



Agenda City Council Policy Session

Tuesday, February 13, 2018

2:30 PM

phoenix.gov

CALL TO ORDER

COUNCIL INFORMATION AND FOLLOW-UP REQUESTS

This item is scheduled to give City Council members an opportunity to publicly request information or follow up on issues of interest to the community. If the information is available, staff will immediately provide it to the City Council member. No decisions will be made or action taken.

CONSENT ACTION

This item is scheduled to allow the City Council to act on the Mayor's recommendations on the Consent Agenda. There is no Consent Agenda for this meeting.

CALL FOR AN EXECUTIVE SESSION

A vote may be held to call an Executive Session.

REPORTS AND BUDGET UPDATES BY THE CITY MANAGER

This item is scheduled to allow the City Manager to provide brief informational reports on topics of interest to the City Council. The City Council may discuss these reports but no action will be taken.

DISCUSSION AND POSSIBLE ACTION (ITEMS 1-3)

- 1 **Authorization to Submit Specific Areas of Phoenix for the Creation of Opportunity Zones**

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This report requests City Council authorization for the City Manager, or his designee, to submit specific areas of Phoenix to the Arizona Governor's Office to be designated as Qualified Opportunity Zones.

THIS ITEM IS FOR DISCUSSION AND POSSIBLE ACTION.

2 Pension Stabilization Strategic Action

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This report requests authorization to strategically use enterprise funds to fully fund enterprise pension liabilities and strengthen the City's financial position. The first opportunity involves the Wastewater fund.

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3 2018 Legislative Update

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This report provides information regarding the status of state legislative issues.

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ADJOURN

For further information or for reasonable accommodations, please call the Management Intern, City Manager's Office, at 602-262-4449 or Relay 7-1-1 as early as possible to coordinate needed arrangements.

Si necesita traducción en español, por favor llame a la oficina del gerente de la Ciudad de Phoenix, 602-262-4449 tres días antes de la fecha de la junta.

Members:

Mayor Greg Stanton
Vice Mayor Laura Pastor
Councilwoman Thelda Williams
Councilman Jim Waring
Councilwoman Debra Stark
Councilman Daniel Valenzuela
Councilman Sal DiCiccio
Councilman Michael Nowakowski
Councilwoman Kate Gallego



Authorization to Submit Specific Areas of Phoenix for the Creation of Opportunity Zones

This report requests City Council authorization for the City Manager, or his designee, to submit specific areas of Phoenix to the Arizona Governor's Office to be designated as Qualified Opportunity Zones (as defined below).

THIS ITEM IS FOR DISCUSSION AND POSSIBLE ACTION.

Summary

In December 2017 the 115th Congress passed the "Tax Cuts and Jobs Act." The law overhauled the federal tax code in numerous ways. Contained within the law was a provision (Sec.13823-Subchapters 1 & 2) establishing the Opportunity Zone program using the census tract system. The purpose of these zones is to promote economic development through individual or corporate investments, by deferring or possibly forgiving capital gains taxes on projects throughout the country. Capital gains recognized from the result of any individual or corporate sale may be invested into any Opportunity Fund (defined below) throughout the country.

The Opportunity Zones program allows states to create designated Qualified Opportunity Zones (QOZs) from its Qualified Census Tracts (QCTs). The definition of a QCT for this program's purpose is generally any census tract that has a poverty rate of at least 20 percent or that has a median household income that does not exceed the higher of 80 percent of the median family income of the metropolitan area (\$63,868) or the statewide family income (\$59,480).

To support the QOZ areas, the Tax Cuts and Jobs Act also establishes guidelines for the creation of Opportunity Funds. An Opportunity Fund can be any corporation or partnership that invests at least 90 percent of its assets into a specific QOZ. Requirements for the creation of an Opportunity Fund will operate similar to the New Market Tax Credit program. Each Opportunity Fund will then make its own decisions as to the investments it makes in the specific QOZ. These Opportunity Funds will be set up throughout the country to support development in QOZs.

To create a QOZ, the Governor must submit to the Secretary of Housing a list of

selected QCTs. According to the program, no more than 25 percent of the state's QCTs can be designated as QOZ. In Arizona, there are currently 669 QCTs, with approximately 184 of them in Phoenix. Following the program's guidelines, there are approximately 46 possible tracts citywide that may be designated as a QOZ.

Staff recommends that the City Council submit to the Governor the recommended Phoenix QCTs.

Responsible Department

This item is submitted by Deputy City Manager Deanna Jonovich and the Community and Economic Development Department.



Pension Stabilization Strategic Action

This report requests authorization to strategically use enterprise funds to fully fund enterprise pension liabilities and strengthen the City's financial position. The first opportunity involves the Wastewater fund.

THIS ITEM IS FOR DISCUSSION AND POSSIBLE ACTION.

Summary

At the Dec. 5, 2017 Policy session, staff presented various pension funding strategies for discussion. These strategies were proposed as ways to strengthen our financial position by reducing the City's overall Net Pension Liability (NPL) for City of Phoenix Employees' Retirement System (COPERS) and Public Safety Pension Retirement System (PSPRS). One strategy was to examine whether Enterprise Funds could pay down their COPERS liability in a financially advantageous manner. As promised at the December meeting, Finance has examined the feasibility of this strategy, using the Wastewater Fund. The examination in **Attachment A** demonstrates how this strategy could reduce NPL and save money for the Wastewater Fund. If approved, the use of this strategy in the Wastewater Fund allows an evaluation on a smaller scale to determine if this is advantageous to the City and its rate payers.

Pension Impact

Budgeted pension costs have increased for all Enterprise Funds as well as for the General Fund. The City's General Fund budget has had to annually absorb significant pension costs because General Fund revenue growth has not kept pace, particularly with public safety pensions. Aggressive pension reform of the COPERS system by the Council and the voters has led to a stabilization of civilian pension costs and a savings estimated at \$1 billion over 20+ years. Recent statewide pension reform of the PSPRS system was effective in July 2017 and should have a positive impact on the System in future years.

One measure of a City's overall financial health relates to its NPL, or how much the City needs to be 100% funded for its future liabilities for pension payments. The City's pension plans are currently 39-40% funded for PSPRS and 57% funded for COPERS. The total liability, as stated in the audited 2017 Comprehensive Annual Financial

Report (CAFR), totals \$4.4 billion - - \$1.8 billion for COPERS and \$2.6 billion for PSPRS. This NPL is calculated annually in accordance with the Actuarial Standards of Practice and applicable accounting regulations.

There are short-term strategies that can benefit the City's financial position by reducing the overall NPL without affecting services or rates. One example is shown in **Attachment A**, whereby the City could pay down the pension liability for an Enterprise Fund, in this case Wastewater, and save operating costs. This example would improve the COPERS funded percentage from 57 percent to 59 percent.

Enterprise Funds can only pay the liability for the employees working in their specific enterprise. In almost all cases, the employees are COPERS members. Longer term for PSPRS, the Chief Financial Officer recommends a dedicated revenue source to pay down the net pension liability.

Conclusion

As with all pension systems, this is a long-term issue and results from pension reform will take time to eventually ease financial burdens. The Council has already acted to:

- Preserve the City's ability to provide services through a 25-year amortization period for Public Safety Pensions, which will be reflected in the 2018-19 Trial Budget; and
- Establish a Pension Reserve Fund and use one-time pension savings from 2017-18 to protect against future PSPRS increases.

Staff recommends authorization to use approximately \$74 million of Wastewater funds to eliminate the Wastewater COPERS net pension liability early. It is estimated that this could save the Wastewater fund approximately \$500,000 per year and increase the funded percentage of COPERS from 57 percent to 59 percent, helping the City's overall financial position. This is a way to evaluate the strategy on a smaller scale to determine if this is advantageous to the City.

Responsible Department

This item is submitted by City Manager Ed Zuercher, the Chief Financial Officer, and the Budget and Research Department.

Attachment A

WASTEWATER ENTERPRISE FUND (292 Wastewater Employees)

Paying Down Net Pension Liability Utilizing Pay-As-You-Go Funds

	Liability	Annual Payment
Wastewater Net Pension Liability as of 06-30-2017*, **	\$ (74,000,000)	\$ 6,400,000***
Pay off Net Pension Liability with Pay-As-You-Go Capital Funds thru 2021	\$ 74,000,000	
Net Pension Liability for Wastewater	\$ -	\$ -
 Issue Revenue Bonds for Wastewater	 \$ (74,000,000)	 \$ 5,900,000****
 <u>Long Term Annual Savings to Wastewater</u>		 <u>\$ 500,000</u>

Notes:

- * If the COPERS Net Pension Liability increases overtime, then Wastewater will have to pay its fair share.
- ** If the COPERS Net Pension Liability decreases, then Wastewater will benefit by its fair share.
- *** Annual Payments for Pension Liability are calculated by the certified Actuary and change annually.
- **** Interest rate on bonds issued is assumed to be 5% and is a fixed amount over 20 - 24 years.



2018 Legislative Update

This report provides information regarding the status of state legislative issues.

THIS ITEM IS FOR DISCUSSION AND POSSIBLE ACTION.

Summary

Feb. 13, 2018, is the 37th day of the Second Regular Session of the 53rd Legislature. The information provided in this report (Attachment A) regarding status of legislation is current as of Feb. 6, 2018. To date, 1,279 bills have been introduced and staff continues to review these measures to identify potential impacts.

Responsible Department

This item is submitted by Deputy City Manager Karen Peters and the Office of Government Relations.

**Attachment A
City Council Information
February 13, 2018**

State Update

Feb. 13, 2018, is the 37th day of the Second Regular Session of the 53rd Legislature. The information provided in this report regarding status of legislation is current as of Feb. 6, 2018. To date 1,279 bills have been introduced and staff continues to review these measures to identify potential impacts.

Bills that staff has identified as negatively impacting the City's core principles:

- A. HB 2116: Limitations of Actions; Dedicated Property (Rep. Anthony Kern; Glendale) creates an eight-year statute of limitation on legal claims against developers for alleged injuries, illnesses, or death resulting from their public infrastructure projects. This change would expose municipalities to these claims beyond the eight-year timeframe which could be costly. HB 2116 was approved in the House Rules Committee and is awaiting action on the House Floor.

- B. HB 2320: Development Agreements; Prohibited Agreements (Rep. David Livingston; Peoria) prohibits municipalities or counties from entering into development agreements requiring wages to be no less than the prevailing rate for work of a similar nature in Arizona or political subdivision where the project is located, require apprentice programs, and prohibits collective bargaining. Staff believes that portions of this bill run contrary to Proposition 202, a minimum wage measure that was approved by Arizona voters. HB 2320 is awaiting a hearing in the House Commerce Committee.

- C. SB 1119: Municipal Judges; Terms; Retention Election (Sen. John Kavanagh; Fountain Hills) requires municipal judges to be retained via a general election. Currently, the Mayor and Council decide the appointment and retention of City judges. This bill is awaiting a hearing in the Senate Judiciary Committee.

- D. SB 1507: Water Program Amendments (Sen. Gail Griffin; Hereford) codifies a number of water policies, including allowing a county that is not in an Active Management Area, through a vote of the county board of supervisors, to vote not to readopt the 100-year adequate water supply water requirement if certain conditions are met; places oversight of the Natural Resource Conservation District in the Department of Forestry and Fire Management; and requires Central Arizona Water Conservation District to promptly inform the Arizona Department of Water Resources Director of discussions or negotiations regarding Colorado River water. Staff believes that the language does not contain the needed measures that would protect the Colorado River Basin. SB

1507 was discussed then held in the Senate Natural Resources, Energy and Water Committee on Feb. 5, 2018.

Bills that the staff has identified as advancing the City’s core principles:

- E. SB 1146: Vehicle Fees; Alternative Fuel VLT (Sen. Bob Worsley) removes the vehicle licensing tax calculation classification for alternative fuel vehicles and requires an annual highway safety fee for registered vehicles to fund highway patrol. The result would be additional monies in the Highway User Revenue Fund that are distributed to cities and counties for transportation purposes. SB 1146 is awaiting a hearing in the Senate Transportation and Technology Committee.

- F. SB 1464: Parks; Historic Preservation; Lottery Fund (Sen. Kate Brophy McGee; Phoenix) provides \$10 million annually from the Arizona Lottery to the State’s Parks and Historic Preservation Fund. These monies can be used to support historic preservation projects, state and local parks, and environmental education. Since 1991, Phoenix has received the most grants from this fund (\$3.6 million). The bill is awaiting a hearing in the Senate Natural Resources, Energy and Water Committee.

Bills for which staff requests Council action:

- G. HB 2586: Antidiscrimination; Employment; Housing; Public Accommodations (Rep. Daniel Hernandez; Tucson) adds “sexual orientation” and “gender identity” to the current state statutes that prohibit discrimination in employment practices, housing, and places of public accommodation. HB 2586 is awaiting House Committee assignments.

ALL BILLS CONTAINED IN THE CURRENT CITY COUNCIL REPORT

Letter	Bill	Title	City Position	Status
A.	HB2116	Limitations of Actions; Dedicated Property (Rep. Anthony Kern; Glendale)	Oppose	Awaits action on the House Floor.
B.	HB2320	Development Agreements; Prohibited Agreements (Rep. David Livingston; Peoria)	Oppose	Awaiting a hearing in the House Commerce Committee.

C.	SB1119	Municipal Judges; Terms; Retention Election (Sen. John Kavanagh; Fountain Hills)	Oppose	Awaiting a hearing in the Senate Judiciary Committee.
D.	SB1507	Water Program Amendments (Sen. Gail Griffin; Hereford)	Oppose	Held in the Senate Natural Resources, Energy and Water Committee on February 5, 2018.
E.	SB1146	Vehicle Fees; Alternative Fuel VLT (Sen. Bob Worsley)	Support	Awaiting a hearing in the Senate Transportation and Technology Committee.
F.	SB1464	Parks; Historic Preservation; Lottery Fund (Sen. Kate Brophy McGee; Phoenix)	Support	Awaiting a hearing in the Senate Natural Resources, Energy and Water Committee.
G.	HB2586	Antidiscrimination ; Employment; Housing; Public Accommodations (Rep. Daniel Hernandez; Tucson)	Awaiting Council Action	Awaiting House Committee assignments.

BILLS CONTAINED IN PREVIOUS CITY COUNCIL REPORTS

	Bill	Title	City Position	Status
H.	HB2005	Municipal Economic Development; Sale; Lease (Rep. Vince Leach)	Oppose	Awaits action on the House Floor.

I.	HB2032	Partisan Offices; Cities; Towns (Rep. Jay Lawrence)	Oppose	Failed to pass the House Local and International Affairs Committee on Jan. 17, 2018.
J.	HB2126	Government Property; Abatement; Slum; Blight (Rep. Vince Leach)	Oppose	Awaits a hearing in the House Ways and Means Committee.
K.	HB2208	Prohibition; Photo Radar (Rep. Travis Grantham)	Oppose	Passes House Committee of the Whole on Jan. 31, 2018 and awaits House 3 rd Read action.
L.	HB2371	Mobile Food Vendors; State Licensure (Rep. Kevin Payne)	Oppose	Awaits a hearing in the House Military, Veterans and Regulatory Affairs Committee.
M.	HB2387	Municipal TPT; Speculative Builders (Rep. Tony Rivero)	Oppose	Awaits a hearing in the House Ways and Means Committee.
N.	HB2015	HCR 2015: Municipal and County Tax Limitations (Rep. Bob Thorpe)	Oppose	Awaits a hearing in the House Ways and Means Committee
O.	SB1002	Home-Based Businesses; Regulations; Municipalities (Rep. David Farnsworth)	Oppose	Passed the Senate Commerce and Public Safety Committee (5- 3) on Jan. 29, 2018. Awaits a hearing in the

				Senate Government Committee.
P.	HB2023	Prohibited Weapon; Bump-fire Device; Accessory (Rep. Randy Friese)	Support	Awaits a hearing in the House Judiciary and Public Safety Committee.
Q.	SB1039	Appropriation; Arizona Water Protection Fund (Sen. Gail Griffin)	Support	Awaits a hearing in the Senate Appropriations Committee.
R.	HB2114	Power Authority; Procurement Code; Exemption (Rep. Darin Mitchell)	Support	Passed the House (55-3) on Feb. 6, 2018 and is awaiting transmittal to the Senate.