

FY 2018 3rd Quarter Financial Report



"Inspiring a Vibrant Community"

City of Cottonwood



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City of Cottonwood
Fiscal Year 2018 – 3rd Quarter Report
For The Period Ending March 31, 2018

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EXECUTIVE SUMMARY

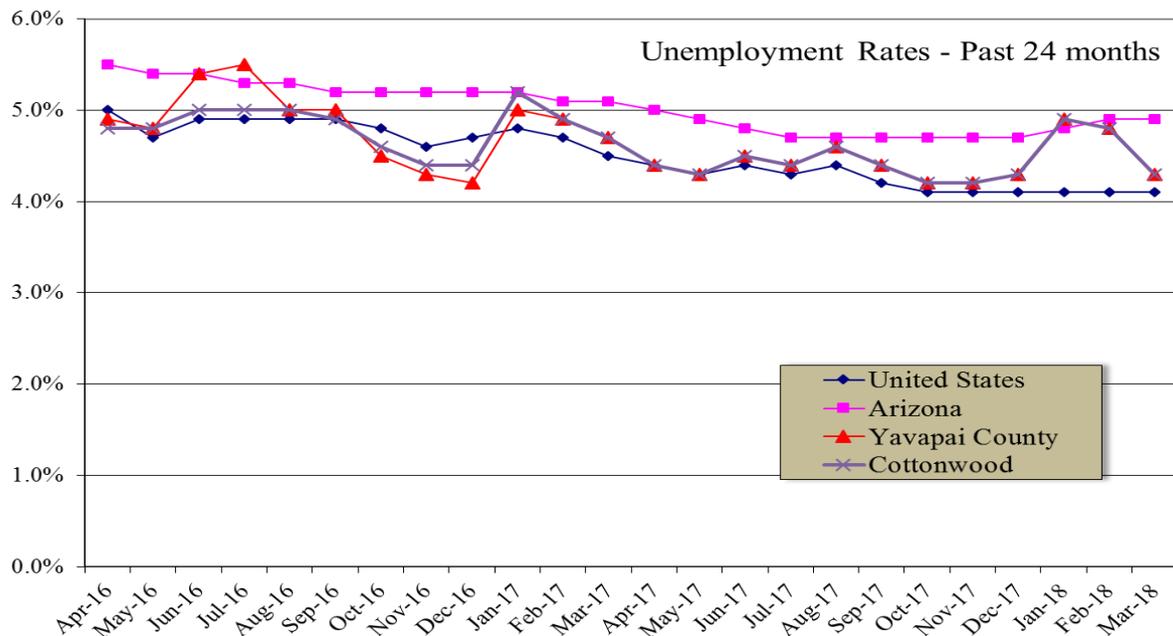
| Monthly | United States | Arizona | Yavapai County | Cottonwood |
|---------|---------------|---------|----------------|------------|
| Apr-16 | 5.0% | 5.5% | 4.9% | 4.8% |
| May-16 | 4.7% | 5.4% | 4.8% | 4.8% |
| Jun-16 | 4.9% | 5.4% | 5.4% | 5.0% |
| Jul-16 | 4.9% | 5.3% | 5.5% | 5.0% |
| Aug-16 | 4.9% | 5.3% | 5.0% | 5.0% |
| Sep-16 | 4.9% | 5.2% | 5.0% | 4.9% |
| Oct-16 | 4.8% | 5.2% | 4.5% | 4.6% |
| Nov-16 | 4.6% | 5.2% | 4.3% | 4.4% |
| Dec-16 | 4.7% | 5.2% | 4.2% | 4.4% |
| Jan-17 | 4.8% | 5.2% | 5.0% | 5.2% |
| Feb-17 | 4.7% | 5.1% | 4.9% | 4.9% |
| Mar-17 | 4.5% | 5.1% | 4.7% | 4.7% |
| Apr-17 | 4.4% | 5.0% | 4.4% | 4.4% |
| May-17 | 4.3% | 4.9% | 4.3% | 4.3% |
| Jun-17 | 4.4% | 4.8% | 4.5% | 4.5% |
| Jul-17 | 4.3% | 4.7% | 4.4% | 4.4% |
| Aug-17 | 4.4% | 4.7% | 4.6% | 4.6% |
| Sep-17 | 4.2% | 4.7% | 4.4% | 4.4% |
| Oct-17 | 4.1% | 4.7% | 4.2% | 4.2% |
| Nov-17 | 4.1% | 4.7% | 4.2% | 4.2% |
| Dec-17 | 4.1% | 4.7% | 4.3% | 4.3% |
| Jan-18 | 4.1% | 4.8% | 4.9% | 4.9% |
| Feb-18 | 4.1% | 4.9% | 4.8% | 4.8% |
| Mar-18 | 4.1% | 4.9% | 4.3% | 4.3% |

This report highlights significant items and issues impacting the overall City’s financial picture. It includes Cottonwood’s major revenues that affect the City’s larger funds. Those funds being the General Fund, Highway User Revenue Fund (HURF), the two Enterprise Funds, the Capital Improvement Fund, and the Debt Service Fund. All funds are reflected in the attached printout.

Unemployment Information:

The City of Cottonwood unemployment numbers had a spike in January and February as they traditionally do. This is due to the fact that many business release their holiday hires at this time of year. We did , however have a quick rebound in March. Unfortunately most jobs are still mostly minimum wage jobs. As a continued reminder, the minimum wage in AZ increased 5% on January 1, 2018 to \$10.50/hr.

Even though the current unemployment numbers are very good, the lower the unemployment rate the more difficult it is to find reasonable employment.



GENERAL FUND

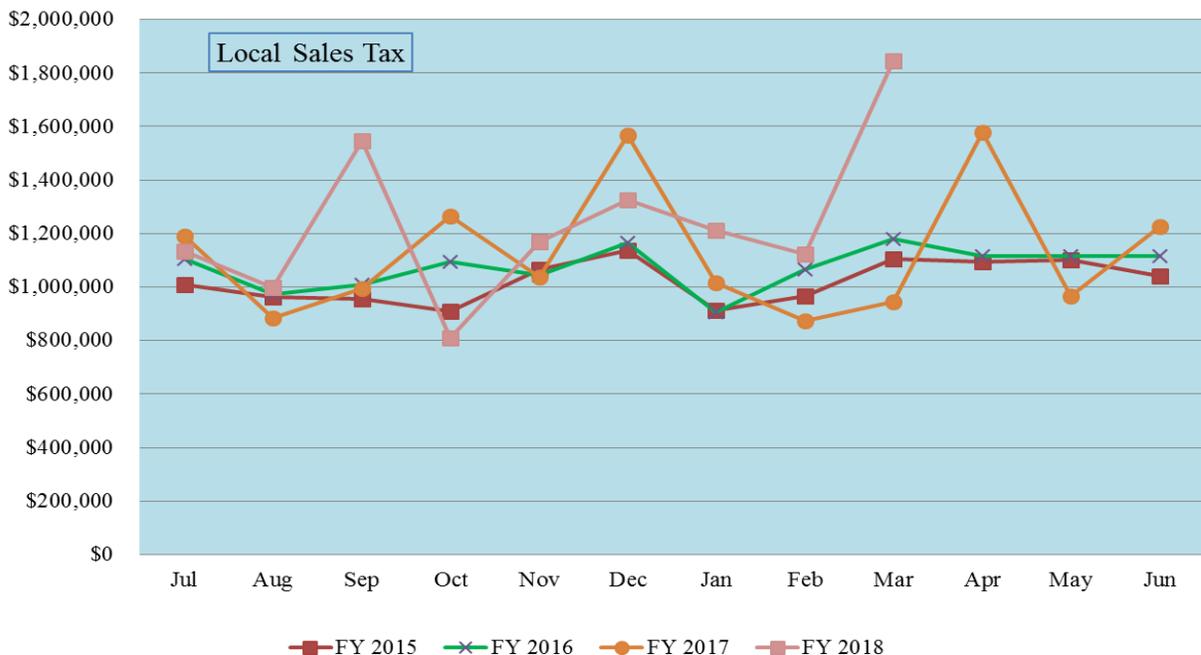
The following tables and graphs reflect the General Fund major revenue sources. All of the information compares monthly collections for similar periods from prior years. The major revenues consist of local sales tax as well as state shared resources.

Local Transaction Privilege Tax (TPT - also known as Sales Tax)

The 3.0% local sales tax makes up over 50% of the overall General Fund revenues. The Arizona Department of Revenue (AZDOR) has developed a new reporting model that seems to be causing some anomalies to our recording of this revenue. Currently we up 14.23% or \$1,384,542 over last fiscal year at this time.

| | FY 2015 | | FY 2016 | | FY 2017 | | FY 2018 | |
|-----|----------------|--------|----------------|--------|----------------|---------|--------------|---------|
| Jul | \$1,010,689 | 12.04% | \$1,106,111 | 9.44% | \$1,191,580 | 7.73% | \$1,133,465 | -4.88% |
| Aug | 962,616 | 3.96% | 972,558 | 1.03% | 885,969 | -8.90% | 998,247 | 12.67% |
| Sep | 953,901 | 8.80% | 1,009,710 | 5.85% | 993,048 | -1.65% | 1,544,902 | 55.57% |
| Oct | 909,990 | -2.76% | 1,095,712 | 20.41% | 1,265,041 | 15.45% | 810,950 | -35.90% |
| Nov | 1,064,350 | 8.69% | 1,044,333 | -1.88% | 1,037,756 | -0.63% | 1,168,716 | 12.62% |
| Dec | 1,137,286 | 5.23% | 1,167,113 | 2.62% | 1,568,633 | 34.40% | 1,326,537 | -15.43% |
| Jan | 913,590 | 1.84% | 904,463 | -1.00% | 1,015,661 | 12.29% | 1,211,473 | 19.28% |
| Feb | 967,464 | 8.77% | 1,066,400 | 10.23% | 874,551 | -17.99% | 1,123,546 | 28.47% |
| Mar | 1,106,094 | 7.33% | 1,179,638 | 6.65% | 945,395 | -19.86% | 1,844,340 | 95.09% |
| Apr | 1,095,223 | 2.60% | 1,115,079 | 1.81% | 1,579,624 | 41.66% | | |
| May | 1,100,716 | 9.83% | 1,117,243 | 1.50% | 965,193 | -13.61% | | |
| Jun | 1,039,657 | 10.55% | 1,115,321 | 7.28% | 1,225,499 | 9.88% | | |
| | ✓ \$12,261,576 | 6.36% | ✓ \$12,893,681 | 5.16% | ✓ \$13,547,950 | 5.07% | \$11,162,176 | -17.61% |

The Transaction Privilege Tax (sales tax) is collected on the gross receipts of business activities. Until 1987, the tax rate was one percent. In 1987, the voters approved an increase of one percent to fund the construction of the wastewater collection/treatment system. Again, in 1992, the voters approved an additional two tenths percent increase to construct a new city library. The current tax rate is three percent (3%) after an increase of .8% in FY 2009 to help weather the “Great Recession.”



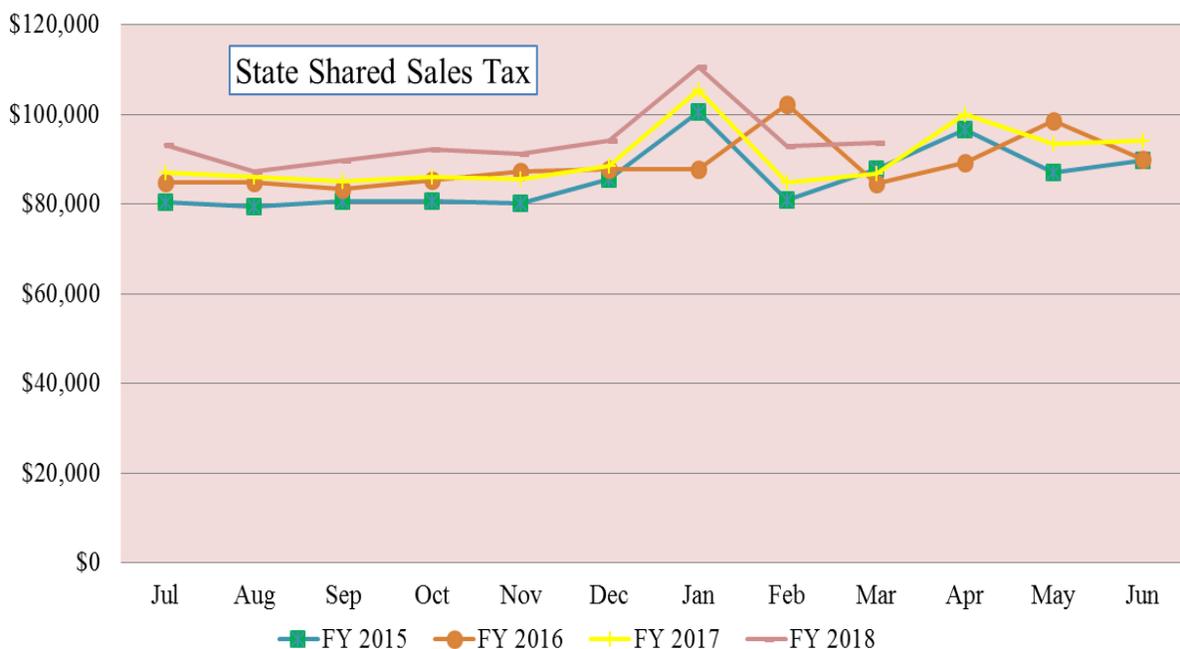
State Shared Sales Tax

This revenue is one of several state shared revenues covered in this report. For the past four years this revenue stream has shown weakening annual increases; from 6.34% in FY 2014 to the close of FY 2017 at 1.6%. This year, however, going into the 3rd quarter we are up by 6.2% or \$49,465. We are optimistic that this trend will continue.

As a reminder, it took over nine years to surpass our 2007 State Shared Sales Tax numbers. Our FY 2007 was our high point of collections for state shared sales tax before the “Great Recession.” The revenue amount for that fiscal year was \$1,032,214.

| | FY 2015 | | FY 2016 | | FY 2017 | | FY 2018 | |
|-----|-------------|--------|-------------|---------|-------------|---------|-----------|---------|
| Jul | \$80,409 | 1.88% | \$84,828 | 5.50% | \$87,090 | 2.67% | \$93,165 | 6.98% |
| Aug | 79,552 | 5.20% | 84,941 | 6.77% | 86,133 | 1.40% | 87,338 | 1.40% |
| Sep | 80,698 | 5.89% | 83,476 | 3.44% | 84,988 | 1.81% | 89,857 | 5.73% |
| Oct | 80,728 | 4.42% | 85,388 | 5.77% | 85,977 | 0.69% | 92,152 | 7.18% |
| Nov | 80,131 | 3.60% | 87,178 | 8.79% | 85,674 | -1.73% | 91,265 | 6.53% |
| Dec | 85,569 | 6.69% | 87,828 | 2.64% | 88,436 | 0.69% | 110,597 | 25.06% |
| Jan | 100,481 | -0.97% | 87,828 | -12.59% | 105,505 | 20.13% | 92,822 | -12.02% |
| Feb | 80,866 | 5.47% | 102,375 | 26.60% | 84,848 | -17.12% | 93,622 | 10.34% |
| Mar | 87,669 | 8.16% | 84,585 | -3.52% | 86,921 | 2.76% | 110,581 | 27.22% |
| Apr | 96,493 | 7.37% | 89,187 | -7.57% | 99,950 | 12.07% | | |
| May | 87,147 | 5.49% | 98,486 | 13.01% | 93,328 | -5.24% | | |
| Jun | 89,672 | 7.71% | 89,929 | 0.29% | 94,197 | 4.75% | | |
| | \$1,029,415 | 4.98% | \$1,066,029 | 3.56% | \$1,083,047 | 1.60% | \$861,399 | -20.47% |

Description - Arizona cities and towns share a portion of the total amount collected from the State Sales Tax. A city's portion of the State Sales Tax is based on the relationship of its population to the total population of all cities and towns within the state. The State has a separate tax code that differs from the City. For example, the State does not tax food whereas the City does. There is no direct correlation between City sales tax and State Shared Sales Tax.



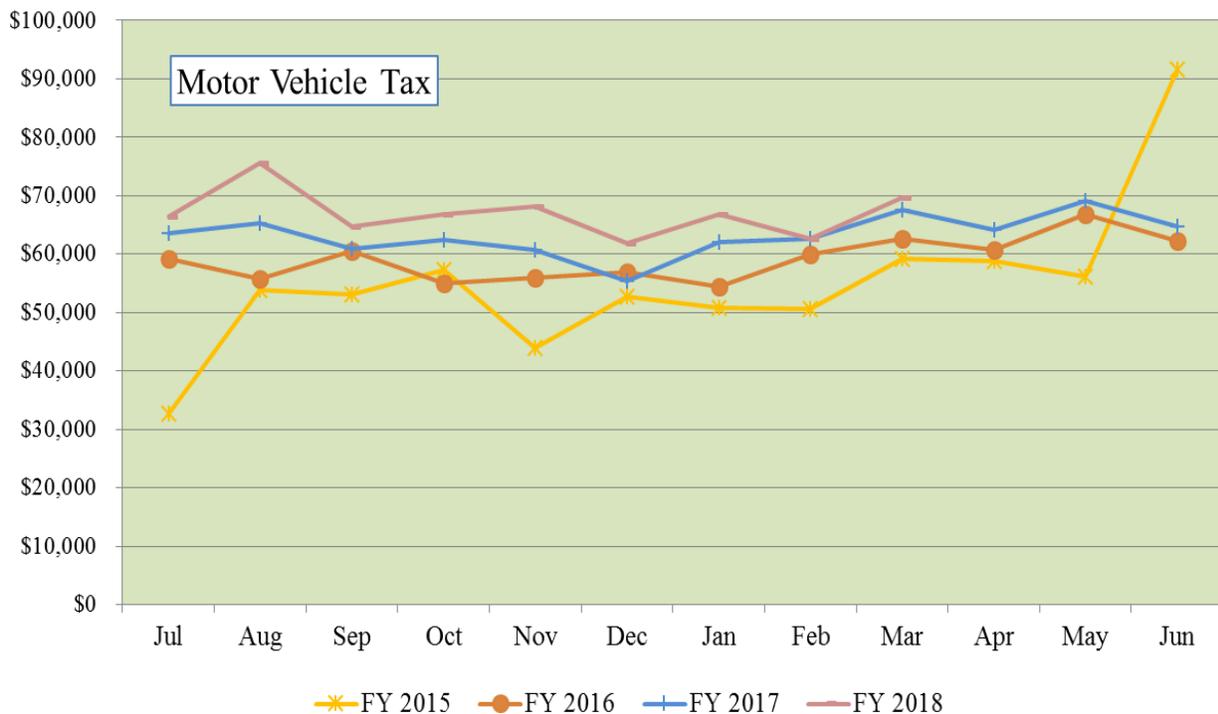
Motor Vehicle Tax

The Motor Vehicle Tax seems to have settled down from FY 2015 where every month was a wild guess where that number would end up. This revenue source has seen some improvements over the past years with a steady 6%+ growth from year to year.

Currently it is trending at 9.1% or \$41,938 over last fiscal year for the same period. This trend, however, is not expected to be sustainable. Our local dealerships have supported our local economy during economic downturns in the past and continue to do so.

| | FY 2015 | | FY 2016 | | FY 2017 | | FY 2018 | |
|-----|-----------|---------|-----------|---------|-----------|--------|-----------|---------|
| Jul | \$32,681 | -40.87% | \$59,097 | 80.83% | \$63,603 | 7.62% | \$66,387 | 4.38% |
| Aug | 53,909 | 5.72% | 55,848 | 3.60% | 65,283 | 16.89% | 75,539 | 15.71% |
| Sep | 53,159 | 4.98% | 60,435 | 13.69% | 60,894 | 0.76% | 64,625 | 6.13% |
| Oct | 57,376 | 11.84% | 54,904 | -4.31% | 62,471 | 13.78% | 66,875 | 7.05% |
| Nov | 43,919 | -8.20% | 55,965 | 27.43% | 60,684 | 8.43% | 68,117 | 12.25% |
| Dec | 52,788 | 9.36% | 56,941 | 7.87% | 55,292 | -2.90% | 61,815 | 11.80% |
| Jan | 50,813 | 0.99% | 54,518 | 7.29% | 61,963 | 13.66% | 66,733 | 7.70% |
| Feb | 50,593 | -5.79% | 59,933 | 18.46% | 62,586 | 4.43% | 62,666 | 0.13% |
| Mar | 59,134 | 9.77% | 62,670 | 5.98% | 67,629 | 7.91% | 69,586 | 2.89% |
| Apr | 58,821 | 8.68% | 60,801 | 3.37% | 64,186 | 5.57% | | |
| May | 56,080 | 6.06% | 66,727 | 18.99% | 69,029 | 3.45% | | |
| Jun | 91,513 | 75.01% | 62,316 | -31.90% | 64,651 | 3.75% | | |
| | \$660,786 | 6.32% | \$710,155 | 7.47% | \$758,271 | 6.78% | \$602,343 | -20.56% |

Description - Arizona cities receive a 25% share of the net revenues collected for the licensing of vehicles in their related county. Each city's share within their county is determined based on the city's population in relation to the county as a whole. These revenues are distributed by the State Treasurer.



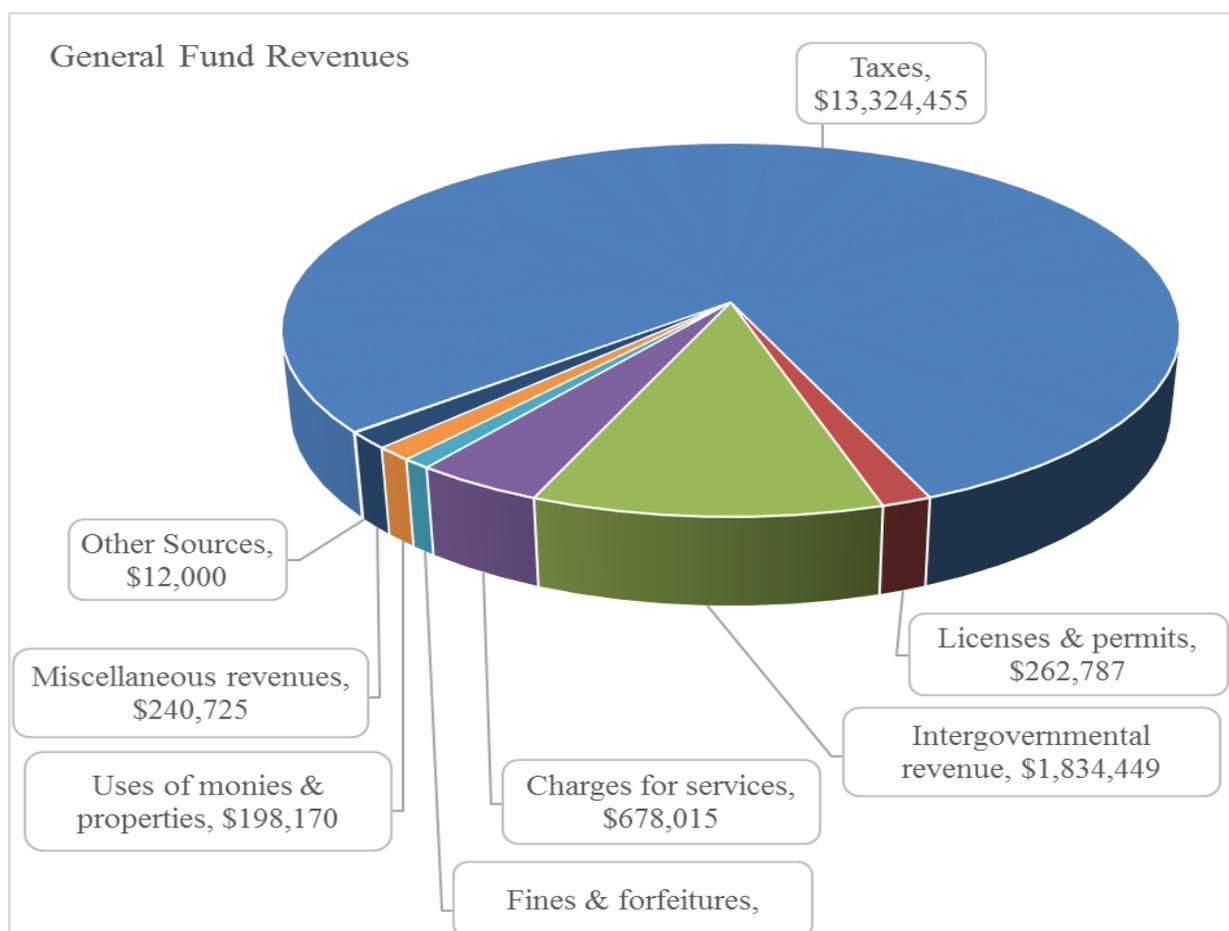
| <u>Revenues & Other Sources</u> | |
|-------------------------------------|---------------------|
| Taxes | \$13,324,455 |
| Licenses & permits | \$262,787 |
| Intergovernmental revenue | \$1,834,449 |
| Charges for services | \$678,015 |
| Fines & forfeitures | \$149,399 |
| Uses of monies & propertie | \$198,170 |
| Miscellaneous revenues | \$240,725 |
| Other Sources | \$12,000 |
| Revenues & Other Sources | \$16,700,001 |

General Fund – Revenues vs Expenditures

We are very fortunate that our General Fund operating revenues are currently trending better than our expenditures. At this time our fund balance has increased by \$1,798,376. The main reason for this is that it is only the 3rd quarter and many capital projects are still not completed. Also important is that our sales tax is up by over 14%. The items that are not completed by year end will be carried over into FY 2018 and are a priority. Another factor that is helping our fund balance is the sharp increase in Transaction Privilege Tax (TPT).

The overall concern with revenues keeping up with expenditures has been a discussion during this budget season. With a possible proposal to increase the TPT rate to help fund several council objectives. As we get closer to the end of FY 2018, the challenges have not subsided, in fact they have increased with the large cuts that were necessary to balance the budget. Our costs and demands on services and citizen’s requests for improved streets have continued to increase and our revenues are still struggling to keep up.

Despite the slow economy we are still a good financial position. Our current estimated and unaudited General Fund balance is \$6.8M up from \$6.4M the last quarter. This number is expected to stay close to where it is currently.

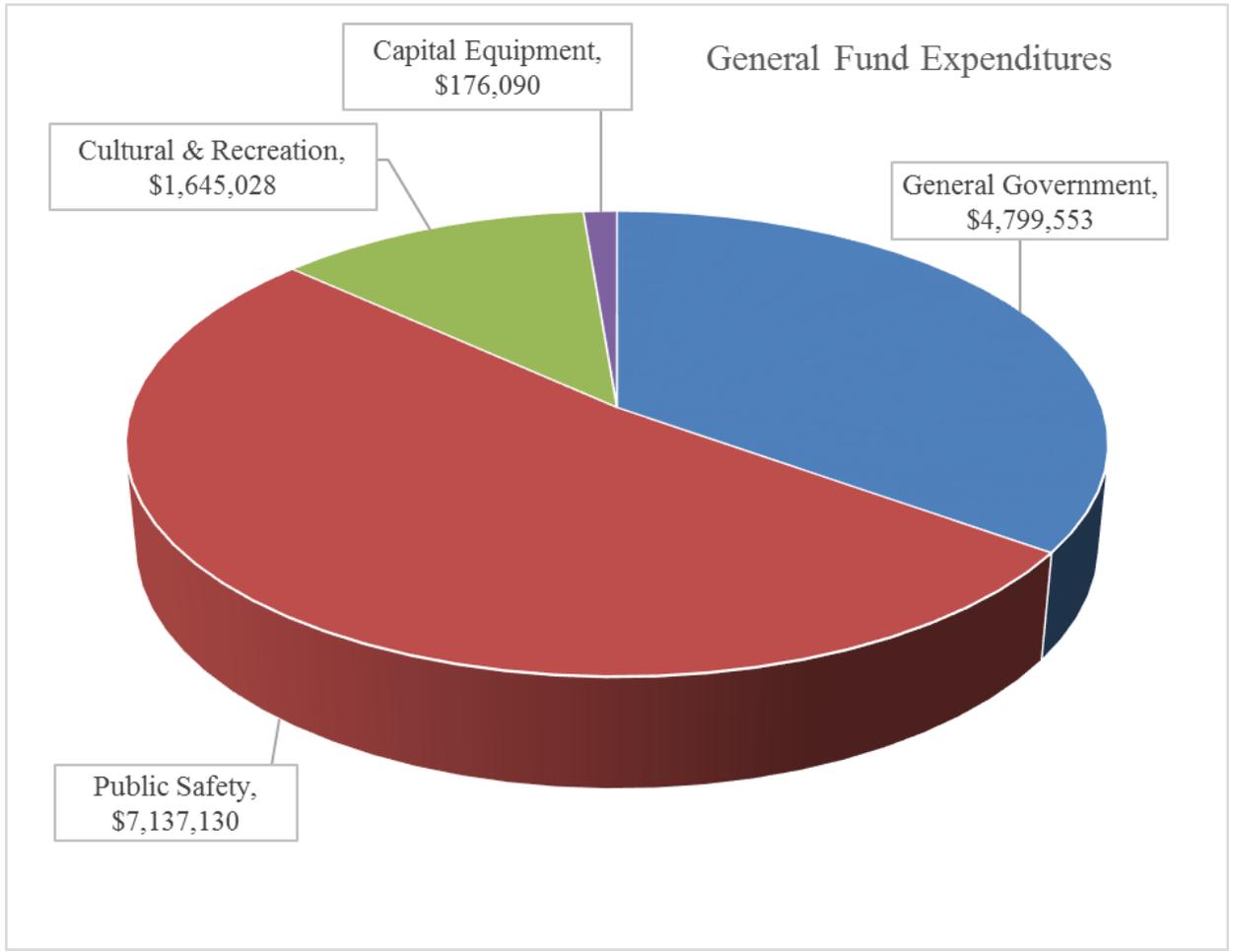


| | |
|--------------------------------------|---------------------|
| <u>Expenditures & Other Uses</u> | |
| General Government | \$4,799,553 |
| Public Safety | \$7,137,130 |
| Cultural & Recreation | \$1,645,028 |
| Capital Equipment | \$176,090 |
| <u>Expenditures & Other Uses</u> | <u>\$14,901,625</u> |

As we move closer to the end of the year and for future planning years, we need to continue to be aware of the so called concerns caused by Governmental Accounting Standards Board (GASB) Statement #68 – Accounting and Financial Reporting for Pension Plans. This ruling, now several years old impacts all municipal entities using Arizona State Retirement System (ASRS) and / or Public Safety Personnel Retirement System (PSPRS). All entities are now reflecting any pension plan underfunding liability on their respective financials. Current Comprehensive Annual Financial Reports (CAFRs) show a significant decline in net position. The concern as to how our city will deal with it in future years. Currently we are hopeful that we can fully eliminate our unfunded pension liabilities in the next 20 years.

Unfortunately, the City of Cottonwood does not have control over the two retirement systems. Their actuaries perform the actuarial calculations and provide the City with the percentage of contribution that needs to be submitted to provide the pension with sufficient revenues to stay solvent. Unfortunately the markets during the “Great Recession” did not provide sufficient returns to keep them fully funded.

Our overall fund balance continues to be fully funded in the General Fund. Other funds do not meet the established Fund Balance Policy due to weak revenue generation. This weakness is something that will need to be corrected in the future as we again discuss revenue generation.



SPECIAL REVENUE FUNDS

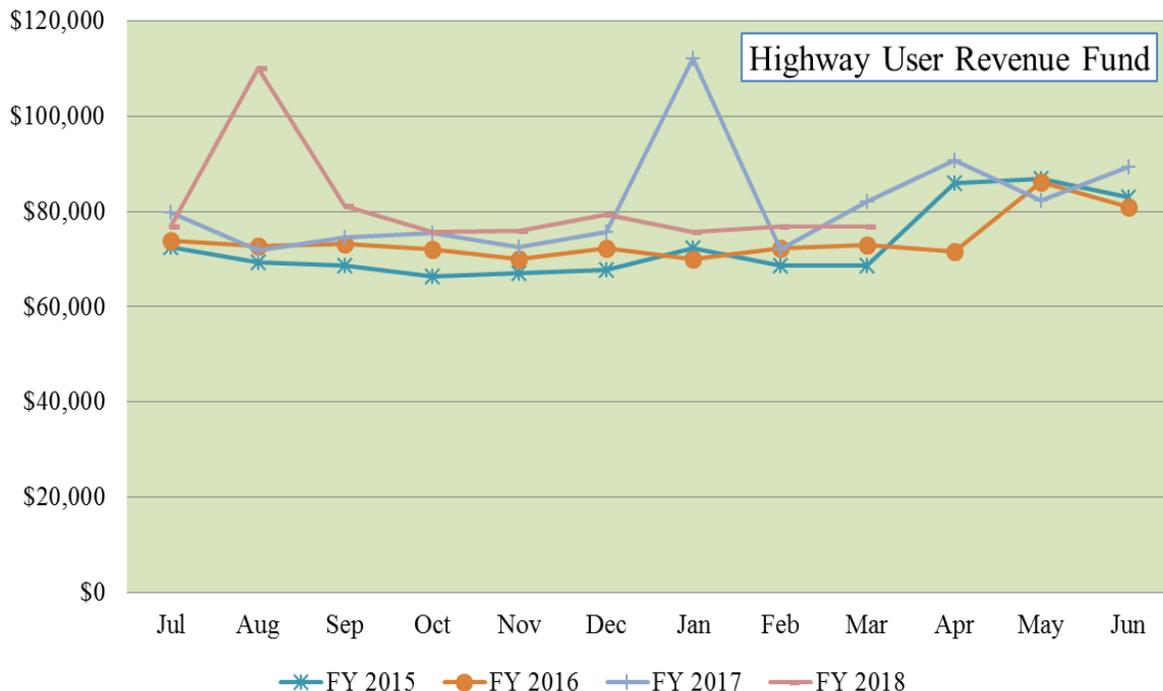
Special Revenue Funds consist of the Highway User Revenue Fund (HURF) and several other smaller funds, including CAT/LYNX, Library, Cemetery, Airport, and Grants.

Highway User Revenue Funds - HURF

This state shared revenue source is commonly called the Fuel Tax. It has had some improvement over the years. The State continues to use a portion of the HURF that is designated for cities and towns to assist with cost to the Department of Public Safety. Cottonwood is currently down by 2.4 \$18,024% over last fiscal year's numbers.

| | FY 2015 | | FY 2016 | | FY 2017 | | FY 2018 | |
|-----|-----------|--------|-----------|---------|-----------|--------|-----------|---------|
| Jul | \$72,487 | 8.41% | \$73,939 | 2.00% | \$79,891 | 8.05% | \$76,735 | -3.95% |
| Aug | 69,249 | 10.85% | 72,631 | 4.88% | 71,771 | -1.18% | 110,067 | 53.36% |
| Sep | 68,695 | 12.31% | 73,174 | 6.52% | 74,612 | 1.97% | 81,121 | 8.72% |
| Oct | 66,391 | 2.96% | 72,153 | 8.68% | 75,381 | 4.47% | 75,723 | 0.45% |
| Nov | 67,106 | 10.41% | 70,008 | 4.32% | 72,477 | 3.53% | 75,933 | 4.77% |
| Dec | 67,781 | 9.30% | 72,337 | 6.72% | 75,781 | 4.76% | 79,242 | 4.57% |
| Jan | 72,211 | 11.71% | 70,008 | -3.05% | 112,090 | 60.11% | 75,691 | -32.47% |
| Feb | 68,542 | 11.11% | 72,337 | 5.54% | 72,084 | -0.35% | 76,849 | 6.61% |
| Mar | 68,542 | -5.02% | 72,864 | 6.31% | 82,147 | 12.74% | 76,849 | -6.45% |
| Apr | 85,957 | 8.15% | 71,495 | -16.82% | 90,781 | 26.98% | | |
| May | 86,824 | 18.27% | 86,054 | -0.89% | 82,364 | -4.29% | | |
| Jun | 83,032 | 8.72% | 80,919 | -2.54% | 89,360 | 10.43% | | |
| | \$876,817 | 8.85% | \$887,919 | 1.27% | \$978,739 | 10.23% | \$728,210 | -25.60% |

Description - Arizona cities receive a share of State Motor Vehicle Fuel Taxes (Highway User Revenue Funds). The formula is based on two separate calculations; the first half is based on a city's population in relation to the State's total population, the second is based on the county in which the revenues were generated. These funds must be utilized for the construction and maintenance of streets and highways.



Special Revenues Funds - continued

The following tables depict the other funds that make up the Special Revenue Funds group in the City of Cottonwood budget. All of these funds have the General Fund as a backstop which covers any shortages in their bottom line. Most of the negative numbers are grants, transfers, or receivables that are currently outstanding and are anticipated to be received within the next 60 – 90 days. HURF will be using General Fund transfers as it continues work on the Mingus Avenue project, as well as monies from the City of Cottonwood 2015 bond issue.

| | Special Revenue Funds | | | | | |
|---|-----------------------|----------------|-------------|----------------|-----------|----------------|
| | HURF | | CAT | | Library | |
| | Budget | 3rd Qtr Actual | Budget | 3rd Qtr Actual | Budget | 3rd Qtr Actual |
| Revenues | 1,579,200 | 1,331,717 | \$1,405,470 | \$1,146,310 | \$243,225 | \$116,699 |
| Operating Expenditures | 926,595 | 564,907 | 1,635,745 | 1,380,019 | 1,032,910 | 787,346 |
| Capital Outlay | 3,050,000 | 77,481 | 20,000 | 156,167 | 40,105 | 21,379 |
| Debt Service | 411,730 | 293,109 | 0 | 0 | 0 | 0 |
| Revenues over (under) Expenditures | (2,809,125) | 396,219 | (250,275) | (389,876) | (829,790) | (692,026) |
| Other Funding Sources & Uses | 987,190 | 287,229 | 0 | 0 | 825,290 | 275,097 |
| Revenues & other funding sources & uses over (under) Expenditures | (1,821,935) | 683,448 | (250,275) | (389,876) | (4,500) | (416,930) |
| Beginning Fund Balance | 3,067,432 | 3,067,432 | 0 | 0 | 74,937 | 74,937 |
| Ending Fund Balance | \$1,245,497 | \$3,750,880 | (\$250,275) | (\$389,876) | \$70,437 | (\$341,993) |

| | Special Revenue Funds | | | | | |
|---|-----------------------|----------------|-----------|----------------|-------------|----------------|
| | Cemetery | | Airport | | Grants | |
| | Budget | 3rd Qtr Actual | Budget | 3rd Qtr Actual | Budget | 3rd Qtr Actual |
| Revenues | \$900 | \$341 | \$357,650 | \$232,623 | \$4,468,100 | \$1,610,331 |
| Operating Expenditures | 63,110 | 27,749 | 338,240 | 292,635 | 0 | 0 |
| Capital Outlay | 0 | 0 | 0 | 0 | 4,676,300 | 2,111,228 |
| Debt Service | 0 | 0 | 0 | 0 | 0 | 0 |
| Revenues over (under) Expenditures | (62,210) | (27,408) | 19,410 | (60,012) | (208,200) | (500,897) |
| Other Funding Sources & Uses | 62,210 | 20,737 | (61,360) | 3,947 | 208,200 | 2,111,228 |
| Revenues & other funding sources & uses over (under) Expenditures | 0 | (6,671) | (41,950) | (56,066) | 0 | 1,610,331 |
| Beginning Fund Balance | 0 | 0 | 72,150 | 72,150 | 82,589 | 82,589 |
| Ending Fund Balance | \$0 | (\$6,671) | \$30,200 | \$16,084 | \$82,589 | \$1,692,920 |

CAPITAL IMPROVEMENTS FUND

This fund is traditionally in good fiscal shape. With the Riverfront Water Reclamation facility on its way to being completed, this fund is no longer transferring large amounts of resources to its construction. There is, however, monies available from an excise tax bond for street construction.

| | Capital Improvments | |
|--|---------------------|----------------|
| | Budget | 3rd Qtr Actual |
| Revenues | \$255,000 | \$5,555 |
| Operating Expenditures | 0 | 0 |
| Capital Outlay | 354,150 | 12,166 |
| Debt Service | 0 | |
| Revenues over (under) | | |
| Expenditures | (99,150) | (6,611) |
| Other Funding Sources & Uses | (2,446,240) | 0 |
| Revenues & other funding sources & uses over (under) | | |
| Expenditures | (2,545,390) | (6,611) |
| Beginning Fund Balance | 5,844,637 | 5,844,637 |
| Ending Fund Balance | \$3,299,247 | \$5,838,027 |

The Riverfront Water Reclamation Facility is expected to treat approximately 300k gallons of wastewater daily. It will provide reclaimed water to the area's sport complex green areas and to replenish our aquifers using injection wells. The initial injection well was not successful at Riverfront Park and as an alternative, the new injection site will be located at the Cottonwood Kids Park.

Some of the fund balance from the issue of the excise tax bond is to take care of much needed street improvements. Another project funded by the bond was the Regional Communications Center that has been fully operational and is providing services to area fire

services and our police department.

Below are the major projects funded through a Community Development Block Grants (CDBG) and Yavapai Flood Control District Tax. These projects are expected to be rolled over into next fiscal year for completion.

Over the past couple of years slightly over \$11,500,000 has been transfer from this fund to the Wastewater Enterprise Fund to pay for the construction of the Riverfront Water Reclamation Facility. That amount is not shown on the schedule below since it is a capital expense reflected in an Enterprise Fund. As a clarification, the Riverfront Water Reclamation Facility has not used any water revenue to fund its construction.

| | Adopted | | |
|----------------------------|---------|--------|--------|
| | Budget | Y-T-D | % Used |
| Capital outlay: | | | |
| Investment Expenses | 9,500 | 4,031 | 42.43% |
| Civic Center HVAC | 124,650 | 1,152 | 0.92% |
| Railroad Wash Improvements | 220,000 | 6,983 | 3.17% |
| Total Expenditures | 354,150 | 12,166 | 3.44% |

ENTERPRISE FUNDS

Water & Wastewater

Both the Enterprise Funds have been operating in the black since the City Council approved the last rate increases. FY 2013 was a turning point for both the Water and Wastewater Enterprise Funds. Though there has been improvement in our revenue generation, the utilities continue to need quite a bit of future capital investment.

| | Enterprise Funds | | | |
|---|------------------|----------------|---------------|----------------|
| | Wastewater | | Water | |
| | Budget | 3rd Qtr Actual | Budget | 3rd Qtr Actual |
| Revenues | 2,613,420 | 2,033,917 | \$8,198,230 | \$5,958,110 |
| Operating Expenditures | 2,338,380 | 1,467,877 | 9,351,610 | 2,479,873 |
| Capital Outlay | 4,812,535 | 2,628,974 | 4,400,075 | 1,266,432 |
| Debt Service | 0 | 0 | 1,857,985 | 1,356,583 |
| Revenues over (under) Expenditures | (4,537,495) | (2,062,934) | (7,411,440) | 855,223 |
| Other Funding Sources & Uses | 4,537,495 | 0 | 0 | 0 |
| Revenues & other funding sources & uses over (under) Expenditures | \$0 | (\$2,062,934) | (\$7,411,440) | \$855,223 |

The Water Utility refinanced their Municipal Property Corporation (MPC) Water Revenue Bonds, Series 2004 and 2006 a few years ago. There were substantial savings to utility customers over the life of the new Water Infrastructure Finance Authority (WIFA) loans. These savings are in future interest payments and forgivable principle, as well as the release of some debt service reserves for future capital projects.

The 2015 WIFA refinancing of the 2004 MPC Water Revenue Bonds will save approximately \$1.7M in interest expense, and there was \$550k in forgivable principle included in that refinance package, totaling over \$2.2M in savings. The WIFA loan required less debt service reserves, allowing an additional \$111,000 transferred from debt service reserves to the water utility's unrestricted fund reserves.

The completed refinancing of the 2006 MPC Water Revenue Bonds using a WIFA Loan included a \$1.9M waterline that WIFA granted along with \$800K in forgivable principle. The interest rate went from 5% to 1.7% and removed about \$5M in liability from the City of Cottonwood books and allocated it to the Town of Clarkdale where it belonged. This refinance package will save our utility customers approximately \$3,619,000 in future interest payments and allowed \$1,461,000 in debt service reserves to be put back into unrestricted fund reserves.

The Wastewater Utility has a different set of issues. The smoothing of its rates, meaning taking a necessary large increase and trying to spread it out over several years, is not working well for this utility. Financial resources are needed to accomplish the estimated \$7M worth of repairs needed at both the Mingus treatment facility and the five lift stations.

DEBT SERVICES FUND

This fund starts off the year in good shape; with sales taxes and interest income providing some of the revenue. Fund balance provides the remainder of necessary resources. Expenditures consist of principal and interest on general government loans and bond issues. Also included are any trustee fees assessed for managing the debt service accounts.

The Recreation Center - Greater Arizona Development Authority (GADA) Bonds were refinanced over a year ago and will provide a savings of over \$1M in future interest payments. The debt service for the Recreation Center is solely funded by sales tax revenues, as part of the excise tax pledge on this debt issue. The refinance changed the loan to a bond issue. The sizeable debt service payment in the budget is the payoff of the GADA loan using the excise tax bond proceeds received in FY 2017. As a note, utility debt service is funded through user fees and other operational revenues, and therefore the debt service of the Enterprise Funds.

| | | Debt Service | |
|--|--|----------------|----------------|
| | | Budget | 3rd Qtr Actual |
| Revenues | | \$1,644,705 | \$1,239,653 |
| Operating Expenditures | | | |
| Capital Outlay | | | |
| Debt Service | | 15,520,200 | 1,235,518 |
| Revenues over (under) | | | |
| Expenditures | | (13,875,495) | 4,135 |
| Other Funding Sources & Uses | | 0 | 0 |
| Revenues & other funding sources & uses over (under) | | | |
| Expenditures | | (13,875,495) | 1,239,653 |
| Beginning Fund Balance | | 989,384 | 989,384 |
| Ending Fund Balance | | (\$12,886,111) | \$2,229,037 |

BRIEF OVERVIEW

As we complete the 3rd quarter the 2018 fiscal year, we are pleased to be in such a great position financially. Our economy is still growing at a slow but steady pace and we continue providing outstanding services to our community. Many projects have just started and older projects are reaching final completion.

We do, however, have some uneasiness over our current revenue generation and the ability to sustain the growth in our expenditures. Our lack of reserves are of some concern. Our local sales tax growth is on target with our projections, however, some other revenues are still struggling to keep up with growth. As we move forward in the latter half of the budget year, we are now having discussions about the possibility of increasing our TPT, as well as looking for strategic reductions to services and operations.

The City continues to be fiscally conservative in its everyday business. Staff is always looking for ways to reduce costs, while still providing quality essential services. It continues to maintain reasonable reserves in its General Fund for unforeseeable emergencies as is prudent.