales tax in the last 25 years and noted food stamps are exempt from sales tax. Mr. Stephens then interjected stating he wanted to clarify within a 25-year period, there has only been a .5% increase, which was the temporary tax designed to pay the debt on the wastewater treatment plant. Mr. DeSpain then continued his presentation, giving a brief history of State sales tax stating in May, 2010 the voters approved a 1% 3-year increase to State sales tax, which expired in 2013. Mr. DeSpain then spoke about the State of Arizona sweeping funds from local cities and towns as well as schools in the upcoming budget year which will result in an \$8.2 million loss for cities and towns. Mr. DeSpain then stated the State of Arizona will also now start charging cities and towns for collecting sales tax, adding the charge to cities and towns in the upcoming fiscal year will be an additional \$2 million.

Mr. Stephens then spoke, stating Arizona budget cuts are not a budget cut at the State-level, but are budget cuts implemented by the State for municipalities and school districts, adding the State of Arizona still has the same tax money coming in. Mr. Stephens then stated the State is sweeping funds which simply means the State is taking funding from cities and towns. Mr. Stephens then stated the State legislature recently passed a law making the State the only tax collector and tax auditors, adding the State will now begin charging each municipality to pay for that service. Mr. Stephens then stated to be clear, the State hasn't cut taxes or its budget; the State cut budgets for municipalities and will use the money they are taking to fund programs at the State level. Councilmember Boyle asked if the charge for tax collection was a percentage or flat rate with Mr.

Stephens stating it would be based on population, adding the cities had no say in it; the State simply imposed this charge on every city and town in the State. Mr. Stephens then stated this charge is in addition to sweeping or taking the funds from the other revenue sources.

Mr. DeSpain stated another new law affects construction, adding general contractors and remodelers will now be separated out, which means less tax collections locally. Mr. DeSpain then stated with all the changes that have been implemented, auditing will be difficult. Mr. Stephens then stated one of the reasons the State is charging cities and towns for this service is to increase manpower in auditing offices, however, they believe they still won't be able to keep up with auditing requirements, so the State has contracted with outside audit agencies to perform audits. Mr. Stephens then stated if the City wants an audit performed, the City will have to use a contracted agency and pay for the audit. Mr. DeSpain then stated fees for auditing will go up.

Councilmember Cook stated he would like to suggest that any publication that is prepared regarding the Arizona budget cuts and the sales tax collection changes as well as the information printed and presented on the proposed sales tax increase, be self-explanatory.

Mr. DeSpain then continued stating the City has lost 15% of its employees due to furloughs and attrition and budget cuts have been made resulting in service cuts such as reduced library hours, reduced City Hall hours, reduced pool hours and no capital expenditures being made in order to balance the budget and hold on to what reserve funds there are. Mr. DeSpain then stated Police Department cuts have resulted in losing officers to other agencies, a loss of dispatchers, coverage being limited, an aging fleet and slower response times. Mr. DeSpain stated furloughs savings total about \$240,000 with a total cut in personnel being approximately \$540,000 and the cuts in operations total about \$466,000, adding capital expenditures in the amount of \$1.1 million were also cut. Councilmember Konrad asked if there was anything that could be done to get the City offices open on Fridays, adding he sees the savings of \$25,000 but he thinks there is more value in finding something else to cut in order to keep the doors open and give people access to Staff. Mr. DeSpain stated closing offices on Fridays helps the public realize Staff is on furloughs, adding employees are losing 80 hours of their pay, but the public doesn't realize that, and noted employees have been on furloughs since July 1. Councilmember Boyle asked if the reason the offices were closed was to make a point with Mr. DeSpain explaining cuts are being made everywhere they can be made, and added to rotate employees in an attempt to keep the offices open full-time would be very hard to do with the number of hours being cut from each employee.

Mr. Stephens stated the City overspent in the past, especially from the reserve, adding the reserve was reduced to a dangerous level and if it's not replenished, the City could face bankruptcy in the upcoming fiscal year, noting the reserve would have been down to \$300,000 had all the cuts not been made in the current fiscal year. Mr. Stephens then stated every penny counts and cuts have allowed the reserve to build back up to \$1.2 or \$1.3 million, however, \$600,000 will be spent soon for the payment to Wal-Mart and the bond payment, again stating, every penny counts to try and build the reserve funds back up. Mr. Stephens stated the City is operating paycheck to paycheck, in essence, adding all the cuts have been made to try and build the reserve back up in an effort to get by. Mr. Stephens then stated the City has 4 years left on the Wal-Mart payment and 15 years left on the bond payments and when the temporary tax increase of .5% sunsets; the City won't have enough funding unless there are layoffs, which will mean more service cuts. Mr. Stephens then stated employees are currently doing double and triple duties, noting the Public Works Director wears 8 hats with at least 6 of those being full-time jobs, which means he can't keep up and has to prioritize what gets done and what doesn't. Mr. Stephens stated the Gas Department is down to 1 supervisor and 1 worker, adding more employees are needed in that department because the Arizona Corporation Commission (ACC) has requirements to staff that utility. Mr. Stephens then noted public works employees are cross-trained but the ACC is looking for dedicated employees to the Gas Department. Mr. Stephens stated no capital improvements have been made due to the utilities being run with rates that pay only the basic cost of service, adding each utility should be self-sustaining and provide a contingency fund in the event of failures and repairs in each respective utility, noting most of the utilities are old systems. Mr. Stephens then stated when the City is closed on Fridays, there is a savings of \$25,000 and furloughs have saved \$240,000 in an attempt to replenish the reserve but still provide services to some level, adding the other option would be to simply eliminate personnel, however, corresponding services would be cut and in some cases, services would be cut completely.

Mr. DeSpain stated the City doesn't have enough staff to rotate employees and keep the City offices open. Mr. DeSpain then stated the City needs to have reserve funds, adding in the event of a catastrophe, the City would either have to borrow money or use reserve funds, but currently it would be a far stretch to go out and obtain a loan because the City's bond rating would be very low which would result in a high interest rate, if the City could even qualify.

Mr. Stephens added that insurance companies look at and use bond ratings also and if a rating is downgraded for any reason, such as a lack of officers, lack of Gas Department employees, etc., the City's risk in the eyes of insurers goes up. Mr. Stephens then stated this gets transferred not just to the City, but to all residents, because insurers check those ratings and see that the City has fallen short in some aspect, such as Police, Gas, etc. and as a result, their homeowners insurance increases, adding the City needs to keep services at an acceptable level so insurance costs don't go up.

Mr. DeSpain then returned to the presentation addressing the City's future if there is no revenue increase. Mr. DeSpain spoke about further reduction in Staff, the loss of qualified employees, morale problems, no capital improvements, possible failure of infrastructure with no contingency funds for repairs and additional cuts to public services, such as closing the Community Center, discontinuing transit services, closing the pool, closing the Visitors Center, charging higher fees for the use of the park and facilities, additional cuts to City Hall services and closing the Golf Course. Mr. DeSpain then spoke about debt service and the inability to service current debts and in the event of infrastructure failures, the possible inability to obtain funding. Mr. DeSpain then addressed further cuts to the Police Department, such as providing no service from midnight to 6:00 a.m., the inability to recruit qualified Staff and the decrease in Public Safety. Mayor King spoke briefly about the power outage that occurred over the past weekend at 2:00 a.m. and stated the Police Department got a lot of calls. Mr. Stephens then stated the Department of Public Safety (DPS) and the County Sheriff's Office don't provide service from midnight to 6:00 a.m., adding the only municipality government offering those services in the area is Benson, noting our officers are called out and then turn the incident over to the proper jurisdiction. Councilmember Konrad asked if the City might receive compensation for providing that service with Mr. Stephens stating the City has an IGA with those entities, but if costs were examined, the City may be charged more than it would collect, because other agencies come within our City limits to assist when needed. Councilmember Cook stated when he sees people pulled over; he often sees all three agencies and thinks the City is compensated in that way. Mr. Stephens then stated that is normal protocol, adding when circumstances occur, officers back up other officers when they can, whether they belong to the same agency or not.

Mr. DeSpain then moved on to discuss layoffs, stating because the City is an equal opportunity employer, there are certain laws that must be complied with. Mr. DeSpain stated the City's unemployment rate will increase for several years to come, depending on how many employees file unemployment claims, adding when layoffs are done, every employee that was laid off qualifies for unemployment. Mr. Stephens stated the rate increase is for a period of 6 years, adding the City pays an amount into the unemployment fund as a City and like any other risk factor, a lower unemployment rate results in lower payments, but if layoffs occur and unemployment claims are filed, the fund drops and the City's rate increases to bring the fund back and build it up higher. Mr. DeSpain then stated any position for an employee who was laid off would also be locked for two years and if the position opened back up within those two years, the City would be required to offer the job to the former employee first, adding if the employee declines the position, the City must offer any other candidate the same pay rate that was in effect when the employee was laid off. Mr. DeSpain then stated even if the job title were changed, but the same duties were performed, the position would fall under that two-year law and the City would not be able to hire the position back without offering it to the former employee first and then must hire anyone for that position at the same rate for the next two years.

Councilmember Lambert then stated he wanted to point out the cuts that would be made to community services if the City doesn't have the revenue, noting cuts would be made to the Catholic Community Services' Meals on Wheels program; softball teams, soccer teams and Little League would be cut because there would be no use of the park whatsoever, adding this would also result in no ramadas being used and the summer camp programs would be cut. Councilmember Lambert then stated all of these things will be things that are cut if the proposed sales tax increase doesn't pass.

Mr. Stephens then stated if the proposed sales tax increase doesn't pass, Staff would make recommendations to him in a priority type basis and he would present those recommendations to Council, adding the Council would determine where cuts would be made in terms of services, manpower, etc. Mr. Stephens then stated if the proposed sales tax increase doesn't pass, further cuts would need to be enacted in order to sustain finances and pay debt the City has already incurred, again stating those recommendations would be brought to Council in a priority basis for Council to debate, discuss, consider and decide.

Councilmember Cook stated when cuts to softball, Little League and summer camp programs are discussed, he can understand on one hand how people will think those can be cut, but on the other hand, by making those cuts, it forces more free time on the hands of the young people in the community. Councilmember Cook then stated he thinks all the Council would agree that too much free time for young people isn't something the Council wants, adding if cuts have to be made to those programs, everyone needs to know what it's going to do to everyone.

Mayor King stated he had just gotten back from his grandson's ballgame and stated if anyone goes to the park now during the weekdays; they will see the park full of people. Mayor King then stated he coached soccer for 11 years and the soccer group now has over 200 kids participating, adding there are also the adult softball leagues, which are enjoyed very much by the players. Mayor King then stated this weekend, there will be a motorcycle rally at the park, adding these are all things the Council needs to consider, because cuts to these programs will not only affect the kids, but will affect the entire City. Mayor King then spoke about the youth of the community and how important it is to keep the opportunities for them to be involved with sports at the park and summer camp programs, adding a lot of the youth doesn't have anything else to do but these programs. Mayor King then stated the Council has worked to keep the youth busy and involved with the community, which helps keep them off the streets and out of trouble, adding the Council is going to have to make some tough decisions to keep the City running. Councilmember Lambert agreed, stating he was at the park on Saturday along with Councilmember Moncada, attending the Little League opening ceremonies and there were about 450 kids there with their parents. Councilmember Lambert then stated the park get used a lot by the community.

Vice Mayor McGoffin then stated a few years ago the Fire Department started responding to EMS calls and noted calls have increased up to 70 a month or more and asked if responding to those calls might be discontinued with Mr. Stephens stating all things are on the table for consideration. Mr. Stephens then stated he agreed with many ideas that have been shared, adding this is a difficult decision that involves the youth all the way up to the senior citizens. Mr. Stephens then stated in the context of life, the question is what's the most important; adding that's the debate as attempts are made to prioritize what exactly would be cut in the event that the sales tax increase is not approved for the short period of time as proposed. Mr. Stephens then reiterated that trying to determine what programs are more important is not an easy discussion.

Mr. DeSpain then agreed, stating this is definitely not an easy decision. Mr. DeSpain then stated he has 7 children, and though he lives in St. David, he shops and does everything in Benson. Mr. DeSpain then continued his presentation addressing the privatization of the City's utilities. Mr. DeSpain stated if the City sold the gas utility, it would probably go to Southwest Gas, adding they have the franchise for gas in the surrounding areas. Mr. DeSpain then showed the contrast between the City of Benson, Southwest Gas and Duncan Valley Gas, adding Benson charges a basic availability fee of \$7.00 for customers inside the City limits and \$10.50 for customers outside the City limits while Southwest Gas charges an availability fee of \$10.70 and Duncan Valley charges an availability fee of \$20.00. Mr. DeSpain then compared unit charges for each entity with Benson charging \$.66 per unit, Southwest Gas charging \$1.31 per unit and Duncan Valley charging \$.73 per unit. Mr. DeSpain then stated Southwest Gas is in the gas business to make money and they are fully staffed so to think they would hire the City's gas employees is not correct. Mr. DeSpain then stated Southwest Gas customers have to pay their bills in Tucson if they want to pay in person. Mr. DeSpain then stated Duncan Valley is similar to Benson, adding they are a small utility and noted the basic availability fee makes up most of their revenue. Councilmember Konrad asked how this information would translate in billing with Mr. DeSpain stating the next slide calculates a bill for gas customers based on using 95 units of gas, noting the Southwest Gas bill is almost double what the City of Benson charges. Mr. Stephens then stated

Southwest Gas' prices are not only to make a profit, but are to build a reserve of funds to repair lines, meters and make other repairs. Mr. Stephens then stated the City doesn't currently have reserves built into the utility funds to address such repairs, adding in the future, rates need to be looked at and considered as well, noting the difference between the City of Benson and Southwest Gas can be seen very clearly, with Southwest Gas charging nearly twice as much as the City does. Mayor King then stated he is asked about outsourcing the City utilities from a lot of people and he has tried explaining that it will result in higher costs to the customers and if something major happens, the City will still be responsible for the system and any repairs. Mr. Stephens stated Mayor King was correct, adding if the City hires a company to administer the gas utility, the company would manage meter reading and billing, but when it comes to maintaining or repairing the infrastructure, the responsibility and cost would remain with the City.

Councilmember Konrad stated if the gas fund is being subsidized with the general fund, steps should be taken to get the gas utility back on track to where it sustains itself. Councilmember Konrad then stated for several years, the trend was to build all electric houses and as a gas customer, he doesn't feel it's right that someone who lives in a total electric home should help subsidize the gas utility. Councilmember Konrad then stated he wasn't suggesting doubling the gas cost to customers to make a huge profit, but that the utility should support itself. Councilmember Konrad then stated as the Council moves forward and looks at how to improve things, he thinks a modest increase in the utility to sustain itself is a good idea. Councilmember Konrad then spoke about the City's gas regulator system he toured a few months ago and stated it's to the point that it's going to fail and the Council is looking at numbers where there isn't any money to make the correction if it does fail. Councilmember Konrad then stated it requires a simple upgrade that wouldn't cost hundreds of thousands, but would be in the thousands, noting the upgrade is for both safety and reliability. Councilmember Konrad then stated as a gas customer, he would be willing to foot part of that bill.

Mr. Stephens then agreed with Councilmember Konrad and stated this would be one of the things discussed with the Council. Mr. Stephens then stated everyone has heard the phrase, "Pay me now or pay me later" adding, it's now later. Mr. Stephens then stated he didn't wish to question past Councils in the decisions they made, adding there is no doubt there were circumstances surrounding those decisions such as needing a wastewater treatment plant among other things, but nevertheless, there were some tradeoffs made in the past and things such as utility rates were put off. Mr. Stephens then stated the City has some infrastructure that isn't a case of if it will fail, but is a case of when it will fail, adding if there were a catastrophic failure today in the wastewater system, the City would need to take out a bond loan to make repairs. Mr. Stephens then stated on the flip side of that issue, it would be a potentially difficult expense for the local citizen to pay for a sales tax increase and utility rate increases at the same time, adding the task at hand is to find a balance and he wouldn't recommend everything all at once, but utility rates do need to be looked at in the not too distant future.

Mayor King stated the Council would probably need to continue this worksession due to the time with Councilmember Lambert asking Mr. DeSpain to summarize his presentation.

Mr. DeSpain then stated the proposed sales tax increase is 1%, which would equal the sales tax rate that was in effect from 2010-2013, noting the extra 1% then was imposed by the State of Arizona. Mr. DeSpain then stated Staff is proposing the increase of 1% sunset in 2022 and at that time the City's sales tax rate will be 2%, adding this will be due to the temporary sales tax of .5% ending in 2018. Mr. DeSpain then stated a 2% sales tax rate hasn't been seen in years and noted a graph showing in 2018, the City's tax rate of 3% will be equal to or lower than 35 other cities and in 2022, the City's tax rate of 2% will be equal to or lower than 82 other cities in the State of Arizona. Mr. DeSpain then stated the proposed tax increase of 1% will stabilize the City, will restore most services, will restore the Police Department, will stop citywide furloughs, will balance the budget after the State sweeps funds and will increase the City's reserve funds.

Councilmember Konrad stated Mr. Stephens wasn't here to create the problem, but has inherited, it, adding the Council is putting their confidence in Mr. Stephens to help them get through this. Councilmember Konrad then stated sometimes things are going to be contentious and he wants to make sure everyone is respectful. Councilmember Konrad then stated he knows he can say things bluntly and didn't want anyone to take it personally, adding this is going to be a trying time for everyone, but everyone needs to work together, move

forward and do what's right for the City. Councilmember Konrad then stated he didn't envy Mr. Stephens having to inherit this situation, but the best thing to do is for the Council to put their confidence in Mr. Stephens to help them get through it the best they can.

Mayor King then stated this isn't something Staff has been working on overnight; they have been working on the budget for months, adding Staff has been looking and considering every possibility, trying to turn over every stone to see what can be done to save money. Mayor King then stated he has been talking to Mr. Stephens and Mr. DeSpain continuously and they will both continue working on this diligently. Mayor King then stated options are still open, but the Council needs to look at doing what is right for the City, adding there are tough choices to make. Mayor King then stated past Councils have talked for years about making tough decisions and unfortunately, it is now falling on the current Council. Mayor King then stated he hopes the Council is up to the job, adding he is looking forward to working with everyone and seeing the City get through this unstable time.

**ADJOURNMENT:**

Vice Mayor McGoffin moved to adjourn at 6:53 p.m. Seconded by Councilmember Konrad. Motion passed 7-0.

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Toney D. King, Sr., Mayor

ATTEST:

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Vicki L. Vivian, CMC, City Clerk