

**CITY OF WILLCOX  
MAYOR AND CITY COUNCIL**

**WORK SESSION MEETING  
AGENDA**

**NOTE DATE: Monday, February 20, 2012**

**NOTE TIME: 6:00 p.m.**

**City Council Chambers  
300 W. Rex Allen Drive  
Willcox, AZ**

*(Mayor or Designee will read only **BOLD** print of each agenda item, except for Public Hearings, Petitions and Communications.)*

**1. CALL TO ORDER**

**2. ROLL CALL**

**3. PLEDGE OF ALLEGIANCE TO THE FLAG**

**4. DECLARATION ON CONFLICT OF INTEREST**

*The Council members and staff have a right to declare a conflict of interest. The declaration of a conflict of interest must be made prior to discussion of any agenda item in which Council members or staff may have a conflict of interest.*

**5. ADOPTION OF THE AGENDA**

*The Council will at this time either adopt the agenda as presented by the City Clerk or may remove or table any of the listed agenda items. Tabled items, unless otherwise directed, will appear on the next regular agenda. Council may not add any items to the agenda at this time. Should staff have any recommendations concerning the exclusion or tabling of agenda items they will voice these recommendations at this time.*

**6. DISCUSSION REGARDING PRESENTATION ON THE FISCAL YEAR 2012-2013 BUDGET FOR DEBT SERVICE FUND, CAPITAL IMPROVEMENTS FUND, MAGISTRATE COURT FUND AND FIREMEN'S PENSION FUND.**

*Consideration and/or discussion regarding the presentation and review of FY13 Budget items as stated.*

**7. DISCUSSION REGARDING PRESENTATION REGARDING BALANCING THE GENERAL FUND BUDGET**

*Consideration and/or discussion regarding the presentation and review of way to balance the General Fund Budget for FY13.*

**8. DISCUSSION REGARDING ECONOMIC DEVELOPMENT**

*Consideration and/or discussion regarding Economic Development.*

**9. ADJOURN**

\*\*\*\*\*

**NOTE:** People with disabilities may request reasonable accommodations. Requests must be made 48 hours prior to the meeting by contacting City Hall at 384-4271, ext. 4204, during regular business hours 8:00 a.m. to 4:30 p.m., Monday through Friday.



## NOTICE OF MEETING

### CITY COUNCIL

In accordance with Resolution No. 370 of the City of Willcox, and Section §38-431.01 of the Arizona Revised Statutes **NOTICE IS HEREBY GIVEN** that the **MAYOR AND COUNCIL** of the City of Willcox, County of Cochise, Arizona, will hold a **WORK SESSION MEETING** on **MONDAY** the **20<sup>th</sup>** day of **FEBRUARY** 2012, at **6:00 P.M.**, at the **CITY COUNCIL CHAMBERS, 300 W. REX ALLEN DRIVE, WILLCOX, AZ.**

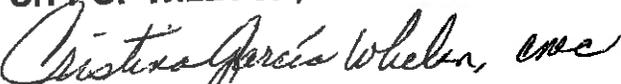
Item for consideration and/or discussion relating to:

- DISCUSSION REGARDING PRESENTATION FISCAL YEAR 2012-2013 BUDGET FOR THE DEBT SERVICE FUND, CAPITAL IMPROVEMENTS FUND, MAGISTRATE COURT FUND AND FIREMEN'S PENSION FUND.
- DISCUSSION REGARDING PRESENTATION REGARDING BALANCING THE GENERAL FUND BUDGET FOR FY13
- DISCUSSION REGARDING ECONOMIC DEVELOPMENT

All members of the public are invited to attend such meeting.

DATED AND POSTED this 16<sup>th</sup> day of February 2012, at 3:00 P.M.

CITY OF WILLCOX, ARIZONA

  
/s/ Cristina Garcia Whelan, CMC  
City Clerk Cristina Garcia Whelan, CMC

City of Willcox Budget Planning Fiscal Year 2012-2013  
Revenues, Expenses and Fund Balances

Fund Number	Fund Name	7/1/12 Projected Opening Balance	Projected Revenues	Inter-fund Transfers		Projected Expenses	6/30/13 Projected Ending Balance	FY 12-13 Projected Fund Balance Change
				In	Out			
10	General Fund							
15	HURF							
16	Grants							
17	Special Rev Grants							
20	Debt Service	\$ 161,895	\$ 159,191	D \$ 5,450				
21	Capital Improv	\$ -				\$ 148,969	\$ 177,567	\$ 15,672
20	Gas - Operating							
21	Water							
22	Sewer							
23	Refuse							
24	Due to Gen Fund							
25	Magistrate Court Trust Fund	\$ 3,863	\$ 6,000					
26	Firemen's Pension Trust Fund	\$ 221,927	\$ 2,739			\$ 6,863	\$ 3,000	\$ (863)
		\$ 387,685	\$ 167,930	\$ 5,450	\$ 5,450	\$ 158,232	\$ 402,833	\$ 15,148

- A Utilities transfers to General Fund
- B Grant matching funds from Streets to Fort Grant project
- C City's Donation matching for skatepark funds received to date
- D General Obligation Bond for Water paid by Water Utility
- E Year to date budgeted Refuse loan repayment to General Fund

City of Willcox Budget FY2013  
Fund 20: General Obligation Bonds

**Governmental Obligation Bonds**

	Water-1974				GADA-2004B				GADA-2007				Total GO		
	#20-406-9897	#20-406-9898	Interest	Total	Principal	Interest	Balance Owed		Principal	Interest	GADA Fees	Balance Owed	Principal	Interest & Fees	Combined Total
06	4,000	1,950	5,950			46,184	1,200,000					315,000	4,000	48,134	52,134
07	4,000	1,750	5,750		70,000	45,309	1,130,000					315,000	74,000	47,059	121,059
08	4,000	1,550	5,550		75,000	43,309	1,055,000				917	315,000	79,000	44,859	123,859
09	4,000	1,350	5,350		90,000	40,721	965,000	10,000	16,689	827	305,000	104,000	58,760	162,760	
10	4,000	1,200	5,200		90,000	37,684	875,000	10,000	13,094	2,660	295,000	104,000	51,978	155,978	
11	4,000	1,000	5,000		95,000	34,209	780,000	10,000	12,694	1,993	285,000	109,000	49,896	158,896	
12	5,000	700	5,700		95,000	30,409	685,000	10,000	12,294	2,210	275,000	110,000	45,613	155,613	
13	5,000	450	5,450		105,000	26,409	580,000	10,000	11,894	2,660	265,000	120,000	41,413	161,413	
14	6,000	200	6,200		110,000	22,109	470,000	15,000	11,394		250,000	131,000	33,703	164,703	
15					110,000	17,654	360,000	15,000	10,794		235,000	125,000	28,448	153,448	
16					115,000	12,984	245,000	15,000	10,194		220,000	130,000	23,178	153,178	
17					120,000	8,019	125,000	15,000	9,594		205,000	135,000	17,613	152,613	
18					125,000	2,734	-	15,000	8,994		190,000	140,000	11,728	151,728	
19								15,000	8,319		175,000	15,000	8,319	23,319	
20								15,000	7,569		160,000	15,000	7,569	22,569	
21								15,000	6,894		145,000	15,000	6,894	21,894	
22								20,000	6,181		125,000	20,000	6,181	26,181	
23								20,000	5,356		105,000	20,000	5,356	25,356	
24								20,000	4,519		85,000	20,000	4,519	24,519	
25								20,000	3,594		65,000	20,000	3,594	23,594	
26								20,000	2,594		45,000	20,000	2,594	22,594	
27								20,000	1,594		25,000	20,000	1,594	21,594	
28								25,000	547		-	25,000	547	25,547	
29															
30															
31															
32															
33															
34															
35															
36															
Total	36,000	8,200	44,200		1,200,000	321,548		315,000	164,799			1,555,000	549,544		

NOTE: Must also budget for a transfer from water to debt svc for the principal & interest. This GO bond is funded from water revenues. (51-453-9735 Transfer to Debt Service)

City of Willcox  
 FY 2012-2013 Budgeting  
 Debt Service Fund and Capital Projects Fund

<b>DEBT SERVICE FUND:</b>		2010	2011	2012		FY13
		Actual	Actual	Budget	2012 YTD	Budget
20-31-61000	SECONDARY TAX LEVY - GO BONDS	150,458	160,015	151,094	69,781	159,191
20-38-75300	PRORATA WATER REVENUE	5,150	5,000	5,700	2,850	5,450
Debt Service Fund Revenues		<u>155,608</u>	<u>165,015</u>	<u>156,794</u>	<u>72,631</u>	<u>164,641</u>
20-406-9612	2% ALLOWANCE--UNCOLLECTIBLE TAX	-	-	1,891	-	3,228
20-406-9897	PRINCIPAL	104,000	109,000	110,000	105,000	120,000
20-406-9898	INTEREST (DEBT SERVICE)	54,624	49,896	44,903	44,329	41,413
Debt Service Fund Expenses		<u>158,624</u>	<u>158,896</u>	<u>156,794</u>	<u>149,329</u>	<u>164,641</u>
Net Debt Service Fund Rev/Exp		<u>(3,016)</u>	<u>6,119</u>	<u>-</u>	<u>(76,698)</u>	<u>-</u>

<b>CAPITAL PROJECTS FUND:</b>		2010	2011	2012		FY13
FY13 TRANSACTIONS TO BE DETERMINED		Actual	Actual	Budget	2012 YTD	Budget
21-35-51800	GRANT REVENUE	30,000	759	117,700	(759)	-
		<u>30,000</u>	<u>759</u>	<u>117,700</u>	<u>(759)</u>	<u>-</u>
21-39-10800	TRANSFERS FROM GENERAL FUND	61,921	-	-	-	-
21-39-90100	INTEREST INCOME	894	345	-	193	-
21-39-99800	FUND BALANCE APPROPRIATION	-	-	45,000	-	-
		<u>62,815</u>	<u>345</u>	<u>45,000</u>	<u>193</u>	<u>-</u>
21-404-9804	LIBRARY FACILITY IMPROVEMENTS	210,764	759	117,700	81,045	-
21-404-9805	POLICE FACILITY IMPROVEMENTS	18,353	21,521	45,000	1,191	-
		<u>229,117</u>	<u>22,280</u>	<u>162,700</u>	<u>82,236</u>	<u>-</u>
		<u>(136,302)</u>	<u>(21,176)</u>	<u>-</u>	<u>(82,802)</u>	<u>-</u>

\$42,433 Available to complete Police Facility Landscaping; the \$117,000 Library Project is anticipated to be completed in FY12; no carryover.

City of Willcox  
Bonds Payable

Issue Date	Type	Date Issued	Face Amount	Maturity Date	Interest Rate	Bond Account #	Balance at 6/30/09	FY10 Retiremts	Balance at 6/30/10	FY11 Retiremts	Balance at 6/30/11	FY12 Retiremts	Balance at 6/30/12	Debt Pmt Funded by:	Debt Service Account Charged
12/1/1974	GO	12/1/1974	\$100,000	1/1/2014	5%	36-2620700	\$24,000	\$4,000	\$20,000	\$4,000	\$16,000	\$5,000	\$11,000	Water Revenues	20-406-9898 - Interest 20-406-9897 - Principal
3/14/2006	GO	3/14/2006	\$3,300,000	7/1/2021	3.85% - 4.375%	36-2620800	\$2,825,000	\$185,000	\$2,640,000	\$195,000	\$2,445,000	\$200,000	\$2,245,000	Highway User Tax	15-453-9898 - Interest 15-453-9897 - Principal
5/1/2003	Revenue	5/1/2003	\$670,000	7/1/2010	2.5% - 4.125%	36-2621000	\$115,000	\$115,000	\$0					Highway User Tax	15-453-9898 - Interest 15-453-9897 - Principal
8/1/2004	GO	8/1/2004	\$1,200,000	8/1/2017	2.5% - 4.375%	36-2621100	\$965,000	\$90,000	\$875,000	\$95,000	\$780,000	\$95,000	\$685,000	General Revenues	20-406-9898 - Interest 20-406-9897 - Principal
11/7/2007	GO	11/7/2007	\$315,000	8/1/2027	4% - 5%	36-2621100	\$305,000	\$10,000	\$295,000	\$10,000	\$285,000	\$10,000	\$275,000	General Revenues	20-406-9898 - Interest 20-406-9897 - Principal
8/15/2005	Revenue	8/15/2005	\$1,000,000	7/1/2035	4.125%	51-2211000	\$927,000	\$21,000	\$906,000	\$22,000	\$884,000	\$22,000	\$862,000	Water Revenues	51-453-9898 - Interest 51-453-9897 - Principal
1/28/1999	Revenue	1/28/1999	\$688,500	7/1/2025	4.50%	52-2211000	\$508,196	\$22,369	\$485,827	\$23,376	\$462,451	\$24,428	\$438,023	Sewer Revenues	52-453-9898 - Interest 52-453-9897 - Principal
12/14/1999	Revenue	12/14/1999	\$463,200	7/1/2025	3.25%	52-2211100	\$330,695	\$16,086	\$314,609	\$16,609	\$298,000	\$17,148	\$280,852	Sewer Revenues	52-453-9898 - Interest 52-453-9897 - Principal
							\$5,999,891	\$463,455	\$5,536,436	\$365,985	\$5,170,451	\$373,576	\$4,796,875		

**CITY OF WILLCOX  
REQUEST FOR COUNCIL ACTION**

**Agenda Item:** \_\_\_\_\_

**Tab Number:** \_\_\_\_\_

**Date:** 02-20-2012

<b>Date Submitted:</b> 2-9-12
<b>Date Requested:</b> 2- 20-12

<b>Action:</b>
<input type="checkbox"/> Resolution
<input type="checkbox"/> Ordinance
<input type="checkbox"/> Formal
<input checked="" type="checkbox"/> Other

<b>Subject: Direction to Staff in preparation for the rate hearings/budgets for Enterprise Funds FY 13</b>
------------------------------------------------------------------------------------------------------------------------

**TO:** MAYOR AND COUNCIL

**FROM:** City Manager

**DISCUSSION:** The City of Willcox operates four Enterprise Funds; Water, Sewer, Gas, and Solid Waste (Garbage).

Each of these Enterprise Funds is self supporting; that is the costs of operation are paid by the users of the service through rates charged on a monthly bill.

Enterprise funds are usually operated on the same basis as if a private company were operating the business. This is the manner in which the City's enterprise funds operate with one major exception. That exception is that the City requires private companies which use the City owned property to conduct their business to pay a rental fee (usually called a franchise or license fee). This license is normally 5% of the fees charged. The rental charge is paid to the City General Fund.

Staff has not previously suggested this because of the understanding that the Council did not wish to pursue any rate increases or tax increases beyond what was required to maintain the financial integrity of each Fund.

This license charge is in line with the operating Policy of the Enterprise Funds.

If this were implemented it would have an impact on the rates.

An estimate of the possible amount of money this would generate for the General Fund is as follows:

Water	\$ 38,278
Sewer	\$ 37,176
Gas	\$ 45,097
Total	\$120,551

These are estimates the actual would be based upon actual operations. This would cover a large portion of the existing deficit between revenue and expenditures in the General Fund. This would NOT create excess revenue and I would NOT recommend that it be available for NEW services. The estimated shortfall from my Jan 12, 2012 memo for FY 12 is \$169,000

**RECOMMENDATION:** Direct staff to prepare an analysis of the impact of a 5% license fee on the rates for the Gas, Water, and Sewer Funds.

**FISCAL IMPACT:** Variable dependent on whether Council wishes to adopt a license fee, the % of fee and the implementation date.

**Prepared by:** Pat McCourt

**Approved by:**   
Pat McCourt, City Manager

**CITY OF WILLCOX  
REQUEST FOR COUNCIL ACTION**

**Agenda Item:** \_\_\_\_\_  
**Tab Number:** \_\_\_\_\_  
**Date:** 02-20-2012

**Date Submitted:**  
2-15-12  
  
**Date Requested:** 2-  
20-12

**Action:**  
 Resolution  
 Ordinance  
 Formal  
 Other

**Subject:** Discussion on  
Economic development

**TO:** MAYOR AND COUNCIL

**FROM:** City Manager

**DISCUSSION:** Council has asked about economic development in the past and it is frequently brought up as part of the budget process.  
Attached are some "white papers on Economic Development

**RECOMMENDATION:** Discussion, direction to staff

**FISCAL IMPACT:** Unknown

**Prepared by:** Pat McCourt

**Approved by:**   
Pat McCourt, City Manager

# **An Economic Discussion on how Special events impact the City of Willcox, the surrounding community, and individual entities.**

## **Turnover**

A part of the City's economic development efforts go toward trying to attract outside dollars into the City/community. The reason for this is that if an outside dollar is attracted into the local economy it will help support the local businesses and some part of the dollar will remain to be spent a second and third time (Turnover), which will further help support the local economy.

The Turnover is dependent on a number of factors; the most notable are the variety of goods and services which are in the local economy. Turnover is used to measure the **outside** dollars which enter the local economy and how long the **outside** dollars stay in the local economy. The amount of inside dollars which exit the economy as a result of the event also must be considered. The greater the number of goods and services, which are available in the local economy; the greater the possibility that the dollar will be respent in the local economy; versus the dollar leaving the local economy to purchase the necessary goods and services elsewhere. This is why in smaller rural economies the turnover is much smaller than in larger metropolitan economies. Northern Arizona University Business College estimates that the turnover in Cochise County is 1.3 times: that means when a dollar is brought into the Cochise economy from outside, it will be respent .3 times before it totally leaves the Cochise County economy. The Willcox community economy is smaller than Cochise County economy and it seems logical that the turnover is even smaller. In addition, each event should be looked at to see how fast the economic dollar may leave the local economy.

The following two simplified special event examples provide a picture of why it is necessary to look at the specifics of an event and not just at the dollars involved in the event.

A Carnival comes to town and sets up in Keiller Park: the Carnival does not pay anything to set up in the Park (there is an inspection fee on the rides). The Carnival employees live in trailers at the site and eat their meals on site. Almost all of the tickets are purchased by local residents. Virtually no dollars from outside the community come into the community. The Carnival collects dollars from local residents and leaves. This event is a net **drain** on the local economy, removing more dollars from the local economy than it leaves in the local economy. If the Carnival were permanently stationed in Willcox then the some portion of the dollars would remain in the community and increase the turnover. An all class reunion is held in Willcox sponsored by some local Alumni of Willcox High School: A hundred people from outside the area attend and stay in local motels and eat in the local restaurants. No charge is made for attendance. There are outside dollars brought into the local economy. The hotels and restaurants have increased sales. The hotels and restaurants send a portion of the dollars received out to pay for food, supplies, franchise payments, mortgage payments: but some of the money is used to purchase supplies locally, some is used to pay local wages. This latter portion is what creates turnover. In

this case there is an economic benefit to the hotels and restaurants and some of that benefit trickles out into the larger economic community.

Special events can, and usually do, include several different combinations: of services, outside vendors, local vendors, outside dollars and local dollars. When analyzing events, it is important to recognize these and other various factors and consider them in determining the economic impact a special event has on the community and that the community at large may not receive an equal benefit.

## **Measuring the Economic Dollars of an Event**

One method that is frequently used is to look at the impacts on sales tax generation within the community. The advantage of this method is that almost all of the activity involved in an event is subject to sales tax, i.e. any significant difference in the sales tax activity can be attributed to the event (nonprofit community organizations are usually not recorded in the sales tax, i.e. the Rotary Club Meal Wagon/FFA Club would not show up in the Sales Tax analysis). The sales tax analysis does provide a valuable tool in measuring the level of economic activity in the City.

When an event occurs it is usually a short term (one or two day) event and the dollar amounts are not always easy to determine since they are spread over a number of different entities within the community: also one or two days out of a thirty day month will dilute the impact.

When using the Sales Tax analysis it is important to have an understanding of the information and its limitations.

The information received by the City is confidential. While it may be used for analysis; the source of individual accounts may not be revealed; nor may the information be presented in a manner which would allow individual entities information to be gleaned. In any given month the City receives reports from 380-390 different entities. The largest Twenty five (25) of these entities account for 72% of the Sales Tax Revenue. The largest fifty entities account for 86% of the Sales Tax Revenue. There are a lot of entities that do not have any significant impact on the amount of Sales tax received even if they doubled their sales in any given month.

There is a "normal" level of activity that occurs whether an event takes place or not. Therefore the event dollars are the amount of dollars above the "normal" level of activity. Entities collect the sales tax in the month of activity but do not report, or pay, the City until the next month; i.e activity in December does not show up until January.

Additionally very small entities only report quarterly; although the amounts may be insignificant it is still not in sync with the events.

The City charges a 3% sales tax rate, on very large purchases the rate is reduced; this does not normally come into play in measuring event income.

The City charges an additional 4% (total 7%) on hotels and motels. This tends to exaggerate the income if not accounted for, although it does make the measurement easier.

The "turnover" effect of dollars may not be revealed in the same month the activity occurs; although it frequently will be given the nature of our community. An event near the end of a month might have the turnover revealed in the following month.

Often more than one event occurs during a given month, it is extremely difficult to determine the impact from each separate event.

Sales tax analysis does not reveal the difference between local dollars spent during an event versus outside dollars spent during the same event.

The attached chart (Exhibit A) shows the sales tax income (including Hotel/Motel collections) for the last five years. The monthly amounts are totaled and averaged. The averaging is to take out one-time items like a receipt from a construction project; since Events tend to occur in the same month each year, it would be anticipated that a particular month (i.e. Oct for Rex Allen Days or Jan for Wings Over Willcox) would show a significant change from the surrounding months. A preliminary analysis does not show that significant change; with the exception of December which can be traced to Christmas spending in the retail stores.

The chart indicates a relatively flat economic picture. This is probably because of the dominance of a small number of entities who are not heavily impacted by event spending (i.e. grocery stores and businesses that service the traveling public) and diluted by the small number of days within each month that the event actually occurs. But we know intuitively that when large numbers of people come into and stay in the city there will be a positive impact on the economics of the City.

As we dig deeper into the sales tax data; we look at specific businesses which are likely to be economically impacted by an event. The first group reviewed is the hotel/motels; an impact on this group will be most noticeable since the tax rate is 7% rather than 3%. There is an impact for the month of October and January. The picture is less clear when reviewing the bars and restaurants; some have an impact and the impact changes for different events. What this seems to indicate is that the participants in the October events use different services than the participants in the January events. Regardless, there is a significant difference in the economic level of activity during those months which seems to be traceable to the events.

We need to separate out the "normal" level of activity from the increased level of activity generated by the event(s). This is done for the most recent year's activity (Exhibit B). All of the sales tax information for all of the Hotel/Motels in town are added together for the month prior to the event, the month of the event, and the month after the event. These amounts are then added and averaged. The average is then subtracted from the month the event occurred (October in this case) to arrive at the increased level of activity attributable to the event(s). The sum arrived at by subtracting the average from the October activity is the amount of tax collected; that is not the level of additional dollars brought into the community. In the case of Hotel/Motel the sum must be divided by .07 (basic sales tax plus Lodgers tax) to arrive at the additional **outside** dollars brought into the Hotel/Motel sector of the local economy by the event(s).

The same process can be used to calculate the amount from Bars/restaurants. The difference will be that the sum is divided by .03 (basic sales tax) to arrive at the additional **outside** dollars brought in by the Bar/restaurant sector of the local economy. It is likely that some amounts are spent in other vendors businesses. Whatever those amounts they are very small and for the sake of analysis will not be included. The amounts from Hotel/Motel are the clearest **outside** dollars coming into the community. The bar and restaurant amounts above the average are likely **outside** dollars, although they may be internal dollars turning over. (Using the entire Bar/Restaurant

number helps take into account for the other type vendors, who are not counted in either the Hotel/Motel or Bar/Restaurant numbers).

The two amounts are added together and multiplied by 1.3 to account for the "turnover". These "turnover dollars may be in the same month or in future months, much will depend on the time of the month the event occurs. This should provide a basic picture of how much is brought into the community to increase the economic pie.

The questions from a City corporate standpoint remaining are: how much has the City paid and how much has the City benefited.

## City Costs

In this section I will discuss the City of Willcox costs as they relate to special events. Any discussion of costs will have to take into account **Fixed costs** and **Variable costs**.

**Fixed costs** are the amounts that the City will pay regardless of if an activity occurs or does not occur. The City owns and maintains a Rodeo Arena. If there are no events in the Arena for an entire year; the City will still have costs to maintain the Arena. These costs include insurance, personnel to maintain the grounds, equipment, buildings, and parking lot. The City could get rid of these fixed costs by divesting itself of the Arena; this action would lower the fixed costs, it would also remove the Arena from local citizen's use and remove the possibility of having special events. So some of the fixed costs are tied to the Events; and the Fixed costs will be paid even if there are no events which occur.

**Variable costs** are costs that the City pays that are direct results of an event occurring.

When an event occurs at the Arena the lights are turned on – the electrical costs are Variable costs. The Event generates trash which is collected and hauled away; this cost is a variable cost. If the event occurs on a weekend and the City pays an employee to keep the Arena properly graded and the restrooms cleaned up; these are variable costs.

Variable costs are items that the City pays for that it would not have to pay if the Event did not occur.

There are many costs which are difficult to quantify: i.e. employee burnout and equipment deterioration. While these are costs to the City, I am not including them in this discussion.

When an Event occurs, the City normally has both type costs: Fixed and Variable. The costs are incurred across a number of Departments within the City: i.e. Police, Streets, Parks, Facility, and Administration. Many of these actions related to these costs are incurred during normal duty hours/shifts, these will be considered Fixed Costs. When it is necessary to use overtime; these costs will be considered Variable Costs. When goods or services are specifically provided for an event: ie. Electricity, trash collection, cleanup services, these will be considered Variable Costs.

From an Economic Standpoint, the City should always be able to show that the Event at least directly paid for the Variable Costs. The City can do this through fees charged for staging an event.

From an Economic Standpoint, the City should be able to show that the Fixed Costs were covered by the indirect income from the analysis in the section on **Measuring the Economic Dollars** above.

## Use of City Tax Revenue from Events

In the **Measuring the Economic Dollars** section above, I discussed a methodology to estimate the amount brought into the Community Economic Pie. As a part of that methodology there is direct tax income that can be determined is coming to the City as a result of an event. This direct tax income is made up of two distinct parts: the General sales tax component (3%) and the Lodgers Tax component (4%).

The General Sales Tax component (3%) should be used to pay for the Fixed Cost components discussed in the section immediately preceding this section (**City Costs**). This Sales Tax will help offset the Fixed Cost to have the facilities (including Streets) available to hold the events and to pay the Fixed Costs involved in preparing for the events by the City Staff. While it is unlikely that the Sales Tax generated by events will produce significant income (relative to the total amount of Fixed Costs of the City) it will generate some revenue to help offset those fixed costs.

The Lodger's Tax component (4%) is used for Economic Development. Under an existing contract the City of Willcox has hired the Willcox Chamber of Commerce and Agriculture (Chamber) to operate the Visitor Center; as payment to the Chamber the City has agreed to provide the first half of the 4% received from the Lodger's Tax, regardless of if it is generated by an event or normal use of the Hotels/Motels.

The remaining 2% of the Lodger's tax can be identified and set aside to help offset the Variable Costs/Fees of events as the City Council may feel is appropriate or it can be used in other forms of Economic development. The Council has not established a policy on the second half of the Lodger's Tax; State Law indicates it should be used for some type of Economic Development. Which it is, but not necessarily tied to Events.

## **Capacity Analysis**

**Capacity Analysis** as used in this paper is intended to mean that as more and more people are crowded into the community for an event, the return on the event declines. The simplest way to see this is to look at the Lodger's Tax. The City of Willcox has approximately 500 Hotel/Motel rooms available for rent. (I am not going to get into a discussion of the quality of the rooms.) When an event(s) brings in more people than there are rooms available, then the event has exceeded the capacity of the community. People may still come to the event however the benefits are realized by other surrounding communities.

In this example the easiest way to resolve would be to build more Hotel/Motel rooms: unfortunately new rooms will not be built on one or two weekends per year.

Another method to address this example would be to take some of the activities within an event (like a carnival at Rex Allan Days) and move them to a different weekend (before or after): the synergy of the activities must be looked at to see if this movement will harm the overall event and whether the activity being moved would actually lighten the demand on rooms (a softball tournament might have more ability to lighten the load on rooms rather than the carnival which caters to more local use).

This same analysis can be used for other types of facilities: seating at the Rodeo Arena, seating at the auditorium, parking lot capacity, the ability to move traffic on the streets, seating and ability to serve meals in restaurants, etc.

While not all of these influence the City income, many of them influence and increase the costs for an even to the City.

Regardless of if the community is hitting capacity in certain areas it is unlikely that an event will wish to reduce the size of the event or even shift any activities to another weekend. The fact that the City has reached capacity on income and has increasing costs does not mean that the event promoter or the operator of activities within the event has reached income capacity and increased costs i.e. reaching capacity in one service does not mean capacity is reached in all services in the community.

There is also the non economic considerations when the capacity of the community is exceeded – the deterioration of the quality of life in the community over the time period of the event.

# Memorandum

**To:** DRAFT

**CC:**

**From:** City Manager

**Date:**

**Re:** Economic Development

---

The term “Economic Development” is a catch phrase thrown around to justify expenditures of money without much thought of what it means or analysis of concepts of expenditures. Therefore some groundwork on defining terms to be used in the discussion of the subject would seem to be in order.

**Added Value** – this term is used to mean taking an existing product or service and changing it to make it more valuable in the market place. A restaurant adds value to raw food enabling the food to be sold at a higher price.

**City** – This means the Corporate City of Willcox entity, a political entity, with its legal constraints, budgets, and obligations.

**Community** – This means organizations, entities, and individuals of all types located within the corporate boundaries of City of Willcox.

**Economic Benefit** – This means that there is a positive net cash benefit that can be measured in dollars to an organization, entity, or individual. This is measurable and tangible. Costs should include any capital, operational, in-kind contributions, and indirect outlays of resources. Income should include measurable cash receipts. While often used in the same context as Profit, this term is broader and often includes multiple entities some of which may realize a profit and some not realize a profit.

**Economic Development** – is the expenditure of monies with the goal of realizing an Economic Benefit by the organization(s), entity(ies), or individual(s) expending the money.

**Income Multipliers** – this is a term used often to explain the impact of each new dollar which is brought into the community. The concept is that a person from outside the area spends \$100 on their visit to the community; the business receiving the \$100 pays their bills – which results in other local entities receiving the dollar; who in turn pay their

bills; consequently the first \$100 'turns over' several times and is "multiplied" resulting in an true economic impact much larger than \$100. What the above discussion does not recognize is the "leakage". According to Robert Coppedge's paper (Income Multipliers in Economic Impact Analysis), "In most cases, a multiplier will be less than 2"; additionally, Coppedge goes on to say; "the smaller an area of concern or the less self-sufficient, the smaller the multiplier." This is further supported by the economic models used by Thomas E. Combrink of the W.A. Franke, College of Business in Northern Arizona University; which indicates within Cochise County (which is a larger area and more self-sufficient than the City of Willcox) the multiplier for a Special event is 1.37. Please be aware there is a great deal of difference between multipliers within various communities. There is also a great deal of difference between "Multipliers" and "Value Added" which is applied to processing raw materials and manufacturing.

**Infrastructure** – basic installations and facilities, such as roads, power plants, transportation and communication systems and other amenities which make the Quality of Life in the community attractive .

**Free Enterprise System** – this is an economic system in which individuals or organizations make decisions with the intent of investing resources and from that investment receiving more resources back than are invested (Profit). Individuals and Entities existing within the System are normally primarily driven to maximize profit.

**Leakage** – this is the amount of dollars that are in the community and leave through expenditures outside the community. The smaller the community the greater the leakage; since more money is spent outside the community to secure goods and services.

**Nonprofit Entities** – These are organizations which normally have been formed to fill a specific need within the community. These organizations typically exist in conjunction with the free enterprise system; however they are not normally driven by profit, they are normally driven by their particular goal/mission.

**Political Entities** – These are organizations which have been established under the laws of a Nation or State and have been granted certain powers by the people who live within the boundaries of the entity. Political entities normally exist in conjunction with the Free Enterprise System; however they are not primarily driven by profit, they are normally driven by the Quality of Life Benefit.

**Profit** – this is the amount of resources remaining after all costs of obtaining the resources are paid.

**Quality of Life** – This term is used to describe a sense of well being or desired status. The term often is used to describe intangibles such as security, or beauty; which are often very individually measured. (Beauty is in the eye of the beholder).

**Quality of Life Benefit** – This term is used to describe expenditures of money which cannot fit into the description of Economic Benefit. Advertising dollars may frequently fall into this group since often no Economic Benefit can be determined.

**Resources** – This is money, labor, materials, intellectual property (ideas), and anything which can be converted into money or is purchased with money.

**Service Area** – this is a geographic area from which individuals come to the City to shop. This area (especially in rural areas) is often very large and includes other zip codes than just the City zip codes.

**Surrounding Area** – This means organizations, entities, and individuals of all types located outside the corporate boundaries of the City of Willcox, but who use Willcox as their mailing address. Often the surrounding area is used in connection with Service Area.

### **One time projects or events**

Virtually any activity which brings outside dollars into the Community is of economic benefit to the **Community**. That does not mean that the activity is of economic benefit to the **City** or to all individuals and entities within the Community. The following two examples assume contributions only from the City and not from other participating individuals or entities.

If the City receives a grant of \$50,000 with a match of \$50,000 (total \$100,000) to perform litter pickup; there is an economic benefit to the Community. A new infusion of \$50,000 has occurred; with a 1.37 multiplier, this means  $\$50,000 \times 1.37 = \$65,000$ ; assuming it is all spent on taxable goods; the City receives \$1,950 ( $\$65,000 \times 3\%$ ), which is far less than the \$50,000 matching money the City expends. From a Community standpoint this is good Economic Development (there is a new amount of \$65,000 in the local economy); from the City's standpoint this is poor Economic Development (spending \$50,000 to receive \$1,950). It may be great Quality of Life Benefit from the City's standpoint (the community is cleaned up and more attractive).

If the City receives an Infrastructure Grant for \$485,000 with a \$15,000 match (total of \$500,000) to build a road; there is an Economic Benefit to the Community. A new infusion of \$485,000 has occurred; with a 1.37 multiplier, this means  $\$485,000 \times 1.37 = \$664,450$ ; assuming it is all spent on taxable goods; the City receives \$19,934 ( $\$664,450 \times 3\%$ ), which is greater than the matching money. From a Community standpoint this is good Economic Development; from the City's standpoint this is good Economic Development (the illustration leaves out future operation and maintenance costs to simplify the example); this may also be a good Quality of Life Benefit from the City's standpoint.

### **New Business locating in the Community**

A new business starting up in the Community may or may not produce Economic Development.

If the new business mirrors existing businesses in the community and does not attract outside dollars to the community, (i.e. services the needs of the local community only) there is no Economic Development – the economic pie is only sliced into smaller pieces. There may be greater competition and greater efficiencies but no greater Economic base for the community. This may improve the Quality of Life in the community. Incentives for existing businesses are not normally Economic Development. What is often done is to provide technical assistance for existing businesses: to help maintain the existing base (stop the decline of the existing base), provide “added value” to existing products, or for existing business to expand into areas which may attract outside dollars.

If the new business is different than existing businesses and provides new services which attract outside dollars into the community there is a two fold benefit. First there are new dollars within the community which are “multiplied”, and second the “leakage” may be reduced and the “multiplier” may increase slightly (this is why large communities with many services have a larger “multiplier”). A new business may also “add value” to a product (taking tomatoes and making tomato paste), this has the impact of increasing the amount of outside dollars brought into the community. The Economic Development Benefit is typically measured by outside capital brought into the community (one time) and the value of new jobs created (ongoing). The major risks are that initial projections are overly optimistic and the high failure rate on new businesses; (Since any incentives are usually paid upfront and the Economic Benefits are received some time in the future).

### **New Business in the Service or Trade Area**

Same discussion as above, the impacts are less on the Community since not all of the new income will be spent in the Community; although there will be an increase in the amount of income being received by the Community.

### **Infrastructure Development**

The availability of Infrastructure can be a major concern in Economic Development. Political Entities are frequently the major supplier of infrastructure (although there are private organizations which provide infrastructure such as utility companies, the railroad, transportation companies, and information companies). Infrastructure provides the environment in which the Free Enterprise System can function at a reduced cost. Having the availability of infrastructure: roads to a site to receive and ship products; power, water, and sewer, to a site to produce product/services; the availability of a trained workforce, to product products/service; police and fire, to protect the private property; these types of infrastructure greatly reduce the cost of production and may encourage a business to locate in a particular community.

Infrastructure is primarily a Quality of Life issue. The availability of infrastructure may encourage Economic Development; the lack of Infrastructure will definitely discourage Economic Development. What Infrastructure is appropriate for what business varies considerably: a Call Center requires different Infrastructure than a Canning Factory.

The cost of Infrastructure is often very high and is an “upfront” cost; with any possible Economic Benefits spread out over many years. The Free Enterprise System is a very fluid system which often changes rapidly to respond to the market place: businesses may relocate to a community or relocate out of a community; businesses may come into existence and go out of existence over short time frames. Finding methods to match the cost of Infrastructure to the Economic Benefits can be very difficult for the Political Entity. Often the matching is done by requiring some Capital investment on the part of the private individual/entity to attempt to ensure long term commitment. (A developer may be required to install utilities within a proposed development and dedicate those to the City/Utilities prior to approval of the development. The City/utilities then provide the off site Infrastructure for the developer to connect the development to and provide the future maintenance of the onsite Infrastructure).

### **Marketing – Advertizing**

Providing information to potential customers about goods or services and encourage the sale of the same; this is what Advertizing does. Marketing is a broader and long range term used to describe efforts to not only sell goods and services but to create long term customer satisfaction, brand loyalty/recognition, and create nontangible value.

Most people who reside in an area do so by choice. They like the area or they would leave. Most people believe that other people share their beliefs and ideals. Therefore when many local entities advertize they advertize those things that appeal to themselves. When your product or service is clearly defined and the needs shared by large groups of customers this may work well. As your potential customers become less similar to yourself the task of advertizing becomes more difficult; i.e. it is difficult to sell dresses to a man since most men do not wear dresses. The point is, that when advertizing, we need to be able to place ourselves in the position of the customer. While many of us in Willcox may feel that we live in the “Garden spot of the Universe”; that belief is not widely held. Actually, many people do not know where Willcox is; nor do they care.

There is a broad market out in the larger world. A question we should ask ourselves when wishing to attract that market is what do we have to offer that market that they cannot get elsewhere more easily/or at a lower cost. The advertizing to an individual traveling on the Interstate needs to appeal to that individual’s needs. A snow bird, a tourist, a pass through traveler, or an over the road trucker, each those needs are different and require a different approach. There is also a different potential economic return from each of the above groups. The advertizing to “day trippers” out of Tucson is different. The advertizing to people within the community is different.

February 16, 2012

If we wish to attract a manufacturing/processing business to locate in Willcox we need to understand what drives that business and be able to market the unique feature(s) of Willcox that will best suit the needs of that business. It is not likely that a designer of high price clothing will locate in Willcox: Willcox just does not fit into the environment that businesses and individuals who work in that industry are looking for. The City may fit the needs of a canning/packaging facility, a processing plant for food stuffs, and a distribution center for items coming out of Mexico.

It is extremely difficult to measure the Economic Benefit of Advertizing. It is even more difficult to sell our community, goods, and services if the customers do not know we exist.

There are thousands of Cities like Willcox in the United States. We need to know what is distinct about us. We need to identify the customers who are like us. We need to find a way to reach those customers.

Free Enterprise organizations and individuals frequently have a difficult time being able to justify advertizing dollars (although they generally know that if you do not advertize few people will know about your business/services) and they are primarily driven by the profit motive. Free Enterprise organizations tend to be very quick to change their advertizing for effectiveness or to reduce /eliminate it during downturns in the economy.

Political Entities are not as inclined to use advertizing nor are they typically as responsive (to the results or lack of results, if results are even stated or identified) of advertizing. Political entities are normally driven by Quality of Life values. Political Entities are frequently sought out as a funding source for advertizing that Free Enterprise organizations and individuals can not justify economically, but feel if some one else will pay the bill they are not opposed and may receive some benefit.

## **Leadership in Economic Development**

If we are truly interested in Economic Development for the Community, then the leadership should come from the Free Enterprise system. Free Enterprise System Organizations are primarily drive by the profit motive – that means they increase the resource they receive their activity. They typically use words like: profit, efficiency, effectiveness, risk taking, and return on investment. Political Entities use words like: fairness, equity, openness, transparency, social justice, security, and quality of life. If men are from Mars and women from Venus; then Free Enterprise and Political Entities are from Mercury and Uranus; they are in the same solar system, do have effects on each other and both orbit the sun, but there are a lot of differences.

Should Political Entities be involved in Economic Development for the Community? Without doubt they should be involved. Political Entities have to work within economic constraints; what happens in the Free Enterprise system affects the Political Entities; actions by the Political Entities affect Free Enterprise Organizations and Individuals.

So how do you develop Leadership in Economic Development in the Community? Free Enterprise operations tend to be focused on results within their organization and being able to show results within their organization rather than results in the Community. Political Entities tend to be focused on the noneconomic benefits in the Community. Both types of entities usually have an interest in the Economic Growth of the Community.

In Community of Willcox the effort has been to form an Alliance which can bring the parties together and provide an organization to promote the Community. This organization is the Willcox Regional Economic Development Alliance (WREDA). The purpose of this organization is to promote Economic Development in the Service Area of Willcox. Since it is not a Political Entity, it can meet with potential organizations concerning economic development in the region; what their needs are and how they may be addressed; and maintain confidentiality of their plans. WREDA is a voluntary organization with no funding source, other than contributions from individuals and organizations in the community who wish to foster economic growth.

The Willcox Chamber of Commerce and Agriculture (Chamber) has worked diligently to develop the "Four Pillars of Economic Development" within the Community. The Chamber does not receive any funding for this particular program. The Chamber has sponsored several workshops for local businesses to help them grow and maintain the existing businesses in the Community. The Chamber operates as an "umbrella organization" to promote local events in the Community. The Chamber also operates as a liaison with the State of Arizona Office of Economic Development in pursuing requests for information concerning business which may wish to locate in the Community. The Chamber interacts with other organizations on State, county, and Community level to foster Economic Development. The Chamber provides one of the two City representatives on the Cochise County Tourism committee.

Cochise Community College provides space and personnel to support the Small Business Administration office throughout the County, including in Willcox. Cochise Community College also provides an "inventory" of assets available within the County for prospective businesses. Cochise Community College is also willing to provide "tailored" training to address the Needs of businesses.

The Southeastern Arizona Governments Organization (SEAGO) provides a variety of sources of information on various funding sources and operates several programs to bring monies into the Region (Santa Cruz, Cochise, Graham, & Greenlee Counties) and the Community. SEAGO also has an Economic Development arm which provides information and assistance to individuals and organizations in the Region.

The City of Willcox has built a Visitor Information Center and contracts with the Chamber, with funding through the "Bed Tax", to operate the Visitor Information Center. The City has secured two (2) billboards and with assistance from the Chamber provides advertizing for the City on the billboards. The City provides direct funding to

February 16, 2012

the Cochise County Tourist Committee to promote tourism in the County and Community. The City provides Public Safety (Police & Fire), Roads, Gas, Water, Sewer, and Solid Waste services in the City. The City also provides the venue for many events which occur within the City at a low or no charge. The City also provides staff support to the Chamber when information is requested from organizations looking at the Community and surrounding area as a potential site. The City interacts with several organizations on Region, County, and Community level to foster Economic Development.

Cochise County operates a small public airport for use by organizations and individuals.

Various Nonprofit Entities have sponsored events in the area to attract visitors to the Community.

The Willcox Unified School District provides a trained workforce and has provided venues for several community events.

There are numerous Free Enterprise organizations in the Community that advertize through a variety of sources both within the Community and outside the Community to attract customers.

# **The Economic Pie**

## **A paper on basics of Economic Development**

The Economic Pie is a statement meant to represent the goods and services which are available within the community. The greater the number of goods and services; and the greater the variety of goods and services; the richer the community is. This paper does not discuss nonmaterial items; those are left for "Quality of Life" discussions.

### **Growing the Pie**

Imagine that you are on an island. On the island are pineapple trees, a supply of fresh water, a lot of sunshine, and moderate temperatures. You have the clothes on your back, a hatchet, and a canoe. Life is good.

After a while you start to get tired of eating coconuts and pineapples every day and think, I would like to have a big juicy hamburger. So you cut a few extra pineapples, load them into the canoe, row over to the mainland, sell them on the street corner, and buy a hamburger. Life is good. You have increased the value of the pineapples by transporting them to the mainland and used that increased value to improve your economic situation so you could buy a hamburger. You grew the Pie.

After a few months of selling pineapples, you realize your clothes are getting thin and your hatchet is getting dull. Being the forward thinker you are you realize that the current crop of pineapples will not be sufficient to supply all of your future needs. Next trip you bring some extra pineapples, and buy a shovel. You return to the island and clear some jungle and plant more pineapple trees, you have to give up hamburgers for a while (since you used the pineapples to buy the shovel), but eventually you have a lot more pineapples and you can buy more hamburgers, more clothes and a new and bigger axe. Life is good. You increased the use of the natural resources (land weather and temperature), your brain, and your backbone to increase the economic resources. You grew the Pie

It is getting a little hard to carry the pineapples in your canoe and you notice that it is getting a little harder to sell all your pineapples each trip. So being the creative person you are, you buy a press and some bottles. Return to the island, cut the pineapples up and bottle the juice and next trip you sell fresh pineapple juice; it takes less space in the canoe, and you get more money per pineapple. Life is good. You further increased the value of the pineapple by processing it and then transporting it to the mainland. You grew the Pie.

Rowing over to the mainland every time you want a hamburger is getting kind of old and you think; it sure would be nice if I had a refrigerator and a grill so I could cook a hamburger anytime I wanted; but I don't have anymore jungle to clear and besides I am getting tired at the end of the day. Being the alert perceptive person you are; you hear people on the street corner on the mainland saying how they would just like to relax and get away from it all. Tada! Tourism is born. You are now importing money to the island in the form of tourist. You grew the Pie.

The above are very basic examples of how to do economic growth. You use an existing natural resource (land weather, pineapples). You increase the value of the resource by

transporting it to where it is desired (mainland). You expand (clear jungle and plant pineapples) the availability of the resource by applying capital (shovel and axe). You increase the value of the resource by processing it (turning the pineapple into juice). You imported resources (tourists).

## **Keeping the Pie at Home**

Now on this same island there are two other people; a cattleman and another farmer who raises cotton. Over time they follow the same pattern as you and have expanded their resources and are producing hamburger, leather, blankets and clothes; which they take to the mainland, sell, and they buy pineapples from the very stores that are buying the pineapples from you. One day you meet in the middle of the island with the other two people and you say; why don't we buy from each other. We will save carrying the items to the mainland and we can pay less since the store on the mainland will not get the money they need to afford their life style. Everyone agrees, they buy from each other, they are still selling the same amount on the mainland, and they have money left over to buy other things they are not producing. The local pie stays at home longer and the Economics improve.

The more variety of goods and services that are available in the local economy the more the money is kept local and "turns over". The fewer the sources and the less turnover; the faster the money leaves the area. This is why in a small rural area, like Willcox, with less goods and services available; the turnover number is very small (1.3 times or less). While in a large metro area, with a greater variety of goods and services the turnover may be much greater.

Another way to look at the picture is imagine a large tub (which represents the local economy), as we grow the pie, we fill up the tub; when we buy from each other the resources stay in the tub; when we buy from outside, the resources go out of the tub. The more we can encourage local buying the more resources we keep in the local economic situation.

## **Dividing the Pie**

The most people can agree that, from an economic perspective, Growing the Pie and Keeping the Pie at Home are good ideas. Where the real disagreements come in is how the Pie gets cut up.

Most people in America tend to feel that the people who put the most effort (time, brawn, brains, and money) into an economic situation should get the greater share of the benefits. Often times the question is who is putting how much of what into the making of the economic Pie.

In the simple three people Economic Pie each individuals contribution could be measured and the rewards distributed. Let's look a little deeper. You recall one of the people discovered Tourism. When the tourist started arriving on the island they brought money and toys with them. In addition to paying the Pineapple man for visiting they purchased some home made shirts and leather belts. Everybody benefited; Pineapple man most of all. The tourists also rode their ATVs all over the island; it was so much fun riding ATVs

that ATVs became a big draw, bringing lots of additional tourists – and they loved chasing the cattle; some of which fell off the cliff and died. Pineapple Man was very happy; Cotton man was happy; Leather man was not as happy. Leather man was facing significantly increased costs without any significant increased piece of the Pie. Often this is the case with Economic Development projects, especially when the government is asked to play a role in “Economic Development”. Frequently the government is asked to contribute significant resources (land, money, labor, materials) to a project; with little to no tangible return. The returns are frequently to be received in some indirect form of taxes or increased turnover within the community which are difficult to impossible to actually measure. This is not to say that Government should not be a party to Economic Development. What I am saying is the costs and benefits to all of the participants need to be identifiable, tangible, and spelled out.