



MUNICIPAL OFFICE COMPLEX
8401 W. MONROE STREET
PEORIA, AZ 85345

**CITY COUNCIL WORKSHOP
NOTICE & AGENDA
Friday, September 9, 2011
8:00 AM – 12:00 PM
Point of View Conference Room**

Under the provisions of A.R.S. § 38-431.02 there will be an **OPEN TO THE PUBLIC MEETING**.

CITY COUNCIL:

Mayor

Bob Barrett

Mesquite District

Cathy Carlat, Vice Mayor

Acacia District

Tony Rivero

Ironwood District

Dave Pearson

Palo Verde District

Ron Aames

Pine District

Carlo Leone

Willow District

Joan Evans

City Manager

Carl Swenson

CONVENE:

1. Economic Development Prioritization and Funding

ADJOURNMENT

NOTE: Documentation (if any) for items listed on the Agenda is available for public inspection, a minimum of 24 hours prior to the Council Meeting, at any time during regular business hours in the Office of the City Clerk, 8401 W. Monroe Street, Room 150, Peoria, AZ 85345.

Accommodations for Individuals with Disabilities. Alternative format materials, sign language interpretation, assistive listening devices or interpretation in languages other than English are available upon 72 hours advance notice through the Office of the City Clerk, 8401 West Monroe Street, Room 150, Peoria, Arizona 85345 (623)773-7340, TDD (623)773-7221, or FAX (623) 773-7304. To the extent possible, additional reasonable accommodations will be made available within the time constraints of the request.

Date Prepared: August 29, 2011

Council Meeting Date: September 9, 2011

TO: Carl Swenson, City Manager

FROM: Scott Whyte, Economic Development Services Director

THROUGH: Susan J. Daluddung, Deputy City Manager

SUBJECT: Economic Development Project Prioritization Workshop

Purpose:

This is a request for the City Council to:

- Provide staff direction on whether to continue pursuing those economic development proposals contained in Exhibit 2A;
- Provide staff direction as to any changes in the economic development priorities contained within the Economic Development Implementation Strategy (EDIS); and
- Provide staff direction as to the allocation of funding for economic development priorities and proposals.

Background/Summary:

On October 19, 2010, the City Council adopted the EDIS which identifies the city's economic development strengths, weaknesses, opportunities, and threats, as well as created a roadmap for economic development activity in the city through the establishment of eleven initiatives to guide economic development activities. Staff has used the Council adopted EDIS as a work plan in terms of pursuing specific proposals to move the city's economic development objectives forward (Exhibit 1 lists the final prioritized initiatives from the EDIS).

Over the past ten months, the Economic Development Services (EDS) Department has been very active with the following EDIS initiatives:

- University Recruitment
- Investment Zone Development: Entertainment District, Old Town Peoria, and Northern Peoria
- Health Care Recruitment
- Business Assistance Program
- Strategic Land Assembly

- Marketing Plan
- Medical Device Incubator
- Economic Development Investment Policy

Previous Actions:

Below is a list of previous Council actions on economic development activity since summer 2010:

- August 23, 2011 – Study Session on the Entertainment District Redevelopment Project and Place-Making Program;
- July 5, 2011 – Approval of an Easement Agreement for the Wagoner Plaza I and II phase of the Commercial Rehabilitation Program (Motion passed 6-1);
- June 21, 2011 – Approval to support BioAccel’s grant application to the U.S. Economic Development Agency as part of supporting the city’s proposed Medical Device Incubator Project (Motion passed unanimously);
- June 7, 2011 – Exclusive Negotiating Agreement with Vanguard Health Systems to discuss building a hospital and health care campus in northern Peoria (Motion passed unanimously);
- May 31, 2011 – Executive Session on Project Neptune;
- May 31, 2011 – Second Study Session on the medical device incubator in Peoria;
- May 10, 2011 – Executive Session on Maxwell Technologies;
- May 3, 2011 – Executive Session on Old Town acquisition opportunity;
- May 3, 2011 – First Study Session on the medical device incubator in Peoria;
- April 5, 2011 – Executive Session on Peoria Place Update;
- March 22, 2011 – Exclusive Negotiating Agreement Award to Osage West, LLC for the Sports Complex Redevelopment Project (in response to a city-issued RFP) (Motion passed unanimously);
- February 1, 2011 – Exclusive Negotiating Agreement with Osage West, LLC to discuss building a business airpark along Lake Pleasant Parkway north of the Loop 303 (Motion passed unanimously);
- December 7, 2010 – Adoption of the Economic Development Incentive and Investment Policy (Motion passed unanimously);
- October 19, 2010 – Adoption of the EDIS (Motion passed unanimously);
- October 19, 2010 – Contract Award to Gensler for the Entertainment District Place-Making Project (Motion passed unanimously);
- October 19, 2010 – Adoption of the Commercial Rehabilitation Program (Motion passed unanimously);
- August 17, 2010 – Exclusive Negotiating Agreement with Ottawa University to discuss building a residential university at Peoria Place (Motion passed unanimously);
- July 6, 2010 – Approval of support for the International Bioscience Commercialization Consortium’s grant application through a public-private partnership with T-Gen (Motion passed unanimously);

- June 30, 2010 – Executive Session on Assa Abloy

Options:

The following options are available:

1. **Continue to move forward with EDIS implementation as the initiatives are currently prioritized, and fund all current projects as presented.** This means that all current projects would enter the next phase of development with the budgets as they have been presented. This would also call for annual funding of the economic development program through the CIP budget process, and as needed thereafter, since there are several economic development proposals being pursued for which there is no funding available.
2. **Modify the initiatives in the EDIS and approve funding for economic development activities different from that which is presented.** This means that the current list of initiatives would be re-prioritized by the Council. As a result, the funding allocation for current projects would be modified to represent the Council's revised economic development goals.
3. **Reject all options.** This means that staff would put all activities on hold in order to develop a new economic development implementation strategy.

Staff Recommendation:

Staff recommends that Council provide direction on the economic development projects to be pursued and the allocation of funding in order to enable the priority projects to move forward towards implementation.

Fiscal Analysis:

Please see attached Economic Development Project and Budget Matrix document.

Narrative:

Please see attached Economic Development Project Update document.

Exhibit(s):

EDIS Initiatives (approved October 2010)
Economic Development Project and Budget Matrix
Economic Development Project Update

Exhibit 1: The Final List of the 11 Initiatives (in order of priority)

1. University Recruitment
 - Continue current efforts to recruit a university to the City emphasizing one with a strong, internationally recognized engineering program
2. Investment Zones
 - Create targeted investment zones within the City offering business assistance and incentive programs aimed at attracting desirable business investment to those zones
 - Old Town, Entertainment District, Loop 303, Northern Avenue redevelopment corridor, Plaza del Rio
3. Healthcare Strategy Development and Recruitment
 - Build on ongoing efforts to create and implement a targeting strategy for recruiting and servicing of a significant healthcare sector including facilities and services
 - Create a bioscience incubator to encourage start-up companies to grow in Peoria
4. Business Assistance Program
 - Adopt and aggressively promote programs, policies, and incentives that provide:
 - Necessary services and assistance to existing City businesses
 - Demonstrate Peoria is a serious competitor for economic development investment
5. Strategic Land Assembly
 - Strategically seek to obtain or facilitate control of critical business development parcels to provide shovel-ready sites for development, in particular, in
 - Loop 303, Old Town redevelopment, key parcels with Loop 101 frontage
 - “Plan to suit” program for targeted projects (for example, by acquiring land from ASLD for a long range development plan)
 - Develop “virtual buildings”
6. Marketing Plan
 - Create a comprehensive, multi-year marketing plan and budget for Peoria’s economic development efforts with specific attention to Old Town, the Entertainment District, Loop 303, university recruitment, and health care and bioscience recruitment.
7. Target Industry Advisory Groups
 - Create advisory groups for each of Peoria’s target industries comprised of industry employers, educators, and other relevant groups
 - Short-and long-term targets include Healthcare services, Biosciences/life sciences, Financial and insurance services, Professional/scientific/technical services, Administrative services
8. Economic Development Investment Policy and New Tools
 - The emphasis for this policy should be on job creation and return on investment
9. Business Incubator
 - Provide services that start-up businesses need, including financial support, equipment and supplies, administrative support, and space
10. Permit and Approval Process Task Force
 - Create a City/Private-Sector Task Force to identify specific problems with or weaknesses in the City’s permit & approval process
11. Workforce Development
 - Identify and implement programs designed to assure that Peoria can provide the workforce of the future that will be sought by targeted business sectors.

Exhibit 2A

Economic Development Project and Funding Matrix								
			One-time Funding				On-going Funding	Other
Project			EDIS (ED00007)	Land Assembly (ED00003)	Commercial Rehab (ED00006)	Entertainment District Improvements (ED00002)	Economic Development Support	Notes
Funding Source			County Trans. Sales Tax	GO Bonds	General Fund	General Fund	1/2 cent Sales Tax	
Amount			\$6,000,000	\$3,000,000	\$1,200,000	\$785,000	\$2,175,000	
EDIS Initiative(s)	Projects	Amount						
University Recruitment	Vistancia Locate	Land Donation						Negotiate a land donation with Sunbelt Holdings as part of Vistancia DA Amendment
	Park West Locate	\$500,000	\$500,000					
	Peoria Place Locate	\$1,000,000	\$1,000,000					
Investment Zone - Old Town	Smitty Purchase	\$1,044,000		\$1,044,000				
	Smitty Demo	\$586,000	\$586,000					
	Commercial Rehab (Phase 1)	\$1,200,000			\$1,200,000			No funding for future phases
	Peoria Town Center	\$1,300,000	\$1,300,000					
Investment Zone - Entertainment District	Phase 1 Identity and Placemaking Imp.	\$1,785,000	\$1,000,000			\$785,000		Actual costs based on bids received
	Parking Structures (2)*	\$1,100,000					\$1,100,000/yr - 15 years	*Sign revenue at \$1.7 million per year for debt service. Half Cent Sales Tax starting year 4-19
	Land Acquisition (4) near Harkins Plus Business Relo**	\$5,181,000		\$1,956,000			\$1,075,000/yr - 3 years	**\$1.075 million/yr only needed for years 1-3 for acq/relocation
	Phase 1 Additional Placemaking Imp. (Streets, sidewalks, plaza, utilities, landscaping)	\$3,225,000					\$1,075,000/yr - 3 years	Starting year 4-6. Actual costs based on bids received.
Medical Device Incubator	Incucellator	\$1,638,000/yr***	\$1,614,000				\$1,100,000/yr - Yr 1-3	***Half-Cent = \$1.1M/yr for yr 1-3 + EDIS = \$538,000/yr for yr 1-3 Yr 4+ = City appropriation + grants
TOTALS			\$6,000,000	\$3,000,000	\$1,200,000	\$785,000	\$0	

Exhibit 2B: Other Economic Development Projects Pursued

EDIS Initiative	Project	Stage of Pursuit	Funding Allocated
Investment Zone – Loop 303	Project Neptune	Site Selection Competition	\$6,700,000 from LPP CIP
	Osage West Business Park	Pre-Development	\$0
	Project Icon	Site Selection Competition	\$0
	Lake Pleasant	Opportunity Identification	\$0
Investment Zone – Entertainment District	Phase 1 Place-Making Improvements	Tier 2 Assessment	\$5,010,000 allocated for implementation, however, actual costs to be based on bids received.
Health Care Recruitment	Hospital/Medical Campus (Vanguard)	Pre-Development	\$0
Other	Rovey Industrial Park	Pre-Development	\$0
	Park West/Saxa Property	DA Amendment Negotiation	\$0
	Old Town Commercial Rehab	Phase 2-4	\$0
	Maxwell Technologies	Site Selection Competition	\$0

Exhibit 3: ED Project Update

As of August 29, 2011

The Council adopted Economic Development Implementation Strategy (EDIS) identifies the economic development initiatives and objectives that have upon adoption become the work plan for the Economic Development Services (EDS) Department. EDS' core services include the following:

- Business Attraction
- Business Retention and Expansion
- Redevelopment
- Small Business
- Workforce Development

This update will present all current economic development projects and proposals in relation to the adopted EDIS initiative.

Business Attraction

University Recruitment

The city has been very active in its university recruitment efforts. We have finalized a market study on higher education in the Valley, conducted a survey of over 700 colleges, and hired a university recruiter to help us bring prospects to the market. The following illustrates our successes to date:

- Market visits by 9 institutions of higher education; 4 more have expressed interest in visiting and touring Peoria sites in September and October 2011.
 - One university entered into an ENA with the city
 - One university will be submitting an operational pro forma in Fall 2011 for a space absorption opportunity along Loop 101
 - One university has set up a taskforce to explore the feasibility of establishing a new residential branch campus in Peoria (currently focusing on market acceptance, academic programming, and philanthropy opportunities)
 - One university is coordinating with its affiliated campuses to create a consortium campus opportunity in Old Town. A university visit to the site is planned for fall 2011.

The market study and the EDIS indicated that the recruitment focus should be on institutions with strong reputations in the following degreed programs:

- Engineering
- Aviation and Aerospace
- Medical/Dental/Nursing

- Veterinary Medicine
- Natural Resources/Water
- Computer and Information Sciences
- Sustainable Technology/Alternative Energy
- Hospitality/Tourism
- Visual Arts
- Business

Health Care Recruitment

The city has been very active in recruiting health care projects of all types:

- It's All in the Game has successfully leased the former Chili Davis locations and will be establishing a player development facility that utilizes the Sports Complex, a physical therapy group, and several physician groups from St. Joseph's Hospital.
- Peoria Regional Medical Center broke ground on its hospital facility in June 2011
- Abrazo Healthcare opened its North Peoria Emergency Center in November 2011
- The city entered into an ENA with Vanguard Health Systems for a hospital campus in northern Peoria (build-to-suit)
- Working to bring a community health care organization into Old Town Peoria (absorbing existing space)
- Several physician's offices are looking to expand in the city (both through space absorption and build-to-suit opportunities)

Investment Zones

In this category we would like to highlight 5 focus areas:

- **Entertainment District**
 - It's All in the Game reuse of the former Chili Davis facilities
 - Mixed Use Redevelopment Project in the Entertainment District
 - Entertainment District Identity Project (with Gensler) – this project is essential to business attraction, business retention, and redevelopment opportunities
- **Old Town Peoria**
 - Commercial Rehabilitation Program – Phase 1 of the program involving the substantial rehabilitation of Wagoner Plazas 1 and II scheduled to start Fall 2011
 - Peoria Town Center redevelopment opportunity to attract a Hispanic grocer, Latino cinema, and community health care group is ongoing. This project will substantially improve the tenant-base and physical appearance of the Peoria Town Center.
- **Rovey Industrial Park**
 - Development of a 329-acre, rail-served industrial park in southern Peoria to make the city competitive for larger manufacturing prospects that require rail supported industrial space

- **Plaza del Rio**
 - Emphasis on the Plaza del Rio’s health care strength to recruit an institution of higher education with medical/nursing/healthcare programs
 - Establishing a medical device incubator on the campus
- **Northern Peoria**
 - Vistancia Commercial Core – recruitment of a university, hospital, and a corporate campus. Also, substantial partnerships with Sunbelt Holdings and GPEC to market this asset as a “super site.”
 - Business airpark (ENA with Osage West, LLC) – recruitment of a corporate campus and/or substantial industrial users and subsequent site, infrastructure, utility planning and development program creation.
 - BASIS school – facilitated the development of the school through extraordinary service to the site development customer.
 - Project Neptune – recruitment of a Fortune 100 Company Headquarters
 - Project Icon – recruitment of a specialty aircraft manufacturing and sales headquarters

Marketing Plan

The city has engaged in three promotional activities to market and promote the City:

- Investment Conference – an annual forum to present Peoria development opportunities to developers, site consultants, brokers, companies, and financiers.
- Website redesign – current effort to improve the function and use of the city’s ED website
- Public Relations campaign – current effort to establish the city’s image nationally and internationally as an emerging place to do business

With EDS’s new structure as a one-stop shop for site and building development in addition to economic development, the department is able to be more proactive in meeting the needs of new businesses. Below is a sampling of organizations that have located to the City of Peoria as a result of combined EDS efforts:

- It’s All in the Game
- Third Place
- Johnny Fox’s Public House
- BASIS
- Peoria Audi
- Chick-fil-A
- Watts Water
- Ride Now Sports
- North Peoria Emergency Center (Abrazo)
- Peoria Regional Medical Center
- Peoria Shooting and Gun Club (retail only)
- Shooters World

Business Retention and Expansion

The goal of Peoria's Business Retention Program is to retain and expand existing businesses by learning about issues business owners are facing and addressing those issues in a timely manner. EDS has had a full-time business retention person since January 2010. This person met with 79 companies in 2010 and 89 companies to date in 2011. The following programs and developments are, in part, in response to the needs of the existing business community:

- Commercial Rehabilitation Program
- Entertainment District Identity Program
- Spring into Peoria Festival
- Sewer project in the Entertainment District

As a one-stop shop, EDS is also able to be more proactive in meeting the needs of existing businesses. Below is a sample of companies that, as a result of combined EDS efforts, have either expanded or been retained in the city:

- Peoria VW (formerly Peoria Saturn) – retained dealership and facilitated transition
- Cardiac Solutions (expansion)
- Wilhelm Automotive (expansion)
- EMC Insurance (expansion)

The new department structure has also enabled improved communication to our stakeholders through development forums and personal outreach. EDS has informed the business community on various items from Grand Avenue roadway improvements to sewer improvements in the Entertainment District to evaluating the impact that a new school has on area traffic for nearby businesses.

Redevelopment

Infill and redevelopment tools enable communities to stimulate new development and investment into existing urban and suburban areas that already provide services. This is accomplished by developing, redeveloping, and re-using existing sites and buildings in neighborhoods, commercial corridors and centers. Infill and redevelopment programs also help revitalize downtowns, conserve energy through more compact development patterns, as well as enable greater use of transit and alternative modes of transportation. The following projects have been the focus of EDS' redevelopment efforts:

- Mixed Use Redevelopment Project in the Entertainment District
- Rovey Industrial Park
 - Development of a 300+ acre rail-served industrial park in southern Peoria to make the city competitive for larger manufacturing prospects that require rail service
- Old Town Peoria
 - Peoria Town Center redevelopment opportunity to attract a Hispanic grocer, Latino cinema, and community health care group, as well as revitalize the appearance of the existing center
 - Smitty's site
 - Goodwill site

- Commercial Rehabilitation Program

This is another area where the combined services that EDS offers have been very beneficial to overall economic development opportunity analysis and creative problem solving.

Small Business Development

The city has had a small business program for seven years, but it became more robust in January 2010. Peoria's small business program is designed for businesses with fewer than 50 employees and also appeals to all existing businesses as a retention tool. The target audience for the small business program falls into one of these categories:

- Entrepreneurs or start-ups
- Mom and pop business looking to expand or relocate
- Home-based businesses

The goal is to specifically address small business concerns and grow the small business community in Peoria.

Activities for this calendar year include the following:

- Host 16 seminars and workshops:
 - Jan. – Feb. 2011 – Small Business Development Series. Six week series of individual workshops - meets once a week for 3 hours. Topics: Legal and Tax Issues Involved in a Business, Writing Strategic Business Plans, Beating Your Competition, Managing Your Sales Pipeline, Metrics of Success - Creating Financial and Business Operation Dashboards, Your Business as Your Retirement Plan: Fact or Fiction?
 - March 16th – “Do You Know Where to Go to Grow?” 2.5 hour workshop hosted by the SBDC
 - April – June – NxLevel for Start-Ups given by the SBDC. This certification course runs once a week for 12 weeks with an opportunity to earn three college credits through Gateway Community College
 - May 5th – Marketing on a Shoestring Budget (in partnership with Peoria Chamber)
 - July 20th – National Bank of Arizona gave presentation on various small business loan and SBA loan programs
 - Aug. 17th – “Marketing 101 – A Crash Course” Karen Taylor of New Destiny Marketing gave an informative presentation regarding various types of marketing ideas
 - Sept. 14th – “Signage, It Really Does Matter”. In partnership with Small Business Development Center offering 3 hr. workshop on Signage: Laws, Design, Standards, Code
 - Oct. 20 & 27th – in partnership with the IRS offering a 2-part series sharing tax information for small businesses

- Nov. 2nd – City and Peoria Chamber invite author and radio talk show host Steve Henry to share his 30 years of experience running several successful small businesses
- Nov. 9th – You and Your Accountant 101: Susan Chavez shares information about when and how to utilize an accountant
- Outreach :
 - Give presentations to organizations that want to learn about Peoria’s Small Business Program:
 - Vistancia networking group, Peoria Rotary Club, Peoria Chamber
 - Share small business program information at regional tradeshow, expos, organizations:
 - YOB Fair, Conexiones Expo, ASBA Tradeshow, Biz 2 Biz Expo, Diamond Club Grand Slam Networking event
 - Delivered/mailed information regarding Peoria’s Small Business Program to 134 new and existing businesses
 - Assisted 49 businesses owners and/or aspiring small business owners

Workforce Development

This program is the newest in the city, officially beginning in July of this year. The city has partnered with Maricopa Community Colleges, Maricopa Workforce Connections, and West-MEC to build a workforce development program focused on our business retention and business attraction efforts. Current activities include the following:

- Assessment of workforce needs based on interviews and surveys of existing Peoria businesses
- Job Fair (in collaboration with West Valley cities, several colleges including ASU and Glendale Community College, Maricopa Workforce Connections, ASBA, Greater Phoenix SCORE, SBA, Goodwill etc.) to be held at the Peoria Sports Complex on Oct. 12th
- Participate in WESTMARC and West-MEC meetings regarding workforce development and economic development topics



City of Peoria

Budget Office

8401 West Monroe Street, Peoria, Arizona 85345

Ph: 623-773-7126 Fax: 623-773-7727

TO: City Council

FROM: Katie Gregory, Interim Management and Budget Director

THROUGH: Susan Thorpe, Deputy City Manager

SUBJECT: Supporting Financials for September 9th ED Prioritization Workshop

Purpose:

This supplemental detail is to provide Council with an overview of the current and projected funding sources available to support proposed Economic Development projects or initiatives. Due to the city's limited resources, Council will need to prioritize the application of these funds as it relates to their overall priorities. This overview is intended to describe the city's financial capacity to fund these projects, and hear from Council those projects they wish to pursue.

Background/Summary:

There are a number of funding sources that have been identified to support economic development initiatives; however, these sources are limited in their use and capacity. Staff is providing Council with financial information pertaining to the Half Cent Sales Tax Fund and the Regional Transportation Plan (RTP) Reimbursements for review prior to the project prioritization meeting. These documents include:

1. A memo on the current use of Regional Transportation Plan (RTP) Reimbursements.
2. An update on the Half Cent Sales Tax Fund
3. Financial projections for the Half Cent Sales Tax Fund
4. The history of the Half Cent Sales Tax Fund since its origination
5. The Half Cent Sales Tax Policy

In addition, there are a number of other funding sources that could potentially be applied to priority projects based on the project type and scope. The General Fund, GO Bonds and Transportation Sales Tax are some examples of other sources that may be considered. Based on Council's direction regarding projects to pursue, a further funding and/or financing analysis would be completed to maximize all available funding sources.

Previous Actions:

On December 7, 2010, City Council approved the Economic Development Implementation Strategy (EDIS), which identified specific economic development initiatives the City was to pursue. Since that time, the Economic Development Department has brought a number of potential projects to Council for consideration. In June, Council approved the FY12 Budget including the first year of the City’s Capital Improvement Program. The first year of the CIP included four Economic Development Projects totaling just under \$11 million. A good portion of this funding (\$6 million) is for the Economic Development Opportunity Fund. This project was established to allow Economic Development to pursue the initiatives as stated in their Economic Development Implementation Strategies (EDIS) document.

Staff’s Recommendation:

Staff recommends that Council review the attached information and apply it in the context of the economic development project prioritization discussion.

Exhibits:

- Exhibit 1:** Regional Transportation Plan (RTP) Reimbursements Memo
- Exhibit 2:** Half Cent Sales Tax Fund Memo
- Exhibit 3:** Financial Projections Related to the Half Cent Sales Tax Fund
- Exhibit 4:** Outline of the History of the Half Cent Sales Tax Fund
- Exhibit 5:** Currently Adopted Half Cent Sales Tax Policy



City of Peoria

Budget Office

8401 West Monroe Street, Peoria, Arizona 85345

Ph: 623-773-7126 Fax: 623-773-7727

TO: Peoria City Council

FROM: Katie Gregory, Interim Management & Budget Director

THROUGH: Susan Thorpe, Deputy City Manager

SUBJECT: USE OF RTP-ALCP REIMBURSEMENTS

Purpose:

We have received some questions about the allocation of the County Transportation Sales Tax (RTP-ALCP) reimbursements within the adopted Capital Improvement Program (CIP). This memorandum summarizes our approach in programming these funds.

Background/Summary:

The Maricopa Association of Governments (MAG) administers the Regional Transportation Plan (RTP)—a guide for funding and implementing transportation investments of regional significance through fiscal year 2026. One component of the RTP is the Arterial Life Cycle Program (ALCP), which provides regional funding to widen existing streets, construct new segments, and improve intersections on the arterial street grid system. The major source of funding for the ALCP is the county half-cent transportation sales tax re-authorized by voters in November 2004 as part of Proposition 400.

The City of Peoria has five projects in the ALCP:

1. Lake Pleasant Parkway
2. Happy Valley Road
3. Beardsley Connector
4. 83rd Avenue Widening (Butler Drive to Mountain View Road)
5. 75th Avenue and Thunderbird Road Intersection Improvements.

Regional funds are programmed for each of these projects in specific years over the 20-year life of the program. Typically, governments apply for these funds as they design, purchase right of way, and construct projects.

However, sometimes governments build projects in advance of scheduled ALCP disbursements. Peoria chose to do so with both Lake Pleasant Parkway (to Westwing Parkway) and Happy Valley Road. Over the last five years, the city has been applying for and collecting

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reimbursements for these projects. To date, the city has been reimbursed \$38.75 million for these projects, with another \$9 million due in FY 2012 for Happy Valley Road.

Prior to FY 2011, the city's CIP allocated our ALCP reimbursements to help pay for upcoming transportation projects. Our preference all along was to use the ALCP reimbursements to fund the segment of Lake Pleasant Parkway now under design and to use G.O. bonds to fund Community Park#2, not the other way around, as is the case in the current CIP. However, our hand was forced to some degree when the Beardsley Connector, for which we had already sold \$16 million in bonds, became a federally funded project. Our bond counsel advised us that we had to spend the bond proceeds on a "like" project, meaning a transportation project. The only project of this magnitude was Lake Pleasant Parkway.

As fiscal conditions continued to deteriorate and the city's sources of funding capital projects became more constrained, staff began to look at options that would provide funding for Council's high-priority projects in the CIP. The most viable option was to use ALCP reimbursements to help pay for non-transportation projects. This decision was made based on the desire to fund Council's highest priority projects and staff discussions as to whether the proposed application of these funds could be explained to the satisfaction of councilmembers, residents, and the funding agencies. Of course, the use had to be absolutely legal. As such, staff held discussions wherein MAG, the City Attorney's Office, and our bond counsel all agreed that these funds could be used for any purpose. Based on all of these criteria, staff programmed these funds toward several non-transportation projects in the FY11-20 CIP, namely Community Park #2 and the Economic Development Opportunity Fund. The use of these funds was explained to Council and the community during the CIP and Budget hearings.

We feel comfortable using some of our ALCP reimbursement dollars for non-transportation projects not only because of the consensus opinion that it is legal to do so, but also because of the sources of city funds for which we have been reimbursed. For example, in addition to other funding sources, the city used \$11.4 million in general fund cash and \$25 million in G.O. bond proceeds to pay for Lake Pleasant Parkway and Happy Valley Road. By allocating ALCP reimbursement dollars to projects that would have otherwise been funded (all or in part) with cash and/or G.O. bonds, we are in essence paying ourselves back for expenditures (advances) made from those funds in the past.

Conclusion:

In short, we believe the current funding plan is the best way to keep Council's priorities in the CIP and ensure compliance with restrictions on the use of various capital funding sources. We have examined this approach from a legal standpoint, and have been assured that we can use ALCP reimbursements for any purpose. Thus, how these reimbursements are programmed is a Council policy decision. The current programming of the funds in the CIP is staff's best recommended approach, given the city's capital priorities in the near term.



City of Peoria

Budget Office

8401 West Monroe Street, Peoria, Arizona 85345

Ph: 623-773-7126 Fax: 623-773-7727

TO: City Council

FROM: Katie Gregory, Interim Management and Budget Director

THROUGH: Susan Thorpe, Deputy City Manager

SUBJECT: Update on Half Cent Sales Tax Funding

Purpose:

This memo provides the City Council with an overview of the Half Cent Sales Tax (HCST) fund including its anticipated uses and projected future funding capacity. Also attached is an outline of the history of the Half Cent Sales Tax Fund since its origination, the Half Cent Sales Tax Policy and financial projections for the fund.

Background/Summary:

Staff promised to provide council with a memo regarding the HCST fund including its history, uses, projected capacity, and potential projects. This background information may be useful for Council in advance of the upcoming September 9th Council workshop. That workshop is to discuss and prioritize the city's economic development initiatives. Consistent with Council's adopted Principles of Sound Financial Management, the HCST Fund is one of the likely funding sources for the highest priority initiatives.

Previous Actions:

Council originally adopted the Half Cent Sales Tax in 1988 to support the construction of the municipal complex. The first policy regarding use of the tax was adopted in 1993 as a result of the tax generating revenues in excess of the debt service requirements. The policy has been revised a few times over the years to add additional expenditure types such as operational costs associated with roads and public safety. A detailed outline of the history of the Half Cent Sales Tax is provided as an attachment to this memo.

Staff's Recommendation:

Staff recommends that Council review the history and projected funding of the Half Cent Sales Tax Fund in the context of Council's emphasis on economic development initiatives. The Half

Cent Sales Tax provides one funding mechanism that can help support Councils' highest priority economic development objectives.

Fiscal Analysis:

Council's Adopted Policy Priorities

The Council's adopted Principles of Sound Financial Management (PoSFM) includes the current Half Cent Sales Tax policy. A copy is attached to this memo. Per the adopted policy, the priorities are:

- Payment of debt service on Municipal Development Authority bonds.
- Maintaining a fund balance of \$1 million as a debt service reserve.
- Maintaining an additional fund balance as detailed in the PoSFM.
- Funding for capital expenditures, economic development and community promotions.
- Providing a source of funding for specific city operational expenditures.

Historical Uses

Over the last several years, the Half Cent Sales Tax Fund has provided one-time funding to help support major capital projects including the construction of the Public Safety Administration Building (PSAB), fire stations, the new radio communication system, community parks, the MOC, Peoria Performing Arts Center, Development & Community Services Building (DCSB), the loop 303 interchanges, etc.

In addition to assisting with these one-time funding needs, the Half Cent Sales Tax Fund has also provided (and continues to provide) a significant level of support for certain operational functions including police, fire, economic development, the sports complex, the new communications system, support of Peoria Chamber of Commerce and support of GPEC. Other ongoing support includes development agreement payments and debt service payments on the city hall complex, Performing Arts Center, and sports complex.

Although further detail is shown on the attached financial projections, examples of some of the larger categories include:

Police operations and vehicle replacement	\$ 4,045,000
Sports complex operational support	\$ 1,860,000
Development agreements	\$ 1,680,000
Debt service payments	\$ 1,430,000
Fire department ladder company	\$ 1,200,000
Radio system operational and support	\$ 870,000
Economic development department	\$ 820,000

Financial Projections

Revenues in the HCST Fund (consisting of almost entirely sales tax revenues) are projected at approximately \$14.3 million in fiscal year 2012. Expenditures are estimated at approximately \$12.6 million. This results in a projected excess of approximately \$1.7 million in the current

fiscal year. However, the surplus in the following year (FY2013) declines to only \$320,000 followed by an operating deficit in FY 2014. Those are followed by small surpluses in FY 2015 and FY 2016. It is important to note that these financial projections assume some important investments which are discussed below.

Consistent with Council's budget discussions, the attached projections anticipate the HCST Fund will be one of the funding sources necessary to support Council's economic development efforts in the next several years. As such, beginning in FY2013, the HCST Fund projections include annual, ongoing support of \$2.175 million for economic development initiatives along with \$2.5 million to support annual debt service payments associated with large capital improvements to the Peoria Sports Complex clubhouse and stadium facilities. The capacity to support these potential new obligations is facilitated by the reduction of certain prior obligations. For example, the current annual debt service on the city hall facility (approximately \$880,000 annually) ends in FY 2014. Likewise, certain development agreement obligations associated with the Bell Road corridor end over the next few years, providing capacity previously required for payments under these agreements.

In addition to the projected ongoing economic development project support described above, current projections indicate that there is some fund balance available that could be applied on a one-time basis to support a high priority economic development project. The preliminary projections estimate approximately \$5 million in available one-time capacity.

Observations and Conclusion

Over the last several years, the HCST Fund has provided the City Council with flexibility in addressing one-time capital needs as well as the funding specific on-going operations. These expenditures have been budgeted and expended in accordance with Council's adopted policies.

However, due to the city's limited resources, Council will need to prioritize the application of these funds as it relates to their overall priorities. It may be difficult to fund all of the projects/initiatives and phases of economic development projects that have been discussed with Council. Funding sources may not be available for those large projects and/or future phases of projects.

In addition to the projects that the Economic & Development Services Department has been discussing with Council, there likely will be future, high priority projects identified that will be difficult to fund. Staff recommends, due to the city's limited funding resources, that council is very deliberate in deciding whether to apply available fund balances to current projects or to retain those balances to help fund important, but yet unidentified, economic development projects in the future.

In conclusion, Staff recommends that Council review the history and projected funding of the Half Cent Sales Tax Fund in the context of Council's emphasis on economic development initiatives. The Half Cent Sales Tax provides one funding mechanism that can help support

Councils' highest priority economic development objectives. The application of this and other funding sources will be part of the discussion at Council's September 9, 2011 workshop.

Exhibits:

Exhibit 1: Financial Projections Related to the Half Cent Sales Tax Fund

Exhibit 2: Outline of the History of the Half Cent Sales Tax Fund

Exhibit 3: Currently Adopted Half Cent Sales Tax Policy

City of Peoria - Half Cent Sales Tax Fund

	Estimate	Budget	Forecast				
	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Beginning Fund Balance	13,616,643	12,456,369	14,094,639	14,415,286	12,785,615	13,188,059	14,146,182
Revenues							
Sales tax	14,066,386	14,157,154	14,597,574	14,992,127	15,567,990	16,143,810	16,791,896
Interest income	77,790	180,000	282,276	269,316	257,165	270,636	297,851
Other	257,043	0	225,000	250,000	275,000	275,000	275,000
Total revenues	14,401,219	14,337,154	15,104,850	15,511,443	16,100,155	16,689,446	17,364,748
Expenditures							
On-going expenditures							
Police operations	4,045,000	4,045,000	4,045,000	4,045,000	4,045,000	4,045,000	4,045,000
Fire operations	1,226,880	1,226,880	1,226,880	1,226,880	1,226,880	1,226,880	1,226,880
Radio communication system	849,585	868,646	901,378	935,747	971,835	1,009,726	1,049,513
Support for EDS Dept	821,395	872,213	940,824	1,012,865	1,088,508	1,167,933	1,251,330
Support for GF operations	0	500,000	500,000	500,000	500,000	500,000	500,000
Sports Complex operations	1,860,000	1,860,000	1,878,600	1,897,386	1,916,360	1,935,523	1,954,879
Payment of development agreements	1,925,850	1,682,000	1,527,260	1,407,808	697,511	593,547	292,697
Debt Service - City Hall, theater, other	1,424,133	1,428,502	1,434,630	1,284,742	419,859	419,859	419,859
Other	194,424	149,600	154,632	155,685	156,758	157,853	158,971
	12,347,267	12,632,841	12,609,204	12,466,113	11,022,711	11,056,323	10,899,128
Economic Development Initiatives							
EDIS Initiatives	0	0	2,175,000	2,175,000	2,175,000	2,175,000	2,175,000
Debt Service - Clubhouses and Stadium	0	0	0	2,500,000	2,500,000	2,500,000	2,500,000
	0	0	2,175,000	4,675,000	4,675,000	4,675,000	4,675,000
Excess of rev. over expend. before 1X items	2,053,952	1,704,313	320,646	-1,629,670	402,444	958,123	1,790,620
One-Time Capital Items							
Walmart CIP reimbursements	2,856,966	0	0	0	0	0	0
Loop 303 intersections	265,382	0	0	0	0	0	0
Other	91,878	66,043	0	0	0	0	0
	3,214,226	66,043	0	0	0	0	0
Ending Fund Balance	12,456,369	14,094,639	14,415,286	12,785,615	13,188,059	14,146,182	15,936,802
Less: Reservations/Designations							
Policy - Debt Service Reserve	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Policy - Operating Reserve	5,678,959	5,417,693	5,102,402	5,135,295	5,281,837	5,442,013	5,442,013
	6,678,959	6,417,693	6,102,402	6,135,295	6,281,837	6,442,013	6,442,013
Available Fund Balance	5,777,410	7,676,946	8,312,884	6,650,321	6,906,222	7,704,169	9,494,789

City of Peoria

History of the Half Cent Sales Tax Fund

June 14, 1988 – Council discussed Municipal Office Complex financing alternatives (Half Cent Sales Tax). Motion to construct a Municipal Office Complex was approved 6-1 with Councilman Brown voting no.

June 28, 1988 – Council held a Public Hearing regarding the proposed sales tax increase and adoption of a Half Cent Sales Tax by Council. The tax increase did not require voter approval. Council enacted the new tax.

July 12, 1989 – Resolution 88-33 passed authorizing the sale of \$15.5 M of Municipal Development Authority bonds for the construction of the municipal complex.

November 26, 1991 – Councilman Osuna wanted to require voter approval of any future sales tax increases. Action on the motion was taken and it failed on a 3 to 3 tie vote. (Note: the council communication is missing from the City Clerk's files.)

March 16, 1993 – A Primary Election was held that included Proposition 100 on the ballot. Proposition 100 required voter authorization to approve any increases in the city sales tax rate. The Proposition passed with 3,107 yes votes (86%) and 543 no votes (14%).

March 29, 1993 – The results from the primary election were approved by council including the passage of Proposition 100.

October 11, 1993 – The finance director prepared a memo to the city manager proposing a policy regarding the Half Cent Sales Tax Fund. The memo recommended priority uses of the revenues and a minimum reserved fund balance for the fund.

November 16, 1993 – A council communication from Vice Mayor, Dave Pearson was on the agenda regarding adoption of a policy for use of the Half Cent Sales Tax Fund revenues. The policy was similar to the staff memo from October. The Half Cent Sales Tax Fund Policy passed unanimously.

The adopted policy recognized that revenues were being generated above the MDA debt service requirements. The purpose of the policy was to specify how those revenues could be spent. The policy required separate accounting and budgeting for the HCST fund revenues and expenditures.

The policy also established priorities for expenditures as follows:

1st priority – Debt service on MDA bonds for city hall campus.

2nd priority – Debt service reserve of at least \$1 million and annual amount for replacement of the city complex.

History of Half Cent Sales Tax

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3rd priority – Funding for certain capital projects that met specified criteria such as a city match to obtain outside funding, projects facilitating economic development, projects with community wide or area wide benefit, projects that would save general fund operating expenditures, and avoidance of issuing debt for projects. (It is probably important to note that this initial policy did not provide for using Half Cent Sales Tax revenues to support operating expenditures.)

June 20, 1995 – A council communication from Councilman Dave Pearson was presented to council to amend HCST Fund Policy. The amended policy continued to allow the HCST revenues to be used for capital projects. However, the 3rd priority was expanded to allow for operating expenditures for economic development and community promotions that would save expenditures from the general fund normally used for operations. Council discussed examples of operational expenditures for the Chamber of Commerce, PEDG, and Fiesta Patrias that otherwise would be paid from the general fund. This change in policy would free up monies in the general fund. The amended policy was approved unanimously.

January 27, 1999 – A memo was prepared by Mayor Keegan and Councilman Forgia to council regarding amending the HCST Fund policy to include funding for public safety and road maintenance needs. The memo referred to discussions at a council retreat in September 1998. Accumulated reserves in HCST fund were identified as \$5 million. Unused fiscal capacity was identified as available to support roads and public safety. \$14.3 million was discussed that could be used in pay-as-you-go financing for city capital needs (\$6.8M already in CIP for public safety and \$2M additional that could be used for public safety vehicle capital needs (4 years @ \$500,000 annually). The memo also proposed \$1M annually for road maintenance.

February 2, 1999 – Resolution 99-23 was adopted affirming the policy established in November 1993 (amended in 1995), applying \$1 million annually for road maintenance, applying \$500,000 annually for public safety capital needs (vehicle replacements), and establishing that a 5 year forecast of the HCST fund would be completed during the annual budget process.

September 19, 2000 – The first Principles of Sound Financial Management (PoSFM) were adopted by Council. The PoSFM included a section on the HCST Fund. The policy organized sections from the previously adopted policies and the established priorities.

1st priority – Debt service payments on the MDA bonds for the city hall campus.

2nd priority – Debt service reserve of at least \$1 million and annual amount for replacement of the city complex. Also established a reserve goal of 20% of the annual revenues for the year.

3rd priority – Capital, economic development and community promotional expenditures.

History of Half Cent Sales Tax

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4th priority – Specific city operational expenditures identified by council through the annual budget process, including the \$1 million for roads (the pavement maintenance program) and \$500,000 for the replacement of public safety vehicles.

The policy also included criteria for evaluating capital, economic development, and community promotions projects.

October 2, 2001– Consistent with a staff recommendation, the council adopted revisions to the PoSFM including changes to HCST Policy. The revisions included changing the reserve requirement to make it consistent with the General fund policy of 35% of previous 5 year average revenues instead of 20% of current year revenues. In addition, the policy removed the requirement that the HCST Fund would be accounted for within the city's General Fund. It retained the acknowledgement that revenues and expenditures of the HCST Fund were distinct from general fund revenues and would be accounted for and budgeted separately.

June 7, 2005 – Council adopted Resolution 05-87 revising the PoSFM. There were no changes to the HCST policy included in the PoSFM.

April 23, 2007 – During the FY 2008 budget discussions with council, staff gave a presentation on the HCST fund including the history, policy priorities, fund balance, ongoing programming of expenditures, and historical use for capital projects. Examples of ongoing operational expenditures supported by the HCST Fund included the street maintenance program, the building replacement fund, subsidy for the sports complex operations supporting economic development, support for operations of the economic development department, public safety operating costs (fire and police), development agreement payments, debt service payments, and operational support for the chamber of commerce, GPEC, etc.

May 3, 2008 – Similar to the prior year budget presentation, a presentation was given for the Council's FY 2009 budget discussions.

April 27, 2009 – As part of the budget sessions, a brief discussion of the Half Cent Sales Tax Fund was included in the financial overview of major city funds.

December 1, 2009 – A study session was held at which staff presented the Mid-Year Financial Overview. That presentation included the Half Cent Sales Tax Fund, a pie chart of its ongoing uses, and a five year forecast of revenues and expenditures.

April 22, 2010 – As part of the budget sessions, a brief discussion of the Half Cent Sales Tax Fund was included in the financial overview of major city funds. Staff informed Council that the FY2011 budget discontinued \$500,000 of annual support from the Half Cent Sales Tax Fund to the Streets Fund. Instead, this amount was proposed to be used to support the General Fund, reducing the projected General Fund budget shortfall.

History of Half Cent Sales Tax

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September 21, 2010 – A Council Study Session was held on the Half Cent Sales Tax Policy. Staff's presentation included the history of the HCST fund, current uses and commitments, and the forecast of revenues and expenditures from FY2012 through FY2016. Staff also discussed that certain development agreement obligations and debt service payments supported by the Half Cent Sales Tax Fund would be ending over the next few years. This would free up future resources in the fund. The five year projection estimated a surplus of approximately \$4.3 million by 2016. Council discussed their desire that economic development be a main focus as funding becomes available in the Half Cent Sales Tax Fund in the years ahead.

November 16, 2010– Consistent with a staff recommendation, the council adopted revisions to the PoSFM including changes to HCST Policy. The revisions included changing the reserve requirement to make it consistent with the revised General fund policy to meet new accounting and financial reporting requirements promulgated by the Government Accounting Standards Board.

March 22, 2011 – As part of the financial overview at the start of the budget study sessions, staff presented a pie chart of the Half Cent Sales Tax Fund's ongoing uses including support for public safety operating costs, sports complex operations, development agreements, debt service on city facilities, and economic development. Staff mentioned that in future years some development agreement obligations and debt service obligations will be ending. The proposed Capital Improvement Program includes \$18 million in anticipated funding for sports complex improvements in conjunction with renegotiating the Sping Training contracts with the two baseball teams. These improvements are programmed to be supported by the Half Cent Sales Tax Fund.

Policy 13
One Half-Cent Sales Tax

The Council has established a special one-half cent sales tax designated primarily for debt service, reserves, and capital needs. These funds will be recorded and expended separately.

13.01 The city maintains a separate One Half-Cent Sales Tax Fund. It is important that the revenues and expenditures be budgeted and accounted for separately for the additional one-half (½) cent included in the city's sales tax.

13.02 Revenues from the city's total sales tax shall be presented in the budget in a manner that a distinction is made between the one (1) cent sales tax and the one-half (½) cent sales tax. In addition, a tracking system will be maintained for the expenditures of the one-half (½) cent sales tax.

13.03 Definitions

- a) Capital Expenditures – The cost of an acquisition or repair to property where the property or improvements have a useful life extending substantially beyond one year.
- b) Economic Development Expenditures – Costs associated with promoting revenue-generating activities, quality job creation, vital economic development projects, and other efforts consistent with Policy #14 – Economic Development.
- c) Community Promotions Expenditures – Costs associated with enhancing the image of the community, including special cultural and community events that encourage revenue-producing activities.
- d) Municipal Development Authority – The Peoria Municipal Development Authority (MDA) and the Peoria Municipal Sports Complex Authority (MSCA) are non-profit municipal property corporations organized to issue bonds and to enter into lease agreements with the city. Agreements with the MDA and MSCA require the city secure the lease (debt service) payments on bonds with the city's excise taxes.
- e) Debt Service – The payment on a semi-annual or other basis of lease payments under a lease between the city and a municipal property corporation (MDA or MSCA), wherein the lease payments equal the debt service payments on bonds issued by the MDA or MSCA.

13.04 One-Half Cent Expenditures & Reserves

Use of One-Half Cent Sales Tax funds shall be prioritized as follows:

First Priority – Debt Service

The debt service for those MDA bonds for which the payment source is one-half (1/2) cent sales tax revenues including administrative, accounting and legal costs connected with the bond payment.

Second Priority – Fund Balance

The One-Half (1/2) Cent Sales Tax Fund balance will include the following:

a) One-Half (1/2) Cents Sales Tax Debt Service Reserve

This reserve should be \$1 million for outstanding bonds being paid from the one-half (1/2) cent sales tax.

b) One-Half (1/2) Cents Sales Tax Reserve

An additional reserve goal for the fund is thirty-five percent (35%) of the average actual revenues for preceding five fiscal years. The reserve shall not normally be applied to recurring needs or known and planned future obligations. Rather, this reserve may be used to fund temporary needs in an emergency, to maintain critical city services due to unanticipated events or unexpected loss of revenues, or to provide funding to deal with fluctuations in fiscal cycles and operating requirements. Use of these reserve funds must be approved by the City Council. To the extent these reserves are expended, the city will make every effort to decrease its Half-Cent expenditures as necessary to prevent the continued use of reserves. Additionally, the city will, through multi-year financial projections, prepare a plan to restore this reserve within the three fiscal years following the fiscal year in which the use of reserves occurred.

Third Priority – Capital, Economic Development and Community Promotions

Remaining funds from the one-half (1/2) cent sales tax not utilized for debt service or in reserves can be used for capital, economic development, and community promotions expenditures.

Fourth Priority – Specific City Operational Expenditures

Certain specific operational expenditures may be identified by Council through the annual budget process to be funded through the one-half (1/2) cent sales tax revenues.

13.05 The following criteria will be used in evaluating Capital, Economic Development, and Community Promotions projects for which one-half (1/2) cent sales tax revenue can be used.

- a) Projects where a city match is needed to obtain outside funds.

- b) Projects which construct infrastructure, assemble land, or expend funds as investment in development or community promotions that will serve as a catalyst for, or assist in the creation of, revenue producing economic development for the city.
- c) Projects which have a community wide or area wide benefit.
- d) Projects which save General Fund expenditures normally used for operations.
- e) Projects which would result in the city not having to sell bonds in order to finance such projects.

13.06 Any Utility Enterprise Fund projects funded from the one-half (½) cent sales tax would have to be repaid to the One-Half Cent Sales Tax Fund from the particular utility enterprise fund. An annual accounting of the expenditures and repayments from the utility enterprise funds will be presented to Council as part of the annual budget process.