

**TOWN OF PRESCOTT VALLEY
LEGISLATIVE WORK STUDY MEETING
MINUTES
December 13, 2012**

Library Auditorium
7401 E. Civic Circle
Prescott Valley, Arizona 86314

1. Call to Order

Mayor Skoog called the meeting to order at 5:30 p.m.

2. Invocation & Pledge of Allegiance

Pastor Hobby Wiles of the Robert Road Baptist Church gave the invocation. Pastor Wiles then led the audience in the recitation of the Pledge of Allegiance.

3. Roll Call & Welcoming of Legislators

Present: Council Member Whiting, Mayor Skoog, Council Member Lasker, Council Member Mallory, Council Member Nye, Council Member Anderson, and Vice Mayor Tjiema.

Mayor Skoog welcomed Speaker of the House of Representatives Andy Tobin and Representative Karen Fann. We appreciate the job they have done for us over the past year.

4. Legislative Preview - Opportunity for Representatives to discuss their individual focus & bills for next session

Representative Andy Tobin said this was a long election year. The stresses the Legislature is now under include the large budget cut cycle, huge reduction in state government, changes in public policy and a lot of the pain is behind us and we don't want to see it come back. Therefore, the legislature is being very cautious about spending. Arizona is in a slow recovery and is ranked four in the nation for its tax strategy. The investments made and University Medical School downtown has added some good dynamics to the state. Job growth is up. We lost about 300,000 jobs since the recession hit. To put that in perspective on the state revenue level, every 1,000 jobs is worth \$1 million to us (\$300 million). That's without the folks who may be on Medicaid or have other state services. The expansion of Medicaid or ACCESS is about another \$300 million which is why we had the .01 cent sales tax (which is now going away). We have created over 65,000 – 70,000 new private sector jobs to start building our way back. We need another 150,000 more jobs back in the economy. There was so much uncertainty about the national election, and about national health care. Sadly, the EPA put pressure on our state forcing things like the closure of the Superior Mine which was a loss of 300 – 400 jobs. It means thousands of jobs for

Arizona. There are a lot of new members coming into the legislature. Representative Fann will be the new Chair of the Transportation Committee. Just about thirty freshmen are coming on which is half the House of Representatives! There are a lot of young bright aspiring and energetic folks coming in. Tobin took them up to the Navajo Generating Station to talk about the stresses they are all under. The Navajo Generating Station is fed by the Peabody Coal Mine. Peabody accounts for 500 jobs on the reservation just in the mine alone. The reasons he mentions these is the stresses from the feds leaves uncertainty for the business community to plan for expansion. Other concerns are what will the costs of power or water be going forward? We are still going to be at a slow growth rate at best. Tobin will be spending more time back in Washington speaking to those issues.

We are spending \$1 million a day because the state did not do what Prescott Valley did. Prescott Valley saw the problem soon enough and reacted to it (recession). The state didn't get a chance to solve the state's problems because there wasn't the political will to do so. Prescott Valley had a rainy day fund and used it. At the legislature they used it before it even started to drizzle. Now the state has a rainy day fund back. They have put budgeted money back into the University Medical Center, to address the seriously mentally ill in Arizona; meanwhile CPS is still short funding. We still have issues with the most needy of Arizona's kids. Additional monies are funding K-3 education. Tobin commented that Republicans don't make news when they spend money, only when Republicans gut money. He is very optimistic about Arizona moving forward. It would be nice to have a friend in Washington to help us get where we need to be. We will be struggling in that fight for many years to come.

Representative Fann said we are fortunate that Andy Tobin is the Speaker of the House again and therefore keeping the state going in the same direction. Because many of the subjects scheduled for discussion tonight are in line with what she would say she won't belabor that. As Chairman of the Transportation Committee we will be talking about HURF and infrastructure funding. Fann is also the Vice Chair of the Environment, Natural Resources and Energy which will include a lot of the environmental issues, parks and ag and water.

5. State Shared Revenue - Presented by Town Manager Larry Tarkowski

Larry Tarkowski asked that they not fall prey to anyone that wants to adjust the state-shared revenue formula. That is a huge component of all the cities and towns budget in the State of Arizona. For the rural communities it plays a much larger part of our total General Fund budgets. They have done a good job of resisting balancing the state's budget on the back of local governments. For that, we thank you. He asked that they continue to be diligent.

6. Election Consolidation - Presented by Town Clerk Diane Russell

Diane Russell commented that HB2826 – Election Consolidation - may not achieve the intended results of decreasing costs to taxpayers and increasing voter turnout.

Over a decade ago, the Town of Prescott Valley began using the all-mail ballot election option to increase voter participation from the then 17 percent level to the 50 percent average level. Not unlike many other municipalities, Prescott Valley holds its elections in the odd number years in

the spring. The Legislature is now requiring that all elections, with minor exceptions, be held in the fall of even number years along with the federal and state elections and every other district election, many of which have multiple candidate and questions or propositions affiliated with them on the ballot.

The negative impacts of this bill include the following:

1. Term reconciliation (to length or shorten the candidate terms) was not provided for in this bill. Therefore, each municipality is left to their own design in reconciling the terms. Where is the consistency across the state?
2. For the entities that currently hold all-mail ballot elections, ARS §16-204(G) now states that “the officer in charge of the election may use a unified ballot format that combines all of the issues applicable to the voters in the city, town or school district requesting the all mail ballot election.” This is the only place in this bill that all-mail ballot elections are mentioned. Suppose the county that we contract with decides to hold polling place elections only? It doesn’t say anywhere in the bill that all-mail ballot elections shall be a continued option. The all-mail ballot election could be effectively eliminated creating the adverse effect of voters having to return to polling place elections. No doubt, we would see voter participation drop again.
3. Federal, State and County elections use Vote Centers (consolidated polling places) and Vote by Mail for early voting. Voters who are on the permanent early voting list will be required to vote both at a voting center for the Federal, State ballot and then via mail ballot for an all-mail ballot election. This will be both inconvenient and confusing to the voter.
4. Long lines at polling places and provisional ballots have been issues as recently as the fall 2012 election. These issues will be exacerbated across the state by requiring that all districts be combined into one election. Voting could turn into too great a ‘hassle’ for the voter.
5. The ballot will be extremely lengthy. Law requires that state and federal races and issues must be placed on the ballot first, followed by all the other districts. There are 14 districts in Yavapai County with at least one precinct in 11 of those 14 districts. I cannot speak for the rest of the state and those districts. Voter fatigue could be a major issue. Voters may just vote the first page or two, lose interest in going through the long ballot and then quit – ignoring the municipal races and issues in the later pages. Voters may decide to drop from the active voter roll not wanting to go through all that every election cycle.
6. The costs incurred by the county having to hire, train, only to lay off election employees a few months later, every couple of years, will be passed along to the municipalities. Employee turnover costs money! Where is the cost reduction?
7. This bill preempts all local laws and removes local control of our elections. This law does not take into consideration that every municipality is unique.

Russell requested that the legislators:

1. Address the term length for consistency across the state,
2. Consider an exemption from this requirement for jurisdictions already holding all-mail ballot elections and,
3. Consider all-mail ballot elections at the state level.

I know state level all-mail ballot has been suggested in the past. We are always going to have the traditionalists and naysayers who don't want change, who see fraud potential everywhere. Standards are in place that prevents that - i.e. Chain of Custody of election materials, ID verification.

While the stated intent of the bill was good, we see more adverse effects than benefits. We ask that it be repealed, turn it over to a study committee for review and/or application of a comprehensive, rational fix to this bill.

Council member Nye commented that she is affected by this as she is trying to do a little planning right now and she can't. Council member Anderson commented that none of the people running in the upcoming election have no idea how long they are running for. None of the citizens have any idea how long they are electing those people. Before the legislature passes laws they should take into consideration the effect of the law prior to passing it. This certainly wasn't well thought out.

Representative Fann responded to Council member Anderson that the bill was introduced by a legislator from Maricopa County in conjunction with the Goldwater Institute. She voted against it, and tried to explain to everyone that rural Arizona is not Maricopa County. They do not understand our mail-in ballot system, nor do they know what Home Rule is. Many of these ideas come from legislators in Maricopa County that don't have fire districts, flood control districts and all the other things that we have on our rural ballots so they don't realize what they have really done. She will continue to fight hard to get the whole thing thrown out and let the municipalities decide what is best for them.

Speaker Tobin voted for the bill, he thinks it's great. "Not to say that there isn't room to make some fixes along the way." However the real reason was for voter turnout. We have less than 50 percent of America showing up for a presidential election and it isn't quite right. So he leaned on the edge toward it getting more people out to vote. He recognizes that it often times creates other issues, for which he apologizes. We should give it a shot. "We can determine how the terms are going to get rolled out after the election in the spring."

Tarkowski stated that statewide there needs to be some guidance and some clarifying legislation to make it uniform across the state that they must be lengthened or must be shortened. Right now the municipal attorneys are 50/50 reading the constitution and the legislation. We need that clarified.

Speaker Tobin said that is why the law does not go into effect until 2014 so that fixes can be made to it.

Mayor Skoog stated that he wishes that the state would let local control be local; that this is an infringement on local control and it is not appreciated.

Council member Nye added that this sweeping legislation was wrong as Prescott Valley has already made the changes to achieve an increase in voter participation. Now we have to go back to a system that will reduce the number of voters. In addition, this legislative action will increase costs. While we actually agreed with the idea of getting more voter participation, we are being unnecessarily penalized and moving backwards.

7. HURF - Presented by Public Works Director Norm Davis

Norm Davis noted that the HURF rate over the last decade (gas tax) was diverted to DPS. The trend to reduce that from \$226 million to \$127 million for DPS continues so that roadway dollars go toward roadway maintenance. Transportation benefits all advocacy groups. A good roadway network is jobs, is transportation and it is moving business forward. Here in Prescott Valley, HURF revenue goes back into roadway maintenance. Public Works maintains a color coded map showing where funds are earmarked for that year. Chip seal is applied here every 10 years given the economy; but a good cycle is about every seven years. At current funding levels we are just maintaining. Typically roadway surface life is about 20 years. A chip seal is just a maintenance course and so we haven't been keeping up. If we don't reinvest in our infrastructure, rehabilitating the pavement, we are going to get behind. We have 240 lane miles of pavement in town. This year we have funding for 250 feet. We need the HURF funds going to roadway maintenance again, not DPS.

Speaker Tobin said we have been in hard times. Yavapai County has gotten a good share of the new roadway money with Bill Feldmeier on the Transportation Board and having Ken Bennett and some others watching. Fain Road was finished as were roads and bridges in the Verde Valley. He agrees Arizona is in a bad spot. With all the interstates Rep. Fann is going to have her hands full. We are short on funding dollars.

Rep. Fann added that we need education of the new legislators and the public. The building of infrastructure is something that government is supposed to be doing. For every dollar spent on infrastructure we get three dollars back in the form of jobs, income tax, sales tax and all the residuals that go with it. That is what pays for education, for ACCESS, to help the disabled etc. and that is what the public has not figured out yet. Fann pointed out that when the price of gas goes up to \$4.00 a gallon, the state actually gets less money from those sales. The state gets a flat amount so when the price of gas goes up the state loses money as the public buys less gas. The flat amount has been .18 cents for the last 20 years. How much has the price of construction gone up over the years? We need to educate the public about how this works so they can help us figure out how we are going to fund for the future. Twenty years from now we are going to be 40 years behind.

Council member Lasker said it sounds like the state is looking for a new revenue source. Just about anything we purchase now is going to cost us about 10 percent more because of tax which is nation-wide high. It is hurting small businesses when I can go on line or leave the state to

purchase things. Lasker asked that they do not harm our purchasing power as we are taxed to death now and can't take another tax.

Rep. Fann pointed out that the Governor's Task Force is discussing internet sales tax as an option. They are also considering totally redoing the construction sales tax which could hurt rural Arizona if they are not careful. They are proposing that construction will be 'point of retail' instead of where the construction is going on. For instance, tax on lumber purchased in another municipality will be paid to that municipality, not where the construction is occurring.

Speaker Tobin added that the Amazon issue has been settled and we are now collecting sales tax from Amazon. We don't know what to forecast for those sales tax collections yet. Other than Prop 100, the state has not raised the sales tax knowing what a burden it would be. Arizona's sales tax is actually going down a full point on July 1. Capital gains taxes are coming down, as are agricultural property tax and business personal property tax. We hope this improves tourism in the state also.

8. *Governor's Task Force on Tax Simplification - Presented by Sales Tax Auditor Sarah Herzog*

Sarah Herzog talked about the Governor's Task Force Transaction Privilege Tax Simplification. Members of this task force are to make recommendations to the Governor, Speaker of the House and President of the Senate not later than December 31 of this year. She explained some of the concerns affiliated with this. The Unified Audit Committee and League of Arizona Cities and Towns have been very active in trying to consolidate and standardize some of the model city tax code. They have a financial concern issue regarding moving construction contracting tax to a materials-based tax which will cause a shift in municipal and county tax revenues. Under the current system, tax applies at the location where the prime contracting activity occurs. Under a material-based tax, the tax would apply at the location where the materials were purchased. All else being equal, this will shift the tax revenues to the municipalities and counties where the contracting suppliers are located.

Understandably, some municipalities and counties are reluctant to make this change if it could result in a significant reduction in the amount of revenue that they collect. A transition to a materials-based tax, without other offsetting measures, may reduce the amount of tax revenue that flows into the state general fund. One of the reasons for the decline is that the formula used to share prime contracting revenues with cities and counties differs from the formula used to share revenues from retail sales. Specifically, 40% of the amount of tax generated by retail transactions is distributed to the cities and counties, whereas for prime contracting revenue, only 20% is distributed. Under a materials-based tax, purchases related to contracting activity would be taxed under the retail classification.

Another concern is about the Task Force recommendation that the Department of Revenue be the only state-wide entity responsible for TPT audit. The DOR does not have the manpower or funds for this function. More importantly they don't know our local businesses nor understand our tax payers in the rural areas. In many cases, the ADOR is not concerned with auditing of smaller businesses. The Task Force says that county use tax may help local governments deal with any

potential fiscal impact of the loss of State Shared Revenue. However, the Task Force has shied away from recommending that the counties be required to charge a use tax, which would be a tax increase. Staff asks that the legislators be attentive to any attempts to implement taxes or changes to the tax code that may impact the cities and towns and their jurisdictions. We would like to maintain local control over taxation as the model tax code provides us.

Tarkowski added that if this went through today we might take a \$1 - \$2 million hit annually in our jurisdiction alone. We understand and support the streamlining of taxation at the state level, but holding local jurisdictions harmless needs to be built into it. There is still work to be done on this.

Mayor Skoog added that they are trying to build a European style convoluted value added tax.

Council member Lasker stated this will force rural areas with fewer resources to buy out of town or on line and put our town at a disadvantage. We cannot let this go through.

9. Rural Water Issues - Presented by Water Resources Manager John Munderloh

John Munderloh said the Water Resources Development Commission is a study commission that Speaker Tobin was an engineer of. The commission has accomplished a significant amount of work over the last couple of years. The commission is to study water supply needs in the State of Arizona for the next 25, 50 and 100 years and identify mechanisms to finance, acquire and deliver the water supply. The commission discovered that in the State of Arizona we need to increase the water supply by 20-25 percent over what we have today with an estimated cost of infrastructure to deliver that water in excess of \$3 billion.

Other neighboring states have a dedicated source of funding. Arizona does not. In order to remain competitive with neighboring states we need to show prospective employers that we are just as serious about our water security. The Water Supply Development Revolving Fund established for this purpose was never funded. Funding is one of the recommendations coming out of the Commission.

The commission also calls for legislation that would allow entities to form a Regional Water Augmentation Authority - not a district and not a taxing authority. Membership would be voluntary and payment for projects would be paid at the discretion of each member. Some of the key abilities of this Authority is it does have the ability to issue revenue bonds and borrow money from the Water Supply Development Fund were there any money in it.

These recommendations were forwarded to the legislature, Speaker of the House, President of the Senate and Governor at which point we moved forward with drafting legislation. The legislation is moving forward and they are seeing support throughout the rest of the legislature. There seems to be a broad consensus of support for this. Now we need to look for and develop a revenue source for the Revolving Fund.

Speaker Tobin thanked Prescott Valley for the participation and leadership of John Munderloh. This is a big issue. Time is short in Arizona. We can either be happy that we have a report that

tells us how short time is or react to it. This report, two years in the making, is the most comprehensive about the State of Arizona's water supply. It provides direction about how to expand our water supplies, how to augment water and protect our rivers and grow too.

Rep. Fann and Speaker Tobin wished everyone a Happy Holidays, Merry Christmas and Prosperous New Year.

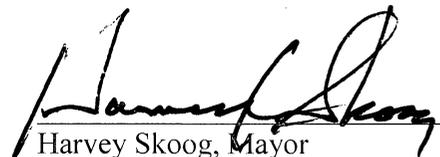
10. Adjournment

Mayor Skoog adjourned the meeting at 6:34 p.m.

ATTEST:

APPROVED:


Diane Russell, Town Clerk


Harvey Skoog, Mayor

STATE OF ARIZONA)
COUNTY OF YAVAPAI) ss:
TOWN OF PRESCOTT VALLEY)

CERTIFICATE OF COUNCIL MINUTES

I, Diane Russell, Town Clerk of the Town of Prescott Valley, Arizona, hereby certify that the foregoing minutes are a true and correct copy of the Minutes of the Annual Legislative Work Study Meeting with the Town Council of the Town of Prescott Valley, held on Thursday, December 13, 2012.

I further certify that the meeting was duly called and held and that a quorum was present.

Dated this December 20, 2012


Diane Russell, Town Clerk