

Minutes of the Work Session held October 8, 2012 at 6:00 p.m. in the Council Chambers.

**MEMBERS PRESENT**

Council Members

Stephanie Karlin, Vice Mayor  
Jim Buster  
Jim McDonald  
Frank Scott  
Charles Vierhout  
Ken Weise

**EXCUSED ABSENCE**

Mayor Lopez Rogers

**ALSO PRESENT**

Charlie McClendon, City Manager  
David Fitzhugh, Assistant City Manager  
Rogene Hill, Assistant City Manager  
Daniel Davis, Economic Development Director  
Sammi Curless, Economic Development Specialist  
Kevin Artz, Finance & Budget Director  
Kevin Kotsur, Police Chief  
Lt. Al Bates, Police Department  
Andrew McGuire, City Attorney  
Carmen Martinez, City Clerk

**1) ROLL CALL BY THE CITY CLERK**

**2) ECONOMIC DEVELOPMENT UPDATE**

An update regarding the City's Economic Development efforts.

Daniel Davis, Economic Development Director, reviewed the state of the national economy. National Gross Domestic Product grew by 1.3% in the second quarter. There has been modest job growth and personal income is up 3.5% compared to a year ago. Personal consumption expenditures are up by 3.6%. Retailers expect holiday spending to increase this year. U.S. corporate profits remain healthy. New orders for durable goods declined 13.2% in August compared to the previous month. The unemployment rate fell to 7.8%.

Avondale is focused on attracting businesses in the fields of medical, healthcare and life sciences, higher education, lifelong learning, manufacturing and industrial, amateur youth sports, renewable energy, and advanced business services. Avondale has more than 900,000 square feet of rentable office space and a vacancy rate of 8%. Flex industrial space has over 1.7 million square feet available with a 40% vacancy rate, which is a reduction from the January 2012 high of 83% vacancy. Retail space has just under 3.5 million square feet available, with a vacancy rate of 6%, down from 12% a year ago.

Mr. Davis said the market demands existing office space with high-intensity parking requirements, and more square footage than Avondale can offer. Avondale's lease rates are very affordable, ranging from \$7 to \$23. The city continues to see good activity in all industrial flex space products throughout the city. The retail situation in the southwest Valley has stabilized since the downturn of 2009, and Avondale is now beginning to see growth and new construction. There has been significant growth in sales tax revenue over most of the past year, as an influx of residents from outside the city spend money at

attractions like the Avondale Auto Mall and Costco. The area around Gateway Pavilions and Gateway Crossings continues to be one of the hottest retail areas in the Valley. Coldwater Springs Promenade has new owners who are trying to reposition that property. Dysart Commons has seen some leasing activity after enduring a rough period.

Sammi Curless, Economic Development Specialist, reviewed the department's recent business attraction and retention efforts. The Greater Phoenix Economic Council and the Arizona Commerce Authority continue to produce contacts, a total of 52 since January of 2012. Avondale has been able to respond to 21 of those with existing inventory. Logistics, warehousing, and distribution continue to be a strong suit for the West Valley. New state incentives like the Quality Jobs Tax Credit have been working. The office has been participating with Estrella Mountain Community College (EMCC) on their Business Retention Program. The *Shop Avondale* directory now has 136 businesses listed. Avondale has partnered with the Avondale Auto Mall to increase its media exposure. The freeway monument sign has proven effective.

Ms. Curless said the small business development initiative Gangplank Avondale opened in March 2012. Since then, one business has hired a full-time employee, and anchors have won three contracts. One innovative electronic prototyping business recently moved from Chandler to Avondale. Gangplank Junior will launch on Friday, October 12. The Small Business Development Center has a counselor at EMCC who has helped 25 Avondale-specific businesses attract \$900,000 in capital/loans during the past year. Thirty jobs have either been created or retained through those counseling services.

Mr. Davis reported that the Avondale Auto Mall recently announced their intent to sponsor the city's Out and About Series for about \$15,000. He said new office construction is not expected to pick up until 2014/2015. Avondale's vacancy rate is 8%, while the rest of the Valley is at 20%. Avondale must have workers with the skill sets necessary to compete. EMCC was recently awarded a federal grant to improve workforce development in specific targeted areas.

Mr. Davis reviewed Avondale's competitive advantages. City Council's leadership and the financial stability of the city are appealing to businesses. General Plan 2030 sets planning goals for the next decade. Avondale's quality of life elements are among the benefits that businesses consider when relocating. Location, land availability, the transportation network, and proximity to Sky Harbor Airport are also important. State and local incentives provide key development tools. The Foreign Trade Zone is a competitive advantage for companies looking for import/export opportunities, and to spur foreign direct investment.

Mr. Davis identified some strategic initiatives moving forward. The ED department is in the process of recruiting an Employment/Business Development Specialist who will focus on attracting businesses with a significant quality job component. Phoenix Children's Hospital will open their new facility in February/March of 2013. It will create 50 to 75 full-time quality jobs. Avondale will pursue an employment recruitment initiative using a third party consultant to target industries within the medical healthcare area, and identify opportunities to improve workforce higher education and lifelong learning. The Youth Sports Initiative is off to a good start. Staff continues to build upon the vision of City Center. A third party consultant is working on the design of 114<sup>th</sup> Avenue and Park Avenue to connect north to

Roosevelt. That project will be ready for bidding around February of 2013. Staff is looking to aggressively market the unleased retail space in City Center.

Council Member McDonald inquired about plans to attract businesses that could benefit from the presence of PCH. Mr. Davis responded that there are growth opportunities in the fields of medical device manufacturing and research and development. A special consultant will be hired to focus on specifics. Council Member McDonald suggested that it would be wise to finish the IMS campus in preparation for the hospital opening. Mr. Davis said the PAD allows for two more buildings once capital and tenants can be secured.

Council Member McDonald asked whether businesses fled California once that state started taxing internet purchases. Mr. Davis responded that Arizona has seen some inquiries from California, but there has been no influx. Many communities across the Valley are competing for the same companies. Council Member McDonald inquired about filling up vacant space in the auto mall. Mr. Davis explained that staff is in touch with dealerships not represented in the mall, but much depends on finding the right fit. Council Member McDonald asked whether the Sports Center is close to becoming attractive enough to sell off at a good price. Mr. Davis responded that it would likely need to be fully occupied for that to happen.

Council Member Weise noted that the Sports Center has exceeded expectations, and asked at what point expansion would be prudent. Mr. Davis responded that staff has had preliminary discussions with ASC on their future plans, but it would be premature to consider expansion at this point. Once it becomes clear that the enterprise is stable those opportunities can be explored further. Council Member Weise suggested that part of the City Council's visioning session should include a discussion on the retail aspect of the Sports Center. He felt Avondale has a great chance to expand the number of medical offerings on McDowell Road.

Council Member Weise asked whether Avondale could accommodate any more facilities the size of Coldwater Depot. Mr. Davis said two locations have been identified for warehousing and distribution uses. The General Plan protects the rest of the freeway corridor for employment and the City Center. Council Member Vierhout inquired about the proposed I-11 Canada-Mexico corridor. Mr. Davis responded that much remains in flux. Staff has been in touch with the Arizona Mexican Commission about export/import trade opportunities and locating business in Avondale.

### 3) ENTERPRISE RATES ANALYSIS

Information regarding the analysis of water, wastewater and sanitation enterprise rates.

Kevin Artz, Finance and Budget Director, provided the results of Avondale's enterprise utility fund analysis. Over the past three fiscal years, there has been no rate increase in water, sewer or sanitation. Prior to that, there were planned rate increases for five consecutive years. Last year the DWR fee and environmental fee increased. Water production grew consistently prior to 2007, and declined starting in 2009. That began to turn around in 2011. Revenues correlated with production. Based on the projected numbers, staff believes that no rate increase will be required over the next five years, but

an adjustment could become necessary should circumstances change. Five components are considered when deciding rates: operations, capital improvements, debt, reserves, and replacement of capital assets for future years. Of these, the replacement component is not incorporated in the recommended rate structure.

A beginning Water Fund balance of approximately \$22 million is projected for fiscal year 2013. With projected revenues of \$11.2 million, and a net cash flow of negative \$2.2 million, the ending fund balance would be \$19 million. This year there is a one-time transfer to fund capital needs. The fund will start to grow again over the long term as revenues exceed projections.

Mr. Artz turned to the Wastewater Fund. Previous to 2007, there was consistent growth followed by three years of decline. Growth resumed in 2011 and 2012. Revenues followed suit. Sewer revenues do not correlate to water production, however, since the sewer fee is based on consumption during December, January and February. Expenditures have been fairly consistent. Wastewater's projected starting balance is \$12.2 million. Total revenue in the fund is \$7.4 million. Net cash flow in the first year is negative \$1.3 million, leaving an unrestricted fund balance of \$10.9 million. A significant portion of debt is to be paid off next year, and over time the fund balance should grow to almost \$19 million.

The Sanitation Fund follows the same trend as the other funds, with growth for three years, followed by two years of decline and two years of growth. Sanitation revenues have consistently grown each year. Expenditures peaked in 2008, and started declining in 2009, 2010, and 2011. They are projected to increase slightly in 2012. The beginning fund is \$3.4 million. Total revenue of \$5 million against total expenses of \$4 million with a net surplus of \$982,000 increases the fund balance to \$4.4 million. The State of Arizona prohibits cities from charging development fees for sanitation. As a result, the Sanitation Fund balance must be increased in order to purchase new trucks to meet anticipated growth.

Mr. Artz compared monthly bills to other communities. Avondale's water bill is the lowest at \$22.18. The total combined bill is basically the same as Gilbert's, at the bottom of the scale. Staff recommends no increase in water, sewer, or sanitation rates for the upcoming fiscal year, and continued annual rate reviews. Staff also recommends that City Council consider an annual capital replacement component. The city currently has approximately \$306 million of fixed assets in the Water Fund. The minimum reserve should be \$18.5 million. Currently, the fund balance is higher than the minimum requirement, at \$22 million, but a capital component could be added next year to finance future replacement needs. For example, a hypothetical 5% increase in each of 2014 and 2015 would generate an additional \$600,000 per year, or \$1.2 million in additional revenue for capital replacement.

Mr. Artz said the Wastewater Fund has \$307 million of assets. The reserve requirement is \$17 million, but currently there is only \$13 million in the fund, leaving a shortage of \$3.8 million. Once the debt service is paid off, the savings can be rolled into capital replacement. Alternatively, the reduction in debt service cost could be used to offset increases on the water side.

Council Member Weise noted a sizeable jump in recycling collections since 2010, which reduces the cost of dumping. He inquired whether the city would gain any advantage by paying down the sewer debt early. Mr. Artz responded that staff would analyze the situation. Council Member Weise inquired about large capital projects in the next five years. Mr. McClendon said tertiary filters are in the capital plan two years out. Council Member Weise asked whether there was any disadvantage in having lower rates than other cities. Mr. Artz said the comparison shows that Avondale has some capacity to increase rates should it become necessary. Council Member Weise said he would not want to saddle future residents with higher rates by not planning for the future.

Council Member McDonald inquired about the correlation between higher recycling rates and increased sanitation revenues. Mr. Artz felt that recycling is a big component of the revenue increase. Council Member McDonald said he would prefer to collect money today to pay for future needs than to shift savings from one fund to offset another, but perhaps there could be a blend of the two strategies. The city is solvent today because of good planning in the past.

Council Member Buster asked how water upgrades are currently paid for. Mr. Artz explained that development fees pay for growth-related expansions. A hypothetical fee increase could be used to pay for long-term replacement costs, such as a new or refurbished treatment plant. That way the city could have cash in the bank instead of having to finance such a large undertaking. Council Member Buster asked whether recent state legislation would impact the use of development fees. Mr. Artz said it would not have an impact on water and sewer, but would on sanitation. Avondale's current rate structure adequately accounts for growth-related needs. Andrew McGuire, City Attorney, added that the legislation did not hinder the city's ability to collect development fees, but changed the planning horizon drastically.

Council Member Vierhout asked about unpaid utility bills. Mr. Artz said City Council will receive a detailed report in December/January. Indications are that outstanding delinquencies from FY2012 dropped to \$190,000, down from approximately \$450,000 in FY2010, before the deposit requirement increased.

Council Member Scott said it is impressive that Avondale has not raised rates in four years. City Council should not tie the hands of future citizens by failing to plan properly. Shifting savings from one account to offset another will not be very noticeable, since most people just pay attention to the total amount due. Vice Mayor Karlin expressed appreciation that Avondale has had the foresight to avoid some of the difficulties other cities have faced.

**4) ENHANCED CALL VERIFICATION – INITIAL THREE-MONTH UPDATE**

Initial three-month report detailing the activity surrounding our enhanced Call Verification Program and our partnership with CryWolf, our third party vendor, in regards to the alarm Ordinance and Officer calls for service.

Officer Al Bates presented an update on the enhanced Call Verification Program. This update covers the first three months of the newly implemented program, from May 1st to the end of July. Alarm monitoring companies are required to make two separate phone calls to the client when they receive an alarm prior to contacting the Police Department.

This does not include panic or robbery alarms. There is a \$25 initial registration fee, and a \$25 annual renewal fee. The first two false alarms within a 365-day period are free. The third false alarm will result in a \$150 fine, the fourth a \$200 fine, and each subsequent false alarm \$250.

Lt. Bates reported that calls for service dropped by over 200 compared to the same period last year. Ten of those were legitimate alarms. Currently there are 300 active accounts through CryWolf, and about 389 known alarms that have not registered. So far, the city has billed \$7,950 in false alarm fees and has collected \$1,400. Four appeals from this period are underway. Staff recommends continuing to work with CryWolf to monitor alarms.

Council Member Weise inquired about the grace period for registering alarms. Lt. Bates explained that alarm clients have 30 days to register following a new alarm installation. If the city discovers an unregistered alarm, the owners are notified that they have 30 days to register. Council Member Weise said the city should continue to monitor the program.

Council Member McDonald said a 28.4% decrease in calls for service is impressive, but the number of false alarms did not drop much. He felt the city should not be held financially responsible for false alarms. Three months is not long enough for the data to be statistically valid, and the trial period should continue.

Council Member Scott said that if certain clients repeatedly accrue false alarms, dispatch should flag them as low priorities for service. The program should continue to gather data, but so far the number of false alarms is still unacceptable. Council Member Vierhout concurred that the false alarms were still too high and that the sample period should be extended. In response to his request for feedback, Chief Kevin Kotsur said that he is satisfied with the progress that has been made, but additional information is needed to fully assess the effectiveness of the program.

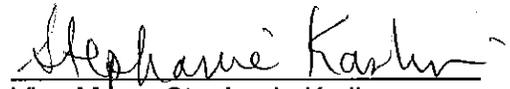
Vice Mayor Karlin expressed concern that the number of unpaid fines is so high. Lt. Bates said that CryWolf knew their rate of collection would be low in the initial three months, but they have an incentive to collect as much as possible because that is how they are paid. Vice Mayor Karlin said the program should be monitored for a longer period to gather more data.

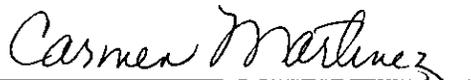
Council Member Buster inquired about CryWolf's method of payment. Lt. Bates explained that they get a percentage of registration fees and false alarm fines collected. Council Member Buster felt that the situation seems to be headed in the right direction, but more time is needed to assess it.

## 5) ADJOURNMENT

With no further business before the Council, Council Member Weise moved to adjourn the work session. Council Member Vierhout seconded the motion. The motion carried unanimously.

Meeting adjourned at 7:56 p.m.

  
Vice Mayor Stephanie Karlin

  
Carmen Martinez, CMC  
City Clerk

CERTIFICATION

I hereby certify that the foregoing minutes are a true and correct copy of the minutes of the Work Session of the Council of the City of Avondale held on the 8th day of October 2012. I further certify that the meeting was duly called and held and that the quorum was present.

  
City Clerk