

December 05, 2003

The Honorable Mayor and City Council

**RE: Transmittal - Fiscal Year 2003-04 Budget**

It is my pleasure to present to you the 2003-04 Annual Budget for Mayor and City Council adoption. There have been several budget work sessions with department heads to review, in detail, their programs and project planned expenditures. This year's total budget is \$41,035,542. This is an overall increase of \$26,898,632 from the previous fiscal year of \$14,136,910. This increase is largely attributed to the many projects being proposed for the new fiscal year.

The largest single increase is the possible acquisition, operation and debt service related to the purchase of three local water distribution facilities. This year's budget also includes several rollover projects that have not yet started or will not be completed prior to the close of the current fiscal year and therefore are budgeted in the 2003-04 budget. A general discussion about the funds follow, however, in-depth information is in the Key Issues section of this document. There is no tax or user fee increases budgeted this year.

The General Fund's operational budget is \$8,381,150. This is a \$796,490 increase over the previous fiscal year of \$7,584,660. This net increase includes an additional \$460,560 in additional personnel & related benefits. Additional staffing includes an additional firefighter, a planner, and one assistant court clerk. Other increases in the budget included a 37.8% increase in our workers compensation costs as well as an increase in the city's experience modifier (e-mod) from .95 to 1.31, increasing that expense by over \$43,600. Still another personnel related significant increase was a 20% hike in employee health insurance premiums for employees and their dependents. This alone cost the City an additional \$138,350 compared to last fiscal year. The balance of the increase in the General Fund is due to normal operating and capital equipment acquisition costs. A listing of the programmed capital outlay and projects is on page 263.

A substantial decrease in the General Fund is in the operating transfers out to other funds. Transfers decreased by \$161,700 to \$879,950. These transfers include a \$364,660 to the Debt Service Fund for the Greater Arizona Development Authority (GADA) loan, and \$8,880 to the Trust Funds for the Cemetery. Additionally, \$487,810 and \$18,600 are also being transferred to the Special Revenue Funds for Library operations and Airport Authority for maintenance and operations, respectively.

The total budget for the Special Revenue Funds is \$4,071,210. This funds expenditures increased by \$1,498,630 over last year's funding of \$2,572,580. This increase is primarily due to the "rollover" of some major projects that began or were programmed to begin in fiscal year 2002-03 and need to be completed or will be initiating for 2003-04. Such things as the Signal at Mingus/Main (\$150,000), and ISTEA Phases II & III (\$355,000, \$398,400 respectively) are such rollover projects. The Highway User Revenue Fund (HURF) reflects the elimination of its Fund Balance in the Special Revenue Funds. Approximately \$344,020 of Fund Balance will be utilized as the City strives to complete these projects.

The Debt Service Fund is budgeted for \$5,994,378. Last year's budget was \$3,201,930. The increase of \$2,792,448 is designated for capital improvements to the wastewater collection system as the City moves forward with extension of lines along State Route 260, and additional debt service as the City moves closer to acquiring three local water companies.

The City budgeted \$20,060,764 in the Capital Projects Fund this year to fund four major projects. The largest of these projects is the acquisition of three water companies and their upgrade. This acquisition and upgrade is anticipated to cost \$16,747,500. Other projects include the Railroad Wash Flood Control Improvement Project for about \$1,190,830, the Riverfront Park - Heritage Grant Improvement Project for \$1,040,394, and Airport Improvements for \$1,082,040.

The Enterprise Fund budget has increased from last fiscal year's \$1,953,830 to \$5,579,090 for fiscal year 2003-04. The \$3,625,260 increase is attributed to the planned construction of the SR260 Sewer Line Extension Project and the anticipated maintenance and operations expenses for the City water company when acquired. \$2,138,850 of the \$2,142,400 needed to complete the expansion of State Route 260 Sewer Line will come from the Sewer Debt Service reserves as a capital construction transfer in.

The Internal Service Fund and Agency Fund's aggregate total is up by \$39,240. The majority of this increase is for claims to the City's un-reimbursed medical plan through AFLAC. The City health insurance is now totally handled through the Verde Valley Employee Benefits Pool.

Material changes are expected in the fund balances of several funds as anticipated projects get underway. General Fund use of fund balance is anticipated at \$519,430, as it makes transfers to various other funds. HURF continues to use its fund balance to complete several major projects. Debt service is expected to transfer only an estimated \$2,138,850 of the \$2,142,400 necessary to cover the construction of the SR260 sewer line program. The Capital Project Fund will use some of its reserves along with a General Fund transfer to complete some of its projects, including the Riverfront Park Improvements. Finally the Agency Fund will see a slight decline in their fund balance as explained in the previous paragraph.

## **General Commentary**

The preparation of the budget posed a special challenge to all department heads this year. Current economic conditions and rising costs of health care and retirement put the virtual squeeze on already strained budgets. This is coupled with the City's dedication to the citizens' demand for quality services as one of its highest priorities. Long range financial planning played an integral part in the budget development. Revenue and expenditure projections were prepared for a five-year period. Traditionally each department submits a five-year "*base budget*"-spending plan. The "*base budget*" is defined as "*the essential expenses to operate a department at its current level of service.*" This plan included projections of the base budget for each department allowing for inflationary price increases for the next five years. In addition to the projected increases in commodities and utilities, base salaries and associated benefits were projected to increase at an annual rate of 4 percent for the period.

Revenue projections were based on several different factors this year, including a detailed analysis of the past five years and economic factors provided by the State. Special attention was given to our local city sales tax since it is our single largest revenue source. The City has experienced an average annual growth of 4.17% for the past five years, ending June 30, 2003. Unfortunately, fiscal year 2002-03 reflected its first real loss in over ten years, coming in at 3% below the previous year and 6% below estimates. For fiscal year 2003-04, a slight .5% increase is anticipated for city sales tax over FY 2002-03. All indications are that the slowing trend has turned the corner, however, the City continues to be conservative in its revenue projections.

Residential and commercial construction valuations have decreased an average of 13.9% per year, since its peak in 1998. Prior to 1991, the construction category represented less than 2% of our sales tax base compared to the 8% representation in recent years. Wholesale and retail trade has increased an average of 4.1% per year, for the same period. Retail sales tax collection compared to total sales tax has slowly been eroding from 69.2% in FY 1994-95 to 63.7% in FY 2002-03. Combined, these two components represent 66.3% of our sales tax base.

Retail sales tax revenues are projected to increase by 2.5% for fiscal year ending June 30, 2004. Construction sales tax receipts are projected to decrease by approximately 10% next year, in comparison to the five-year average of 9.5% increases. In developing the fiscal year 2003-04 budget, total sales tax revenues are conservatively projected to increase 0.5%.

## **KEY ISSUES - FISCAL YEAR 2003-04**

### **General Fund**

Growth continues to be the major issue facing the City in the development of the budget. Most of the major issues addressed in this budget are as a result of the growth we continue to experience within the City and the surrounding area. Below are listed some of the major issues intended to be addressed within this budget.

- < **Uncontrollable Rising Costs** – Health Insurance Premiums up 20%, Worker's Compensation Insurance increased by 38%, retirement contributions increased by 129%. These are examples of some of the rising costs being faced by the City. These cost, to a

large extent, are uncontrollable. Rising uncontrollable costs are some of the most difficult to face during a budget.

- < **State Shared Revenues** – These revenue sources are always of concern to municipalities. The budget reflects a decrease in State Shared Income Tax of \$148,630 from last year's \$977,080. State Shared Sales Tax is budgeted at a .79% increase over FY 2002-03. State Sales Tax is anticipated to generate \$726,190 in 2003-04.
- < **City Facilities** - Overcrowding of facilities has eased somewhat with the Police and Fire Departments having moved to their new facility on 6<sup>th</sup> Street. The vacant Fire Station is currently being leased to the Verde Valley Ambulance Service with the proceeds going to the Wastewater Treatment Facility. The Old Police Station has renovations planned in the FY 2003-04 budget. This move will free up some much needed space to alleviate overcrowding in other buildings
- < **Water Issues** - It has become more and more evident over the past couple of years, the need for the City to become more active in the water issues that are and will continue to face the City. Issues of water quality, availability, management, water rights, water system development, and fire protection are all critical issues that we need to become more involved with. This budget contains the continuation of the part-time Natural Resource Coordinator position shared by all the Verde Valley communities. Additionally, the Assistant to the City Manager position has a major focus on water issues. The budget also includes \$85,000 to continue the evaluation of the private water systems within the city.
- < **General Plan Update** – The Community Development Department continues to work on the update to the General Plan to comply with Growing Smarter requirements. It is anticipated that the plan will be presented to the City Council for adoption in December 2003, and placed on the March 2004 primary ballot for voter approval.
- < **Cemetery** - The City Cemetery has been full for some time. The City Council has identified the need to establish a new public cemetery. \$50,000 has again been budgeted to proceed with some grading and fencing on the first phase of a new public cemetery in the South clear zone of the Cottonwood Airport.
- < **Economic Development** - Since the Verde Valley Regional Economic Development Council became inactive; a greater burden of economic development efforts has fallen on the Cottonwood Foundation for Economic Development (F.E.D.). Currently, 15% of the bed tax paid to the Chamber goes to the F.E.D., or approximately \$9,600 per year. This year's draft budget does not contain any additional funding for Economic Development at this time. The Focus Future II Planning Study is completed and has recommended a full-time staff position for economic development. We will continue to look for an opportunity to fund this position, but with current budget conditions it is not recommended.

### **City Staffing**

This budget includes the employee merit program. As in the past, since a cost of living adjustment (COLA) was not included in the budget the salary scale was adjusted upward by 2% to keep up with rising salaries and to stay competitive.

Several positions approved last year were not filled (a Buyer and three Officers). This is due to the slowing in revenues and lack of grant funding. The City did eliminate a Library Clerk position. This was done through attrition and no layoffs have occurred nor are they planned.

Council did, however, add some additional staff during the budget workshops. This additional staffing includes, one additional Firefighter and Planner for next budget year.

### **Contributions to Dependent Health Insurance Coverage**

This will be the third year of the tiered contribution program for dependent health insurance coverage. Rising medical and prescription costs are forcing the cost on health insurance to record limits. Unfortunately, employees will absorb a 20% increase in their dependent coverage as will the City.

Below is a summary of the increase in costs to employee per payroll period.

<b>Employee Health Care Costs Summary</b>			
<b>Category</b>	<b>FY 2002-03</b>	<b>FY 2003-04</b>	<b>Difference</b>
Employee	\$0.00	\$0.00	\$0.00
Employee +1	\$38.83	\$46.60	\$7.77
Employee +2	\$58.25	\$69.90	\$11.65
Employee 3+	\$77.66	\$93.19	\$15.53

<b>Employee Dual Spouse Health Care Costs Summary</b>		
<b>Category</b>	<b>FY 2002-03</b>	<b>FY 2003-04</b>
Employee	\$0.00	\$0.00
Employee +1	\$0.00	\$7.41
Employee +2	\$0.00	\$11.12
Employee 3+	\$0.00	\$14.82

### **Special Revenue Funds**

The Street Department has several ambitious projects allocated within its budget that has rolled over from last fiscal year. The most notable are the Old Town Improvements (ISTEA Phase II & III) anticipated to cost approximately \$355,000 and \$398,400, respectively. Another project is the Main and Mingus Street Signal with a price tag of \$150,000. The Highway User Revenue Fund (HURF) builds up its fund balance, and then uses it in some of its larger projects. This fund balance consumption reflects in the large fund balance changes reflected on page 139. In fiscal year 2003-04, the General Fund is not anticipating any transfers of funds to the HURF.

The Cottonwood Area Transit System (CATS) shows the continued expansion of the bus stop facilities started in FY 2002-03. This expansion includes the bus stop benches and shading. Also included in the budget is the continued expansion of the transit system, which currently includes fixed routes as well as the demand service. The fleet is now totally diesel with four buses running with two backups.

The Library continues to be heavily supported by the General Fund with about \$487,810 in operational transfers in. An additional \$50,000 is also being transferred from the Library Debt service reserves for some remodel work to the facility.

The Airport Authority continues to do well as additional land leases continue to come on-line. This department now makes sufficient revenues to cover its normal day-to-day operations including the reimbursement to the General Fund for the construction of its Airport T-Hangars. It will, however, receive some transfers in of \$18,600 from the General Fund to assist in providing matching funds for Airport Improvement Grants.

This will be the third year in a row that the Community Development Block Grant (CDBG) fund has received funding for projects. This year is looking at multiple projects totaling \$581,810. This year's projects are as listed below:

Description	Amount of Funding
CDBG - Manufactured Housing	\$67,330
Senior Citizen's Center	193,880
Transitional Housing	111,500
Old Town Mission	29,080
Housing Rehabilitation	164,340
Contract – Administration	15,680
Total CDBG Funding	\$581,810

**Debt Service Funds**

This year Debt Service Funds reflect a sizable increase of \$2,792,448 from last year's \$3,201,930. \$2,138,850 is a transfer out to the Sewer Construction Fund for the continued extension of collection lines on State Route 260, which began last fiscal year and \$50,000 to the Library for a remodel project. Another increase is in actual debt service for \$1,359,188 to cover the anticipated debt service amounts on the acquisition of the three local water companies that the City is contemplating.

**Capital Projects Funds**

There are four major projects programmed for FY 2003-04. Major Airport Improvements, the Railroad Wash Flood Control Improvements, the Local Water Companies Acquisitions, and the Riverfront Park Heritage Grant Project are in the works this year. An allocation of \$1,082,040, of which 4.4% is the City's responsibility, is in the budget for land acquisition and runway improvements. These improvements are a continuation of the improvements of past years.

The Railroad Wash Improvements of \$1,190,830 are currently in progress. Yavapai County Flood Control District is funding \$274,400 of the project. \$909,930 is from a GADA loan/interest (fund balance) and the remainder from current interest earned on the funds while the project gets underway. This project will redirect the natural flow of the Railroad Wash to areas, which will cause the least damage if flooding should occur.

The local water companies' acquisition is also programmed for this year with \$18,146,250 in bond proceeds needed to acquire and begin immediate upgrades to all three systems. These immediate upgrades are in the form of more fire hydrants for fire protection, and linking of the systems to insure adequate flow throughout the entire coverage area.

The Riverfront Park - Heritage Fund Grant for major park improvements such as additional ball fields, more parking, extra lighting and the overall development of the Riverfront Park Area continues into this year. The State's Heritage Fund Grant is anticipated to fund 50% of the project of \$550,197. The City's commitment to the project is only \$150,000, which was transferred over last fiscal year. The remaining amount is to be funded through current commitments of materials and labor from generous local businesses, Yavapai County and Arizona Public Service (APS).

### **Sewer Fund**

The Sewer Fund has begun to provide reclaimed water to the Cottonwood Ranch subdivision for their community areas. It also continues the release of effluent into Del Monte Wash to establish a riparian area along the wash. The Del Monte Wash Project received an award by the American Consulting Engineers Council of Arizona (ACEC) for the riparian area that was created.

This year's major push is the State Route 260 construction of line extensions. This project will provide service to some of the areas in the State Route 260 commercial corridor.

## **BUDGET POLICIES - FISCAL YEAR 2003-04**

This budget continues the prior years' fund balance restriction policies of the City. A restricted reserve of \$854,320, representing 12.5% of the previous fiscal year's General Fund revenues, or 45 days expenditures coverage, is restricted by the City Council.

An additional accumulating reserve of 2.67% of the previous year's general fund operating revenues is reserved for capital projects. This year represents the eighth year of this policy with \$862,420 reserved in the City Council budget for capital projects. This amount has increased slightly by \$67,120 from last year's \$795,300, due mainly to interest income and this year's contribution to the fund. \$27,000 was reduced from this year's contribution to cover some requests for funding in Police, Fire and City Council departments. \$60,310 is available in the capital reserves, which comes from the excess .2% Library Debt Service sales tax. The latter of the two funds will not be available until the end of fiscal year 2003-04. This capital reserve was eliminated, until 2003-04, with the transfer of \$871,000 to the Public Safety Building construction project and the Public Safety Building GADA loan debt service payments.

These policies, along with development of five-year budget projections, will insure the financial stability of the City into the future.

The City's vehicle replacement policy is included within the budget. This policy allows for consistent replacement of City vehicles maintaining a high level of quality for the City fleet. The replacement of vehicles is represented within the individual departments and funds.

## **BUDGET DEVELOPMENT**

The mission statement of the City of Cottonwood is “*TO SERVE*” the citizens in a fiscally responsive and professional manner. In developing the fiscal year 2003-04 budget, our mission, along with the budget policies of the City Council, served as the underlying premise.

Long range financial planning played an integral part in the budget development. Revenues and expenditures were prepared for a five-year period for all funds. These projections are included within the budget. The result of this five-year analysis demonstrated that revenues would not be keeping up with operational expenditures for the next five years. This is mainly due to the sluggish economy and the state's future financial picture. Any Capital acquisition would require some financing alternatives (see page 23-26). All other funds will continue to operate within their respected revenues.

## **LONG RANGE PROGRAMMATIC AND FINANCIAL PLANNING**

Included within the budget is a section establishing long-range organizational programmatic goals and the five-year capital improvement plan. The organizational goals identified are presented programmatically, including a statement of operational fiscal impact to the City. Goals identified for fiscal year 2003-04, have been integrated into the work plans of the appropriate department responsible for implementation.

The five-year capital plan is an integration of these current and long-range organization goals. Each major project is explained within this section of the budget.

## **CAPITAL ACQUISITION PLAN**

Included in the budget is \$24,270,634 in equipment acquisitions and construction projects. These items are detailed in each department's budget and summarized in the appendix of this budget. A summary by function is provided for review and does not necessarily reflect the full cost of ongoing projects. Only those amounts to be expended for fiscal year 2003-04 are budgeted.

Following is a summary list of equipment purchases by function along with a list of major capital projects included in this budget. More details are provided on page 263 of the budget document.

<b>Equipment</b>	
<b>Function</b>	<b>Estimated Cost</b>
<b><u>General Government</u></b>	\$56,100
Public Safety	139,350
Culture & Recreation	27,200
Transit	20,654
Wastewater	5,200
<b>Total Equipment</b>	<b>\$248,504</b>

<b>Capital Projects</b>	
<b>Project Description</b>	<b>Estimated Cost</b>
<b><u>Cemetery</u></b>	\$50,000
Adjudication Expenses	48,000
Water System Evaluation	85,000
Mission Parking Lot	10,000
Street Improvements	110,000
Library Remodel	50,000
Old Town Phase II	355,000
Main & Mingus Signal	150,000
Old Town Phase III	398,400
Street Contingency	229,300
SR 260 Line Extension Design & Construction	1,650,000
Line Extensions	100,000
Land Acquisition & General Construction	392,400
Community Development Block Grants	581,810
Railroad Wash Improvements	1,190,830
Riverfront Heritage Grant	1,040,394
Water Companies Acquisition / Improvements	16,747,500
Airport Improvements	1,082,000
<b>Total Capital Projects</b>	<b>\$24,270,634</b>

**MISSION STATEMENT**

**"TO SERVE THE CITIZENS OF COTTONWOOD"**

*To provide for the needs of the citizens of Cottonwood.  
Operate in an efficient and professional manner.*

*Serve the community promoting the quality of life.  
Ensure the safety of the citizens through public safety efforts and programs.  
Respect the need of the citizens by promoting staff accessibility.  
Value the tax dollar and maintain sound fiscal policies.  
Endeavor to hire the best people and help them develop their abilities.*

**ACKNOWLEDGMENTS**

The preparation of this municipal budget document is attributed to the countless hours spent by the Finance Department. Special thanks to the finance staff for the time spent in providing the financial information needed during the budget process, and to Mr. Jesus Rodriguez, Finance Director for the compiling of this informative document. In addition, thanks to the rest of the department heads that assisted in the development of the fiscal year 2003-04 Annual Budget.

The City of Cottonwood continues to be in a fiscally sound position due to the efforts of the City Council and Staff. I appreciate this opportunity as the City Manager to continue this financial condition through the preparation of this budget document.

Sincerely,

Brian Mickelsen  
City Manager

## Table of Contents

<b>EXECUTIVE SUMMARY</b>	<b>PAGE</b>
City Profile - Demographic/Economics.....	1
Budget Philosophy/Policies .....	5
Budget Process.....	6
Budget Calendar.....	7
Process for Changing the Budget.....	8
Budget Monitoring.....	8
Fund Accounting.....	8
 <b>STRATEGIC PLANNING</b>	
City Accomplishments for Fiscal Year 2002-03 .....	11
Organizational Goals - Fiscal Year 2003-04 .....	12
Organizational Goals For The Future - Fiscal Years 2003-08.....	16
Five Year Capital Improvement Plan .....	23
Long Range Financial Projections.....	27
Revenues and Expenditures Analysis .....	33
Organizational Chart.....	37
Community Timeline .....	38
Government Finance Officers Association Budget Award .....	40
 <b>FINANCIAL RESOURCES</b>	
City Sales Tax Revenues .....	41
State-Shared Income Tax Revenues .....	42
State-Shared Sales Tax Revenues.....	43
Motor Vehicle In-Lieu Revenues.....	44
Investment Revenues .....	45
Building Permit Revenues .....	46
Fines and Forfeitures.....	47
Franchise Tax Revenues .....	48
Highway User Revenues.....	49
Local Transportation Assistant Revenues.....	50
Wastewater Service Revenues .....	51
 <b>CONSOLIDATED SUMMARY - ALL FUNDS</b>	
Revenues/Expenditures and Changes in Fund Balance - All Funds.....	53
Revenues - All Funds - Graph .....	54
Expenditures - All Funds - Graph.....	55
Budget Summary - By Fund .....	56
 <b>GENERAL FUND</b>	
Description and Fund Balance Presentation .....	57
Revenues/Expenditures and Changes in Fund Balance.....	58
Revenues/Expenditures Comparison - Graph.....	59
Revenues Summaries - Charts & Graphs.....	62
Expenditures Summaries - Charts & Graphs.....	64

## Table of Contents

<b>DEPARTMENTAL BUDGETS-GENERAL FUND</b>	<b>PAGE</b>
<b>General Government</b>	
Administration .....	67
Personnel.....	71
City Council.....	75
Water Resources .....	79
Finance.....	83
Planning and Zoning.....	87
Municipal Court.....	91
Legal .....	95
Non-Departmental.....	99
Engineering .....	103
<b>Public Safety</b>	
Building Inspection Department.....	107
Police.....	111
Animal Control .....	115
Communications .....	119
Fire .....	123
<b>Cultural and Recreation</b>	
Parks and Recreation.....	127
Construction and Parks Maintenance.....	131
Custodial Services.....	135
<b>SPECIAL REVENUE FUND</b>	
Description and Fund Balance Presentation .....	139
Consolidated Revenues/Expenditures and Changes in Fund Balance.....	140
Departmental Budgets	
HURF Revenues/Expenditures and Changes in Fund Balance .....	141
Street Department .....	145
Street Construction.....	149
Cottonwood Area Transit System.....	153
Library.....	159
Cemetery Trust Fund .....	165
Airport Authority .....	171
Other Grants.....	177
Heritage Lighting Grant.....	182
Community Development Block Grant .....	186
<b>DEBT SERVICE FUND</b>	
Description and Revenues and Reserves Presentation.....	191
Revenues/Expenditures and Changes in Fund Balance.....	192
Debt Service.....	193

## Table of Contents

<b>CAPITAL PROJECTS FUND</b>	<b>PAGE</b>
Fund Description.....	197
Consolidated Revenues/Expenditures and Changes in Fund Balance.....	198
Airport Improvements.....	199
Public Safety Building.....	203
Railroad Wash Improvements.....	207
Water System Acquisition.....	211
Heritage Grant / Riverfront Park Improvements.....	215
 <b>ENTERPRISE FUND</b>	
Description/Revenues.....	219
Revenues/Expenses & Changes in Retained Earnings.....	220
Wastewater Department.....	221
Water System Department.....	227
 <b>INTERNAL SERVICE FUND</b>	
Description/Revenues/Retained Earnings.....	233
Revenues/Expenditures and Changes in Retained Earnings.....	234
Employee Health Benefit Trust Fund.....	235
 <b>FIDUCIARY FUNDS</b>	
Descriptions/Fund Balance.....	239
Consolidated Revenue/Expenditures and Changes in Fund Balance.....	240
Volunteer Firefighter's Pension Fund.....	241
 <b>APPENDIX</b>	
<b>Bonded Indebtedness</b>	
Indebtedness Summary.....	245
Consolidated Debt Service Schedule.....	246
Sewer Revenue Bonds Information.....	247
Water Infrastructure Finance Authority (WIFA) Information.....	250
Library General Obligation Bonds Information.....	252
Municipal Facilities Revenue Bonds Information.....	255
Greater Arizona Development Authority (GADA) Information.....	257
Computation of Direct and Overlapping Debt.....	260
Computation of Legal Debt Margin.....	261
 <b>Schedules</b>	
Capital Outlay.....	263
Salary Ranges.....	267
Authorized Position Classification Plan & Three Year Comparison.....	268
Resolution Adopting the 2003-04 Budget.....	271
Schedule A.....	272
Schedule B.....	273
Schedule C.....	274
Schedule D.....	277
Schedule E.....	278

## Table of Contents

<b>Glossary of Terms</b> .....	279
<b>Glossary - Acronyms</b> .....	284
<b>City Map</b> .....	285

## EXECUTIVE SUMMARY

### City Profile

The City of Cottonwood is situated in central Arizona bordering the Verde River to its north and is the retail and services center for the scenic Verde Valley. The community was established in 1879 and incorporated in 1960, as the Town of Cottonwood.

In 1874, soldiers from nearby Camp Verde were based in an adobe structure where the City of Cottonwood currently stands. The first real settlers were ranchers utilizing the fertile grasslands along the Verde River to feed their herds. The name of the City was derived from a circle of 16 cottonwood trees located near the Verde River where these settlers began to develop the community. In 1987, the voters approved a name change from Town to City.

Cottonwood, located in Yavapai County is approximately 100 miles north of Phoenix and 50 miles south of Flagstaff, near the geographic center of the entire state of Arizona and the picturesque Verde Valley. The City is at an elevation of 3,320 feet above sea level with a total geographic area of 10.25 square miles.

The 2000 census set the City's population at 9,179, depicting a 55% increase over the 1990 census. July 1, 2002 Department of Economic Security estimates the population at 10,020. The main industries are tourism, government services, retail and education.

### **Date of Incorporation - 1960**

### **Form of Government - Council-Manager**

### **Demographics/Economics**

<u>Area - Square Miles</u>	<u>2002 Property Tax Assessed</u>	
		<u>Valuation</u>
2003 – 15.50 Square Miles	Primary	\$ 72,912,386
	Secondary	\$ 77,786,697

### Paved Streets

38 Miles

### Cottonwood Labor Force Data

	<u>2000</u>	<u>2001</u>	<u>2002</u>
Civilian Labor Force	3,371	3,516	3,719
Employed	3,249	3,382	3,552
Unemployed	122	134	167
Unemployment Rate	3.6%	3.8%	4.5%

Source: Arizona Department of Economic Security

<u>Year</u>	<u>Population (1)</u>	<u>Public School Enrollment (2)</u>	<u>Unemployment Rate (3)</u>
2003	10,020	2,642	4.5% est.
2002	9770	2,559	4.5%
2001	9,405	2,510	3.8%
2000	8,845	2,432	3.6%
1999	7,775	2,248	4.4%
1998	7,300	2,419	4.3%
1997	6,770	2,282	4.7%
1996	6,675	2,247	4.6%
1995	6,581	2,152	4.9%
1994	6,255	2,092	5.9%

Sources:

(1) AZ Dept. of Economic Security and U.S. Census

(2) School census - Cottonwood School Districts

(3) AZ Dept. of Economic Security

<u>Gross Taxable Sales</u>		<u>Building Permits</u>		
<u>Year</u>	<u>Value</u>	<u>Year</u>	<u>Number</u>	<u>Value</u>
2003	\$286,236,364	2003	418	\$23,867,359
2002	300,179,591	2002	750	34,611,071
2001	275,164,224	2001	714	37,668,159
2000	263,881,988	2000	756	34,946,008
1999	253,769,494	1999	872	44,756,816
1998	230,038,818	1998	867	53,526,444
1997	218,544,546	1997	841	26,620,134
1996	198,347,864	1996	385	14,184,656
1995	171,907,864	1995	515	13,396,024
1994	155,128,455	1994	492	10,184,639
1993	139,784,863	1993	391	7,881,615

Source: Planning, Zoning and Building Departments

<b><u>Major Employers</u></b>	<b><u># Of Employees</u></b>
Verde Valley Medical Center	580
Cottonwood/Oak Creek Schools (Cottonwood only)	152
Wal-Mart - Retail	335
Mingus Union High School	137
City of Cottonwood	119
Fry's - Retail	94
Safeway - Retail	103
Rio Verde Health Care - Medical	45
Bashas - Retail	65
Arizona Public Service	52
Phelps & Sons, Inc.	160
Griffith Enterprises - Manufacturing	57

<b><u>Education</u></b>	
Elementary Schools	1
High School	1
Exceptional Children Program	1
Community College	1
Students:	
Grades K-8	1403
Grades 9-12	1239
<b>Total Students</b>	<b>2,559</b>

Source: Cottonwood/Oak Creek and Mingus School Districts

**2002-03 Service Statistics**

<b><u>Fire Protection</u></b>		<b><u>Police Protection</u></b>	
Stations	1	Employees (Full-time)	38
Employees (Full-time)	12	Sworn	24
Fire Calls	140	Non-Sworn	14
Emergency Calls	1,209	Part I Crimes	800
Other Calls	396	Part II Crimes	3,226
Fire Inspections (various kinds)	1,038	Traffic Warnings	889
		Traffic Citations	2,238
		Communications Dispatched	16,869
 <b><u>Public Works</u></b>		 <b><u>Library</u></b>	
Engineering Reviews (ea. proj)	89	Items in Collections	71,000
Subdivisions (lots)	25	Total Items Circulated	250,269
Right of Way Permits (ea)	111	Circulation Transactions Per Day	186
Flood Plain Inquires	145		
Streets Inspected (LF)	2,300		
 <b><u>Recreation Programs</u></b>		 <b><u>Municipal Parks</u></b>	
Participation:		Developed Parks	5
Adult Sports	32,500	Developed Acres	42
Special Events	18,500	Undeveloped Acres	79
Recreational Swimming	18,500	Swimming Pools	1
Instructional Classes	18,000	Tennis Center	1
Youth Sports	9,600	Lighted Ballfields	5
 <b><u>Sewer</u></b>		 <b><u>Transit System</u></b>	
Sewer Line Inspected (LF)	8,000	Annual Ridership	36,115
Miles of Line	35	Miles Traveled	94,630
Average Daily Treatment	758,904	Cottonwood Ridership	21,205
Plant Capacity	1.5mgd	Disabled Ridership	3,675

<u>Month</u>	<u>Weather</u>		<u>Average Total Precipitation (inches)</u>
	<u>Average Temperature (F)</u>		
	<u>Daily Maximum</u>	<u>Daily Minimum</u>	
January	58.2	28.4	0.85
February	63.2	31.8	0.77
March	68.4	35.5	0.87
April	76.6	42.4	0.57
May	85.1	49.4	0.35
June	94.6	57.7	0.58
July	98.4	66.0	2.02
August	95.4	64.1	2.43
September	91.6	57.5	1.12
October	82.3	46.7	0.80
November	68.6	36.0	0.74
December	59.0	29.0	1.11
<b>Annual Average</b>	<b>78.8</b>	<b>45.4</b>	<b>12.21</b>

**Governmental Organization and Services Provided**

The Mayor is elected directly by the voters and serves a four-year term. The voters elect six City Council representatives for staggered four-year terms. The City Council appoints a City Manager who is responsible for the general administrative operations of the various departments within the city. An organizational chart is shown on page 37.

The City of Cottonwood is mandated by the State of Arizona to provide a variety of services including law enforcement and other public safety needs. Other support services include road maintenance, park services, regulation of building and zoning codes, animal control and public library. City utilities include a sewer system, cemetery and municipal airport.

**Budget Philosophy/Policies**

The City's budget philosophy includes planning based on available information, developing financial guidelines and goals, implementation of those financial and programmatic goals and review and evaluation of the achievement of those goals.

The role of the Finance Department is to facilitate the budget process and to assist the City Council and City Manager to execute the budget. A part of this execution is the desire to review issues, which challenge city government, and to allow the City to meet these challenges.

Another aspect of the budget philosophy is the development and establishment of financial and programmatic guidelines and/or policies. Those endorsed by the City Council are:

**Financial Policy** - to insure the financial stability of the city.

- Maintain a restricted General Fund Balance of 12.5% of the previous year's operating revenues.
- Continue a capital projects accumulation fund of 2.67% of the previous year's General Fund operating revenues.
- Develop five-year revenues and expenditure's projections and analyze trends.
- Ensure that operating expenditures remain within operating revenues for all funds.

**Programmatic Policy** - to provide for a consistent delivery of services to the citizens of Cottonwood.

- Shift the budget presentation from a focus on dollars to a focus on issues to prioritize funding based on services, needs, and demands for city residents, while maintaining operating expenditures and capital acquisitions within current year revenues.

### **Budget Process**

The budget process is always a cyclical process. A "beginning point" is the preparation of the base budget by each department head. These budgets are based on expenditures to date and the previous years' experience. The departments' base budgets, along with any requests for new positions, programs or services are then presented to the City Manager. City management then meets with each department head to review their base budget and requests for new services and/or programs. Once management has reviewed the departments' requests, a tentative budget is presented to the City Council by the City Manager in May.

In accordance with Arizona Revised Statutes, the City Manager submits a proposed budget for the fiscal year commencing the following July 1 to the City Council. The budget includes proposed expenditures and the means of financing them.

The City is subject to the State of Arizona's Spending Limitation Law for Towns and Cities. This law does not permit the City to spend more than budgeted revenues plus the carry-over unrestricted cash balance from the prior fiscal year. The limitation is applied to the total of the combined funds. All appropriations lapse at year-end requiring actual fund balances to be re-budgeted each fiscal year.

The City operates under the voter approved alternative expenditure limitation. The electorate authorized the City in accordance with Arizona Revised Statutes, to establish a local annual expenditure limitation each fiscal year. The City sets the annual expenditure limitation for all fund types as a whole with the adoption of the annual budget.

Public hearings on the budget are held each year in accordance with legal requirements in order to obtain comments from local taxpayers.

To ensure compliance with the state imposed expenditure limitation, a uniform expenditure report must be filed with the state each year. This report reconciles total City expenditures from the audited financial statements to total expenditures for reporting in accordance with the state's uniform expenditure reporting system (ARS Section 41-1279.07).

Expenditures may not legally exceed the expenditure limitation of all fund types as a whole per state law. For management purposes, the City adopts a budget by department for each individual fund and establishes the legal level of local budgetary control at this level. The adopted budget cannot be amended in any way without City Council approval.

The implementation process consists of city management and departments monitoring revenues and expenditures in conjunction to responding to the demands of the community. These activities lead directly to the preparation of next year's budget. Thus, some part of the budgetary process for the current year is occurring simultaneously with preparation for the next year's budget.

Prior to FY 1995-96, the City's budget process focused only on line item budgeting. City management recognized the need to improve the process and we began by directing departments to:

- Provide a summary of their department's function and mission.
- Establish performance indicators departmentally.
- Identify service accomplishments in relation to established goals for the previous year.
- Establish goals for their departments for the new fiscal year.

As in the past, all department heads were required to justify expenditures within their department consistent with the mission of their service. Each department requesting new personnel or any reclassification of existing positions will provide sufficient justification for each request. All capital acquisitions also require supporting justification.

#### **Budget Calendar for FY 2003-04**

- |  |                           |
|--|---------------------------|
| ➤ Distribute Budget Worksheets / Diskettes / Information       | February 14, 2003         |
| ➤ Distribute Goals / Performance Measures / Org Chart Forms    | February 21, 2003         |
| ➤ Budget Worksheets / Diskettes Due to Finance                 | March 07, 2003            |
| ➤ Goals / Performance Measures / Org Chart due to Finance      | March 14, 2003            |
| ➤ 1 <sup>st</sup> Round Budget Meetings (Dept Heads / Finance) | March 17 - 21, 2003       |
| ➤ Budget Meetings (Dept Heads / Finance / City Manager)        | March 31 – April 04, 2003 |
|  | April 07 – 11, 2003       |
| ➤ Present Draft Budget to City Council                         | Early May 2003            |
| ➤ Budget Work Sessions with City Council                       | May / June, 2003          |
| ➤ Adopt Tentative Budgets, set Expenditure Limitation          | July 01, 2003             |
| ➤ Adopt Final Budget   | August 05, 2003           |

### **Process For Changing the Budget**

A budget is a plan and therefore instances will arise during the fiscal year that requires changes to be made. Although some minor adjustments can be made administratively within a department's budget (less than \$500), increases or decreases to a department's total budget legally must be approved by the City Council. The budget amendment process has been developed to provide for such adjustments.

Expenditures may not legally exceed expenditure limitations of all fund types as a whole. The types of adjustments that must be handled through the budget amendment process include additional funding above the department's budget allocations, request for new positions, reclassification of existing positions, capital projects exceeding \$500, and requests for increases in revenue and expenditure authority when outside funding sources are available. Departments must first submit requests to the City Manager. The City Manager reviews the request and other background material. If he supports the request, a recommendation is made to the City Council. Requests are then placed on the council's agenda for discussion, review and action. If City Council approves a request, necessary adjustments are made to the budget.

### **Budget Monitoring**

The Finance Department will monitor, on an ongoing basis, the expenditures and revenues of all city departments. Any significant variances will be reported to the city management for action. On a monthly basis, an expenditure and revenue report with year-end projections will be distributed to the City Council and all city department heads.

### **Fund Accounting**

This budget includes all of the funds of the City of Cottonwood. The City of Cottonwood is financially responsible for the Municipal Property Corporation; therefore, this activity is included in the budget as a component unit. Component units are legally separate entities for which the primary government is financially accountable.

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped in the budget, into generic fund types and broad categories.

## **Governmental Funds**

**General Fund** - The General Fund serves as the chief operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

**Special Revenue Fund** – Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes.

**Debt Service Fund** – Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

**Capital Project Fund** – Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds).

## **Proprietary Funds**

**Enterprise Fund** - The Enterprise Fund is used to account for operations of the City’s wastewater fund. This fund is financed and operated in a manner similar to private business enterprises--where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The governing body also has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

**Internal Service Fund** - The Internal Service Fund is used to report any activity that provides goods and services to other funds, departments, or agencies of the primary government and its component units, or other governments, on a cost-reimbursement basis.

## **Fiduciary Funds**

**Pension Trust Fund** - The Pension Trust Fund is used to account for the City’s Volunteer Firefighter’s Relief and Pension Fund, a defined contribution plan for which the City holds the assets in a trustee capacity. Contributions are made by the City as well as the City’s volunteer firefighters.

**Agency Fund** - The Agency Fund is used to account for the City’s cemetery operations assets held by the City in a trustee capacity from which both principal and interest may be expended.

All Governmental Funds are accounted for using the modified accrual basis of accounting. Revenues are recognized when they become measurable and available. Taxpayers assessed income, gross receipts, and sales taxes are considered “*measurable*” when in the hands of intermediary collecting governments or agents and are recognized as revenue at that time. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred.

The Proprietary and Fiduciary Funds are accounted for using the accrual basis of accounting. This method of accounting recognizes the financial effects, on a government, of transactions and other events and circumstances that have cash consequences, for the government, in the periods in which transactions, events and circumstances occur, rather than only in the periods in which cash is received or paid by the government.

### **Budget Basis**

The budgets of general government type funds (for example, the General Fund, Special Revenue, Debt Service, and Capital Projects Funds) are prepared on a modified accrual basis. Briefly, this means that obligations of the City (for example outstanding purchase orders) are budgeted as expenses, but revenues are recognized only when they are actually received.

The Proprietary and Fiduciary Funds (Enterprise, Internal Service, Pension, and Agency Funds), on the other hand, are budgeted on a full accrual basis. Not only are expenditures recognized when a commitment is made (ie: through a purchase order) but revenues are also recognized when they are obligated to the City (for example, sewer user fees are recognized as revenue when bills are produced).

The Comprehensive Annual Financial Report (CAFR) shows the status of the City's finances on the basis of "*generally accepted accounting principles*" (GAAP). In most cases this conforms to the way the City prepares its budget. Two exceptions are the treatment of depreciation expense (these are not shown in the budget, although the full purchase price of equipment and capital improvements is, while purchases of capital improvements are depreciated in the CAFR for enterprise funds) and compensated absences (accrued but unused sick and vacation leave) are treated slightly differently in the budget and in the CAFR. Compensated absences and depreciation are not budgeted.

The Comprehensive Annual Financial Report shows fund expenditures and revenues on both a GAAP basis and budget basis for comparison purposes.

## STRATEGIC PLANNING

### City Accomplishments for Fiscal Year 2002-03

The following depicts the continued commitment of the City of Cottonwood to make the community a better place to live. Fiscal year 2002-03 goals obtained are summarized within this list of accomplishments:

#### **Physical Development**

- Successful completion of a construction project to build 34 sidewalk ramps on Main Street funded through a Community Development Block Grant.
- Completion of the Railroad Wash Drainage Project design and starting the construction of the channel project.
- The department moved into the Public Safety Building the end of July, 2002.
- Received \$123,300 Federal Fire Act Grant and purchased Breathing Air Compressor & Cascade Systems, S.C.B.A. and Fitness Equipment. Developed state of the art exercise facility.
- Successfully authored 1.1 million dollar grant for Riverfront Park Expansion Project with over \$400,000 in donations and cooperative support from various government/private & business entities.
- Completion of site work and hardscape for a new steel shade structure at Garrison Park.
- Completed the acquisition of two replacement diesel powered mini buses for the Cottonwood Area Transit System. Funding was provided through the Arizona Department of Transportation (ADOT) 5311 program and Local Transportation Assistance Fund (LTAF) monies designed for transit projects.
- Completed all runway projects with assistance of ADOT - Aeronautics Division.
- Completed the Main Street Removal of Architectural Barriers Project in December 2002.
- Start-up of reclaimed water service to Cottonwood Ranch. The subdivision typically used 30,000 gallons of reclaimed water on an average basis for the past year.
- Completed Garrison Park Ramada Relocation and Park Renovation Project.

#### **Community and Economic Development**

- Reviewed and assisted water budget for each of the valley communities and 20 population subgroups outside municipal boundaries.
- Completed Deadhorse Ranch annexation Zoning.
- Implemented new programming for Summer Concert Series at Riverfront Park.
- Provided manufactured housing for five families with funding from the Governor's Office of Housing Development.
- Completed six housing rehabilitation projects.
- Organized Farmers Market and Fall concert series.
- Developed an Inter-agency Live Fire Training Program and conducted 3 live fire training events.
- Received the Residential Fire Safety Institute 2001 Life Safety Achievement Award.
- Led the development of the Statewide Fire Mutual Aid Plan to assist the Cottonwood Fire Dept and other departments across the state in response to major incidents in our communities.
- Completion of the design and starting construction of the Old Town Main Street Streetscape Phase II project. This project is largely funded by a Federal Transportation Enhancement Grant

## **General**

- Continued to upgrade web site, and added to the outreach material available on the site.
- Completed City Employee Manual updates for Compensatory Time, & Drug Testing.
- Acquired the AMBER Alert computer system through a grant with no cost to the City
- Received the Certificate of Excellence in Financial Reporting from the Government Finance Officers Association (GFOA) for the twelfth consecutive year.
- The Year 2000 Expansion Project won a Grand Award for the best environmental engineering project in the state from the American Consulting Engineers Council of Arizona (ACEC). The created riparian zone in Del Monte Wash is what distinguished the project.
- Received the Distinguished Budget Presentation award for the Government Finance Officers Association (GFOA) for the fifth consecutive year.

## **Organizational Goals - Fiscal Year 2003-04**

The following goals have been identified and included within the budget. These goals, established during budget planning sessions with the City Council, are integrated into departmental work plans for fiscal year 2003-04.

## **Physical Development**

### **Project – Acquisition of local water companies**

This project is to complete the acquisition of three local water companies and incorporate them into one municipal water facility.

#### **Fiscal/Programmatic Impact**

Fiscally, this project will involve several funds, each with a budget of its own. The Capital Improvements Fund includes \$18,146,250 for the actual acquisition of the water companies from their current owners. Since revenue bonds will be used to finance this venture, the Debt Service Fund has \$1,359,188 allocated to cover the bond payments. There is also \$767,833 and \$1,409,067 budgeted, in the Enterprise Fund, for the cost of immediate improvements to the system, and operational costs, respectively. All these costs will be paid through user fees. Programmatically, this project will allow the City to take over control and management of the local water resources. This includes seeking new resources as well as implementing conservation measures.

### **Project - SR 260 Annexation Area Sewer/Design & Construction (reprogrammed)**

This project is to design the annexation collection system area of SR 260 as well as to build a collection system and lift station in SR 260 annexation area

#### **Fiscal/Programmatic Impact**

\$2,084,900 is in this year's Sewer budget for this project, which includes \$1,684,900 for design and construction, \$100,000 for line extensions and \$300,000 for land acquisition associated with this project. This new system will increase operations and maintenance costs for the Wastewater

Department. New customers and anticipated economic development will offset the capital, maintenance and operational costs.

**Project - Street Improvements**

This project is expected to begin this year after several years of non-funding and lack of time to complete projects. This program is for the continual repair and maintenance of streets throughout the community. This program does not do any major construction work on streets.

**Fiscal/Programmatic Impact**

Funding for this program is strictly General Fund and to the amount of \$110,000 for FY 2003-04. Council has requested that at east \$100,000 be funded annually to maintain streets, bridges and sidewalks throughout the community. The City's Street Maintenance Department will be responsible for the program.

**Project - New City Cemetery (reprogrammed)**

This project will develop Phase I of the new City cemetery. The existing cemetery is at capacity. This project is expected to accommodate the opening of the new cemetery site without all the improvements.

**Fiscal/Programmatic Impact**

Current funding of \$50,000 is budgeted in the City Council's budget for 2003-04. This project goes from the planning phase to actual development of the site. Currently, the fiscal implications are being addressed.

**Project - Old Town Improvements - TEA21 Phase II (reprogrammed)**

This is the second phase of the streetscape project on Main Street in Old Town. The project starts at Pima St. and extends northerly to the Old Jail. This project consists of sidewalk, and streetscape improvements including rock walls, lighting, and street furnishings.

**Fiscal/Programmatic Impact**

The budgeted expenditure for this project is \$355,000. This project is partially funded with a \$283,770 federal grant and will be administered by the State of Arizona, Department of Transportation. The HURF Fund will absorb the balance of the cost. This project will have an insignificant increase in annual maintenance costs, as it will be become part of the City's regular streets maintenance program. Programmatically, this project will continue to beautify the Old Town area of the City as it continues to draw more tourists.

**Project - Old Town Improvements - TEA21 Phase III**

This is the third phase of the streetscape project on Main Street in Old Town. The project also starts at Pima St., however, extends southerly and westerly to Willard Street. The project includes sidewalk, and streetscape improvements including rock walls, lighting, street furnishings, and a street island at the Balboa St. intersection.

**Fiscal/Programmatic Impact**

The budgeted expenditure for this project is \$398,000. This project, too, is partially funded with a federal grant and will be administered by the State of Arizona, Department of Transportation. The HURF Fund will absorb the balance of the cost. This project will have an insignificant

increase in annual maintenance costs, as it will become part of the City's regular streets maintenance program. Programmatically, this project will conclude to beautification of the Old Town area of the City.

**Project - Main and Mingus Traffic Signal (reprogrammed)**

This project is to design and build a traffic signal at Main St. and Mingus Ave. This is in conjunction with the Yavapai County / Cottonwood Mingus Avenue Extension Project.

**Fiscal/Programmatic Impact**

Budgeted is \$150,000 for this traffic signal. The project maintenance cost of this signal is estimated at approximately \$5,000 annually. This project along with the extension of Mingus Avenue will reduce the congestion at the SR89A and SR260 intersection.

**Project - Mingus Extension Project (reprogrammed)**

The project adds a new minor arterial street from Main Street to State Route 89-A (SR89A) at Cornville Road. This \$10,000,000 project will be managed and predominately funded by Yavapai County. The City's portion of this project is \$1,000,000 made in four payments of \$250,000. The City has already paid \$500,000 to the County. The City has obtained a federal grant of \$313,000 to help offset the third payment due this year, and a portion of the fourth payment.

**Fiscal/Programmatic Impact**

This project will take several years to come to fruition. The City is paying their \$1,000,000 in four equal annual payments. This year marks the third \$250,000 contribution from the City of Cottonwood. When finally constructed, the City's Street Maintenance Department will maintain this street as part of its normal road maintenance. Projected costs are expected to be minimal. Programmatically, this construction project will reduce the traffic flow on SR-89A and redirecting it to Mingus Avenue.

**Project - Railroad Wash Improvements (reprogrammed)**

This project will redirect the natural wash, which has been replaced by inadequate roadside ditches. These improvements have been on the drawing board for several years and are anticipated to begin construction this fiscal year.

**Fiscal/Programmatic Impact**

This project is currently underway with funding for this project coming from a combination of Yavapai County Flood Control District taxes, local hospital contribution, a GADA loan, and interest accrued from current investments. The estimated cost of this project is \$1,288,900. This year reflects \$1,190,830 as the remaining portion of this project. The City's Street Maintenance Department will maintain the wash in conjunction with normal road maintenance. Projected maintenance costs are minimal. Programmatically, the project will eliminate flooding that occurs in a large area of Mingus Avenue and Willard Street.

**Project – Riverfront Park Ballfield Expansion – Heritage Grant (reprogrammed)**

Construction of a new little league park facility including three fields with lighting, concession stand, public restrooms, 2<sup>nd</sup> floor observation deck and all new field infrastructure. The construction also

includes the building of a 4<sup>th</sup> softball field to complete the softball complex. Parking, too, will be included with sports lighting for the Skate Park and Roller Hockey facility.

**Fiscal/Programmatic Impact**

The cost to the City is \$150,000 in matching funds for this project, which was transferred over in FY 2002-03. Community involvement through donated labor and materials accounts for \$400,197, making up the 50% match required. The State Heritage Grant program will contribute an equal portion of \$550,197 to bring the total cost of the project to \$1,100,394. Ongoing maintenance is expected to be approximately \$50,000 annually due maintenance and operational costs and the addition of 1.5 FTE's for ground maintenance purposes.

**Project – Airport Improvements**

This project is to install security fencing and to acquire additional land adjacent to the airport. This project is an extension of the FY 2002-03 program that had funds left over as well as an additional grant obtained this year.

**Fiscal/Programmatic Impact**

The total budgeted cost for these projects is \$1,082,040. Federal funding is expected to total \$985,320. ADOT contributions are anticipated to be \$48,360 and \$48,360 will be transferred from the Airport Fund as the City's matching contribution.

**Community and Economic Development**

**Project - General Plan**

The General Plan shall be completed this fiscal year. It is to be adopted in December and voted on by the voters in the May 2004 election. Recommendations as prioritized by the Planning and Zoning Commission will be initiated through their annual work plan. This effort will be coordinated by the Planning and Zoning Department.

**Fiscal/Programmatic Impact**

Changes to the General Plan will be implemented by the Planning and Zoning Department. This process will not present any additional costs to the city.

**Project – Community Development Block Grant Funding**

This grant has several projects rolled into it. All of which are housing or rehabilitation related. The City has been trying to obtain such a grant for some time and it has now come to fruition.

**Fiscal/Programmatic Impact**

The total CDBG grant is \$581,810. The projects that will receive assistance with this funding are, the Senior Citizen's Center (\$193,880), Transitional Housing (\$111,500), Old Town Mission (\$29,080), housing rehabilitation (\$164,340), and CDBG manufactured housing (\$67,330). Also part of the grant is the contract administration fees of \$15,680. This funding will improve the local living conditions of some the residents as well as help organizations provide much needed services.

## **Public Safety**

### **Project – Upgrading the Police Department’s Spillman Reporting System**

This project upgrades the Spillman Reporting System and links it to the State’s Department of Public Safety’s database.

#### **Fiscal/Programmatic Impact**

Three grants totaling \$402,730 have already been awarded to initiate and complete the upgrading of the system. This amount includes hardware and software as well as all the necessary training to assure that everything goes smoothly. Programmatically, this system will allow improved communications among the various law enforcement agencies within the area and the State.

Of the \$248,504 of capital equipment programmed this fiscal year, there are a couple of items that need to be mentioned. Budgeted for fiscal year 2003-04, \$45,000 of the Fire Department equipment budget includes a Brush Truck, and a Fire Act Grant for \$42,000 will obtain a Turn Out gear washer and additional Turn Out gear.

## **Organizational Goals for the Future - Fiscal Year 2003-08**

The following long-range goals address issues facing the City in the future.

### **Physical Development**

#### **Project - Annual Chip Seal Program**

This program includes annual seal coating and/or asphalt overlaying of selected streets as determined by the City Council. These projects are funded by the General Fund and are budgeted in the City Council’s budget. There is a \$110,000 allocation programmed for this year with subsequent years being funded up to \$112,000.

#### **Fiscal/Programmatic Impact**

The City has begun funding this program again last year. It is anticipated that this program will be back to its annual \$112,000 allocation by next year. Pavement maintenance extends the service life of streets and reduces the frequency of more costly reconstruction projects.

#### **Project – 1-Ton Flatbed Truck**

This is a replacement of a 16-year-old, Street Division vehicle in FY 2004-05.

#### **Fiscal/Programmatic Impact**

The cost of this equipment is expected to be around \$30,000. The replacement of the old truck will reduce repair costs.

#### **Project – 2-Ton Dump Trucks**

This is a replacement of two 17 year old, Street Division, 6-wheel, dump trucks.

**Fiscal/Programmatic Impact**

The cost of these vehicles is expected to be \$50,000 for two consecutive years beginning FY's 2004-05 and 2005-06. The replacement of the old trucks will reduce repair costs and increase reliability.

**Project - Tractor/Mower**

The Wastewater Treatment Facility will purchase a new tractor for mowing disposal fields. This new tractor will replace the 1984 John Deere that is currently incurring higher maintenance costs.

**Fiscal/Programmatic Impact**

Approximately \$30,000 will be needed for this acquisition and is expected to come to fruition in fiscal year 2005-06. Maintenance costs on this vehicle is expected to diminish dramatically and help offset the cost of the new unit. Programmatically, down time on this vehicle will make the landscape maintenance process more efficient.

**Project – Combination Truck**

The Wastewater Division will purchase a 6-wheel, combination jetter and vacuum truck. This equipment is needed to effectively clean the sewer system. It is also the first line of offense in clearing blockages in sewer lines. This will replace an existing jetter trailer.

**Fiscal/Programmatic Impact**

This equipment will have a price tag of approximately \$120,000 and is programmed for FY 2005-06. A large powerful machine will allow staff to clean the collection system and clear blockages quickly and effectively. Currently this type of equipment is hired out of Phoenix for \$200 per hour. This would save approximately \$3,000 per year.

**Project - Land Purchase - Del Monte Wash**

This project will allow the City to purchase 50 acres of land in the Del Monte Wash area to be used to dispose of effluent. Prolonged use of the wash in this manner is expected to produce a riparian area for future recreational facilities.

**Fiscal/Programmatic Impact**

The projected cost of this project is \$1,000,000 over the course of several years beginning in FY 2003-04 and ending in FY 2007-08. The cost would be a Sewer Fund expense due to the limited use of the wash. Maintenance and operational costs are anticipated to be minimal. Programmatically, this project will allow the City to control land in the discharge/recharge zone.

**Project - Design Del Monte Trail**

This project will enable the City to design and build "Del Monte Wash Trail". This recreational trail is part of the future amenities that will come from the disposing of effluent into the Del Monte Wash area.

**Fiscal/Programmatic Impact**

Assuming partial grant funding, the City's share is anticipated to be \$35,000. The City's Street Maintenance and Parks and Recreation Departments would maintain the trail system in conjunction with their regular road and parks maintenance. Projected maintenance costs are minimal.

### **Project – Satellite Library**

This project will enable the City to design and build a satellite library to serve the outlying areas of the City. Land Acquisition is expected to take place in FY 2004-05 and construction the following year.

#### **Fiscal/Programmatic Impact**

The acquisition of land is estimated at approximately \$100,000 for a parcel of sufficient size to house the facility. The construction and furnishing of the edifice is estimated at \$1,000,000. The funding for this project will be from library reserves from the .2% sales tax. Staffing the facility will be the single largest expense. Currently, we are studying the fiscal impact of the additional library.

### **Project – Aquatic Center - Water Slide**

Aquatics Slide project will enhance recreation/leisure services to the youth of the community. This project would entail the construction of a small attachment pool designed into the current pool site plus the installation of additional concrete square footage outside for slide attachment and construction.

#### **Fiscal/Programmatic Impact**

Anticipated costs for this water slide are \$140,000 over two years, FY 2005-07. Fiscal impact would be .25 FTE to accommodate one additional lifeguard position at \$4,000 annually. Additional revenues of \$17,500 are expected by this project.

### **Project - Community Recreation Center**

Architectural design costs for a new facility in 2005-06 is estimated at \$250,000. Construction of a 48,000 square foot facility to house an indoor lap pool, wading pool, hydrotherapy pool, mechanical room, dehumidification room, gymnasium, cardiovascular/weight room, combination dance/art studios/rooms, locker rooms, office space, and rock climbing wall will cost approximately \$5,500,000. This project is mentioned in the General Plan and Parks & Recreation Five Year Planning document.

#### **Fiscal/Programmatic Impact**

Funding is anticipated to come from a special funding event plus contributions from Mingus Union High School for part of the indoor pool. Maintenance and operation costs are estimated to be \$180,000 to \$220,000 annually although it is anticipated that much of this cost could be offset through revenue fees. Programmatically, this project will provide many additional recreational opportunities to Cottonwood as well as the entire Verde Valley area.

### **Project -Civic Center Rehabilitation**

This project is for the preservation and restoration of a valuable historical building. Both internal and external renovations are needed. Such restoration would allow for the facility to be a functional “Civic Center” for meetings, social gatherings and cultural needs of residents.

#### **Fiscal/Programmatic Impact**

The rehabilitation is expected to carry a price tag of approximately \$75,000 and is scheduled for FY 2007-08. This project anticipates financing through the State Historic Preservation Office (SHPO) since the building is on the Historical Registry in the form of a grant. The General Fund would need a 50% match in funds. Maintenance and operations expenditures should go down as the building is restored.

**Project - Riverfront Park Little League Fields – Herridge Field Relocation**

This project relocates lighting from the current Herridge Field facility to Riverfront Park. This conversion or relocation of field facility from 6<sup>th</sup> street would be at a total replacement cost to the city. Included would be all transference of sports lighting and the construction of new infield facilities/infrastructure including all watering and electrical.

**Fiscal/Programmatic Impact**

Relocation expenditures for this venture are estimated at \$125,000 in FY 2006-07, with no additional reoccurring costs, as the field is currently on the Parks scheduled maintenance program. This relocation would bring yet another recreational opportunity to Riverfront Park

**Project – Elm / Viejo Park Expansion**

The City obtained land donated by the Verde Valley Property Owners Association (VVPOA) in 2001 for the expressed purpose of expansion of facilities for a public park. The facility is to be a daylight use park only with amenities of children’s play apparatus, a small Ramada, landscaping, picnic tables, and grills.

**Fiscal/Programmatic Impact**

These parks as well as other parks expansions are anticipated to cost \$203,000 over three years beginning FY 2004-05 and ending FY 2006-07. Maintenance and operational annual costs of \$6,000, for the facility, would be in the area of a part-time employee for grounds maintenance and weekly site services. Costs would also be increased in city waste services fees.

**Project - Old Town Trailhead & Parking**

This program is for the construction of a park trailhead area at the Old Town Jail Trail. Construction would include an asphalt parking lot, scenic rock terrace and boundary fence of similar construction, patio pavers for a landing area, picnic tables, benches etc.

**Fiscal/Programmatic Impact**

An estimated cost of \$50,000 is projected into FY 2006-07. The Parks Maintenance and Street Division would incur additional recurring costs for grounds and parking lot maintenance. Other trailheads are planned throughout the community for \$100,000 in FY 2007-08.

**Project – Airport Improvements**

This project is on going and is structured to support pavement preservation programs and keep airport facilities in top shape.

**Fiscal/Programmatic Impact**

This program is expected to cost \$5,331,000 over the next five years. Though these improvements will not cause any additional need for staffing, it will keep the runways and buildings in good shape. 95.5% of the funding for such projects comes from the Federal Aviation Administration and the Arizona Department of Transportation – Aviation Division. The remainder is matching funds from the Airport Fund.

## **Community and Economic Development**

### **Project - Promotional and Marketing Programs**

Continue promotional and marketing programs attracting visitors to Cottonwood through the Cottonwood/Verde Valley Chamber of Commerce. In 1986, the City enacted a two-percent bed tax to support the Chamber's efforts. This project will be coordinated through the City Manager's office.

#### **Fiscal/Programmatic Impact**

The programmatic impact of this program is to make the community more visible and attractive to visitors and travelers. This may take the form of advertising, pamphlets and more use of the city's website.

### **Project - Verde Valley Regional Economic Development**

Continue participation in the Verde Valley Regional Economic Development Committee, and the Verde Valley Transportation Planning Organization. This project will be coordinated through the City Manager's office.

#### **Fiscal/Programmatic Impact**

None

### **Project - General Plan**

The General Plan shall be completed this fiscal year. It is to be adopted in December and voted on by the voters in the March 2003 election. Recommendations as prioritized by the Planning and Zoning Commission will be initiated through their annual work plan. This effort will be coordinated by the Planning and Zoning Department.

#### **Fiscal/Programmatic Impact**

Changes to the General Plan will be implemented by the Planning and Zoning Department. This process will not present any additional costs to the City.

## **Public Safety**

### **Project – Mini / Midi Pumper**

The acquisition of this smaller response vehicle will enable the Fire Department to provide an increased level of service to our citizens in a cost effective manner.

#### **Fiscal/Programmatic Impact**

This \$150,000 piece of equipment is programmed for FY 2007-08. There is no expected increase in operational cost except for normal maintenance and repair. Programmatically, this project will help meet the increases in calls for assistance and improve service to the community.

### **Project – Fire Support & Utility Vehicles**

The acquisition of Support vehicles will enable the Fire Department to provide an increased level of safety for our firefighters while also providing increased firefighting and rescue capabilities.

**Fiscal/Programmatic Impact**

Currently, the cost of this project over the next three years is \$475,000. Support vehicles are brush trucks and the like. There is no change in any operational or maintenance costs.

**Project – Fire Engine / Pumper**

The acquisition of this engine will allow the Fire Department to more effectively and efficiently provide service to our citizens. This vehicle will replace a 16-year-old fire engine.

**Fiscal/Programmatic Impact**

The cost of the vehicle is estimated at approximately \$200,000. Currently it is scheduled for FY 2004-05. There is no expected increase in operational costs except for normal maintenance and repair. Programmatically, this project will meet Federal Safety Standards and insure a more reliable service response to our citizens.

**Project – Fire Prevention Safety House**

This project will provide a realistic training prop for Fire Prevention and Life Safety Training to the citizens of Cottonwood. Primary audience will be children, the elderly and other at risk groups.

**Fiscal/Programmatic Impact**

This Safety House is expected to cost \$35,000 in FY 2006-07. An additional \$2,000.00 in annual operating and maintenance cost would accompany this project. However, cost sharing with other area fire agencies should offset any additional cost. Through education, improvements in community fire & life safety will occur.

**Project – Land Acquisition for Satellite Fire Stations**

The need for land to situate additional fire stations is slowly becoming apparent with the rapid growth of the area. This project will address the needed satellite stations land requirements.

**Fiscal/Programmatic Impact**

Estimated cost to acquire land is \$50,000 and \$60,000 for FY 2004-05 and 2006-07, respectively. Programmatically, this will enable us to locate stations in strategic locations for maintaining and improving emergency response times

**Project - Satellite Fire Station**

The need for an additional fire station is slowly becoming apparent with the rapid growth of the area.

**Fiscal/Programmatic Impact**

This project addresses this need by FY 2005-06. Estimated costs of \$500,000 are anticipated. An increase in personnel, maintenance and operations costs is anticipated. The General Fund is expected to absorb any increase in costs due to this facility. Programmatically, this would provide additional fire suppression capabilities within the City.

**Project - Hydrant System Improvement Program**

Upgrading the current hydrant system to handle a minimum of a 6" supply is necessary for proper fire suppression. Included in this project is locating and resolving any dead end lines.

**Fiscal/Programmatic Impact**

This project is anticipated to carry a price tag of \$200,000 over the next five years. Once implemented, the system is not expected to carry any additional costs for maintenance or operations. Programmatically, the community fire insurance rates would be reduced by at least the amount invested in the project.

**Project - Replacement of Ladder Truck**

The acquisition of a 100' ladder truck will enable the Fire Department to provide an increased level of safety for our firefighters while also providing increased firefighting and rescue capabilities. This is a replacement of the 1987 ladder apparatus and is an ISO requirement at this time.

**Fiscal/Programmatic Impact**

Currently, the cost of this \$700,000 piece of equipment is programmed for FY 2007-08. There is no change in any operational or maintenance costs.

**Project – New Repeater Sites**

These new sites will replace the current equipment in order to comply with Federal Communication Commission (FCC) mandated requirements. These requirements are that all radio frequencies go to a new narrow band frequency.

**Fiscal/Programmatic Impact**

The estimated cost of completing this project is \$25,200 in FY 2006-07. This change will allow for better communications within the City's public safety departments and those others we interact with on a daily basis.

**Project - Vehicle Replacement Program**

This project provides for the systematic replacement of patrol and support vehicles. By keeping vehicles that are in top shape, the City reduces its operations and maintenance costs.

**Fiscal/Programmatic Impact**

Two patrol cars will be replaced for \$60,000 annually. Though there is no change in any maintenance or operational costs, keeping the fleet fresh helps reduce costs.

**Project – 10 Mobile Data Terminals**

This includes the installation of Mobile Data Terminals (MDTs) in 10 patrol units. This system will allow the officer to do research during routine traffic stops and keep them out in the field. Links to the Motor Vehicle Department (MVD) and criminal databases would allow officers to reduce air traffic for dispatchers.

**Fiscal/Programmatic Impact**

The programmed cost of this item is \$217,000 in FY 2005-06. It is estimated that the MDT's would reduce the time officers are at the station writing reports by 50 to 60 percent.

### Five-Year Capital Improvement Plan

A Capital Improvement Plan (CIP) is a multi-year plan that projects spending for anticipated capital projects. The City's CIP represents a five-year program totaling \$40,601,888. Since this figure is imposing and cannot realistically be funded from general revenues (pay-as-you-go financing), it will be necessary for many of the proposed improvements to be funded with other sources, such as issuance of bonds, lease purchases and grants.

It is important to note that the CIP is intended to be a plan and a process, rather than a budget. Therefore, projects may be altered in succeeding years. Projects qualifying for the City's CIP shall have a total value of \$25,000 or greater.

Each project is detailed within the organizational goals for the City. Equipment items are not detailed in the organizational goals. These purchases are considered to be self-explanatory. A summary of the projects and equipment acquisitions planned, representing a five-year period, is presented below.

#### **GENERAL FUND**

<b>Project</b>	<b>FY 2003-04</b>	<b>FY 2004-05</b>	<b>FY 2005-06</b>	<b>FY 2006-07</b>	<b>FY 2007-08</b>
Street Improvements	\$110,000	\$110,000	\$112,000	\$112,000	\$112,000
New Cemetery	50,000	50,000	50,000	50,000	50,000
Financial Acctg Software	30,000	0	0	5,000	0
Patrol Vehicles	0	60,000	60,000	60,000	60,000
Administrative Vehicle	0	0	30,000	0	0
Mobile Data Units	0	0	217,000	0	0
New Repeater Site	0	0	0	25,200	0
Evidence/Storage Buildings	13,750	45,000	30,000	0	0
Fire Support/Utility Vehicle	45,000	180,000	250,000	0	0
Ladder Truck	0	0	0	0	700,000
Mini/Midi Pumper	0	0	0	0	150,000
Staff Vehicles	0	25,000	27,500	33,000	0
Fire Engine Pumper	0	200,000	0	0	0
Air Supply Cascade System	0	0	0	25,000	0
Satellite Fire Station	0	50,000	500,000	60,000	0
Fire Prevention Safety House	0	0	0	35,000	0
Hydrant System Impvmnts	0	50,000	50,000	50,000	50,000
Purchase Park Acreage	0	0	100,000	0	0
Parks Improvements	0	75,000	73,000	55,000	0
Herridge Field Relocation	0	0	0	125,000	0
Urban Trails	0	0	0	50,000	100,000
Civic Center Rehab	0	0	0	0	75,000
Pool Expansion	12,500	0	110,000	30,000	0
Other Equipment	143,400	592,680	129,450	193,920	107,500
<b>Total General Fund CIP</b>	<b>\$404,650</b>	<b>\$1,437,680</b>	<b>\$1,738,950</b>	<b>\$909,120</b>	<b>\$1,404,500</b>

General Fund street improvements are to be paid through local funding. The pool expansion, as well as the water slide, major parks improvements, and urban trail system, will include an equal amount of State Heritage Grant Funds and General Fund revenues. Substantial major projects will require bonding mechanisms. Vehicles and equipment will be pooled with other funds to obtain necessary lease purchase financing.

**SPECIAL REVENUE FUNDS**

<b>Project</b>	<b>FY 2003-04</b>	<b>FY 2004-05</b>	<b>FY 2005-06</b>	<b>FY 2006-07</b>	<b>FY 2007-08</b>
<b>CDBG</b>					
Manufactured Housing	\$67,330	\$0	\$0	\$0	\$0
Senior Citizens Center	200,000	0	0	0	0
Transitional Housing	115,000	0	0	0	0
Housing Rehabilitation	169,480	0	0	0	0
Old Town Mission	30,000	0	0	0	0
<b>CDBG Total</b>	<b>581,810</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Library Construction</b>	<b>50,000</b>	<b>100,000</b>	<b>1,000,000</b>	<b>0</b>	<b>0</b>
<b>Transit System – Mini Vans</b>	<b>0</b>	<b>0</b>	<b>110,000</b>	<b>0</b>	<b>0</b>
<b>Street Construction</b>					
So. Willard St. Extension	0	0	1,000,000	0	0
Mingus Ave. Extension	0	187,000	0	0	0
Main and Mingus Signal	150,000	0	0	0	0
Old Town TEA21 Phase II	355,000	0	0	0	0
Old Town TEA21 Phase III	398,400	0	0	0	0
<b>Total Street Construction</b>	<b>903,400</b>	<b>187,000</b>	<b>1,000,000</b>	<b>0</b>	<b>0</b>
<b>Street Maintenance</b>					
6 Wheel Dump Trucks	0	50,000	50,000	0	0
One Ton Flat Bed Truck	0	30,000	0	0	0
<b>Total Street Maintenance</b>	<b>0</b>	<b>80,000</b>	<b>50,000</b>	<b>0</b>	<b>0</b>
Other Special Revenue Equipment	20,954	21,000	4,500	23,000	0
<b>Total Special Revenue CIP</b>	<b>\$1,556,164</b>	<b>\$388,000</b>	<b>\$2,164,500</b>	<b>\$23,000</b>	<b>\$ 0</b>

The equipment will require pooling with other funds for lease purchase financing. Transit bus replacements will be funded through the ADOT Transit Division with the City providing a 7% match from its Local Transportation Assistance Funds (LTAF). Funding for the Mingus signal and extension project would be provided by the Highway User Revenue Fund (HURF) source and General Fund transfers. The So. Willard St. Extension will also be funded through HURF with contributions from the

General Fund. The Old Town TEA21 Phase II & III Projects will also receive its funding from ADOT. The Satellite Library will solely be funded from reserves acquired through excess .2% sales tax designated for Library debt service retirement.

**CAPITAL PROJECTS FUND**

<b>Project</b>	<b>FY 2003-04</b>	<b>FY 2004-05</b>	<b>FY 2005-06</b>	<b>FY 2006-07</b>	<b>FY 2007-08</b>
Purchase VV Fairgrounds	\$0	\$0	\$0	\$0	\$2,000,000
Double wide Basketball Gym	0	0	0	900,000	0
Riverfront Park Imprvmnts	1,040,394	0	0	0	0
Community Recreation Ctr	0	0	250,000	3,000,000	2,500,000
Indoor Aquatics Center	0	0	1,500,000	0	0
Railroad Wash Improvements	1,190,830	0	0	0	0
Water Companies Acquisition	16,747,500	0	0	0	0
Airport Improvements	1,082,000	2,746,000	392,000	464,000	647,000
<b>Total Capital Projects CIP</b>	<b>\$20,060,724</b>	<b>\$2,746,000</b>	<b>\$2,142,000</b>	<b>\$4,364,000</b>	<b>\$5,147,000</b>

Funding for these projects has not yet been identified. It is anticipated the capital improvement fund reserves will fund part of these projects, while existing excess library debt service sales tax will pay for any debt service incurred.

**ENTERPRISE FUND – WASTE & WASTEWATER**

<b>Project</b>	<b>FY 2003-04</b>	<b>FY 2004-05</b>	<b>FY 2005-06</b>	<b>FY 2006-07</b>	<b>FY 2007-08</b>
Mower Tractor	\$0	\$0	\$30,000	\$0	\$0
Combination Truck	0	0	120,000	0	0
Plant Expansion – SR260	1,650,000	0	0	0	0
Land – Del Monte Wash	335,000	0	300,000	0	400,000
Line Extensions	100,000	0	0	0	0
Del Monte Wash Trail	0	0	0	35,000	0
Other Equipment	62,600	29,700	0	4,800	
<b>Total Wastewater CIP</b>	<b>\$2,147,600</b>	<b>\$29,700</b>	<b>\$450,000</b>	<b>\$39,800</b>	<b>\$400,000</b>

Equipment will be paid from local user fees or through pooling of equipment for lease purchase financing. The funding source for the land acquisition and major improvements will be through a bond issue or through reserves from the special 1% sewer debt service sales tax usable for sewer debt service extinguishment and/or sewer capital improvements.

**SUMMARY OF FUNDS**

<b>Project</b>	<b>FY 2003-04</b>	<b>FY 2004-05</b>	<b>FY 2005-06</b>	<b>FY 2006-07</b>	<b>FY 2007-08</b>
General Fund	\$404,650	\$1,437,680	\$1,738,950	\$909,120	\$1,404,500
Special Revenues Fund	1,556,164	388,000	2,164,500	23,000	0
Capital Projects Fund	20,060,724	2,746,000	2,142,000	4,364,000	5,147,000
Enterprise Fund	2,147,600	29,700	450,000	39,800	400,000
<b>Total CIP</b>	<b>\$24,169,138</b>	<b>\$4,601,380</b>	<b>\$6,495,450</b>	<b>\$5,335,920</b>	<b>\$6,951,500</b>

## Long Range Financial Projections

Long range financial planning played an integral part in the budget development. Revenue and expenditure projections were prepared for a five-year period. Each department submitted a five-year “base budget”-spending plan. The “base budget” is defined as “*the essential expenses to operate a department at its current level of service*”. This plan included projections of the base budget for each department allowing for inflationary price increases for the next five years. In addition to the projected increases in commodities and utilities, base salaries and associated benefits were projected to increase at an annual rate of four percent for the period.

Revenue projections were based on several different factors this year, including a detailed analysis of the past five years. This period was selected based on the broad experience of the economic cycles. Special attention was given to our local city sales tax and the economic situation at the Federal, State and Local levels. The City has experienced an overall average annual growth of 11.0% for the past five years, ending June 30, 2002. Fiscal year 2002-03 began to show a slowing trend as it is expected to be approximately 4% below when compared to FY 2001-02. This year’s estimated operating revenues are estimated to continue the decline by 1.3% as the economy begins to turn around. Indications are that the slowing trend has begun to turn around, yet still has a ways to go. The City, as in the past, will continue to be conservative in revenue projections.

In developing the fiscal year 2003-04 budget, total local sales tax revenues are conservatively projected to increase .5%. Local city sales tax compared to total operating revenues has increased in importance from 40% in FY 1998-99 to an estimated 45.5% in FY 2003-04. Large fluctuations in the economy can dramatically affect this revenue source.

Residential and commercial construction revenues have decreased an average of 13.9% per year, since its peak in 1998. Prior to 1991, construction represented less than 2% of our sales tax base compared to the 8% representation in recent years. Wholesale and retail trade has increased an average of 4.1% per year, for the same period. Retail sales tax collection compared to total sales tax has slowly been eroding from 69.2% in FY 1994-95 to 63.7% in FY 2002-03. Combined, these three components represent 66.3% of our sales tax base.

Retail sales tax revenues are projected to increase by 2.5% for fiscal year ending June 30, 2004. Construction sales tax receipts are projected to decrease by approximately 10.0% next year, in comparison to the five-year average of 9.5%. Retail sales tax remains the mainstay of our sales tax base. In developing long-range revenue projections, sales tax revenues are projected to increase a conservative 4.0% per year through 2008.

State shared revenues constitute 28.9% of total operating revenues or nearly \$2.3M for FY 2003-04. How quickly the economy and how the State handles its budgetary predicament will drastically affect the City’s budget in the future. These revenue sources are continually being watched for any legislative action or economic change that could affect them.

Each fund’s revenues and expenditures are presented for a five-year period. The presentation illustrates revenues in comparison to base budget projections. This format demonstrates the ability of the City to continue to fund existing services and also exhibits future trends in revenues and expenditures.

**GENERAL FUND**

<b><u>Revenues</u></b>	<b>FY 2003-04</b>	<b>FY 2004-05</b>	<b>FY 2005-06</b>	<b>FY 2006-07</b>	<b>FY 2007-08</b>
Taxes	\$3,884,970	\$4,001,519	\$4,121,565	\$4,282,816	\$4,489,518
Licenses and Permits	292,500	301,275	310,313	319,623	329,211
Intergovernmental Revenues	2,268,840	2,359,356	2,446,893	2,554,666	2,684,668
Charges for Services	628,620	649,351	668,918	689,122	707,985
Fines and Forfeitures	156,070	157,572	162,209	166,986	171,905
Use of Monies & Properties	94,100	95,864	97,663	99,499	101,371
Miscellaneous Revenues	17,200	22,380	37,874	23,383	38,907
Other Financing Sources	38,490	23,490	23,490	23,490	23,490
<b>Total Revenues</b>	<b>\$7,380,790</b>	<b>\$7,610,807</b>	<b>\$7,868,925</b>	<b>\$8,159,585</b>	<b>\$8,547,055</b>

<b><u>Expenditures</u></b>	<b>FY 2003-04</b>	<b>FY 2004-05</b>	<b>FY 2005-06</b>	<b>FY 2006-07</b>	<b>FY 2007-08</b>
Administration	\$306,910	\$328,746	\$342,363	\$356,747	\$371,950
Personnel	127,250	121,983	126,504	131,279	136,326
City Council	452,330	454,330	454,930	454,930	454,930
Water Resource Project	16,280	18,409	18,991	19,596	20,226
Finance	220,870	233,092	242,170	251,791	261,994
Planning & Zoning	348,030	361,201	379,732	399,071	418,402
Building Inspection	139,980	147,770	155,134	162,951	171,145
Police	1,920,170	2,035,570	2,134,733	2,226,647	2,321,969
Animal Control	68,820	73,275	77,676	80,506	81,820
Communications	467,430	482,543	508,836	532,712	558,132
Fire	908,760	953,651	1,001,258	1,051,783	1,105,448
Municipal Court	201,130	203,107	211,874	221,157	230,477
Legal	142,000	149,000	156,351	164,070	172,174
Engineering	217,310	231,839	243,447	255,793	268,391
Parks & Recreation	368,370	394,582	411,085	429,882	443,879
Pool	91,680	94,772	110,103	116,181	119,814
Weight room	49,450	51,832	54,849	57,509	60,174
Building Maintenance	414,600	412,398	434,236	456,897	476,046
Custodial	113,000	114,450	117,550	120,550	120,551
Non-Departmental	269,950	293,107	312,128	332,841	354,909
Transfers Out	879,950	897,848	916,368	935,532	955,362
<b>Total Expenditures</b>	<b>\$7,724,270</b>	<b>\$8,053,505</b>	<b>\$8,410,318</b>	<b>\$8,758,425</b>	<b>\$9,104,119</b>
<b>Gain/(Loss)</b>	<b>(\$343,480)</b>	<b>(\$442,698)</b>	<b>(\$541,393)</b>	<b>(\$598,840)</b>	<b>(\$557,064)</b>

**CONCLUSION**

The result of this five-year analysis demonstrates that revenues will not keep up with operating expenditures for the General Fund in the next five years. This situation is reflective of the State budgetary problems and the effects of the State Shared Revenues distributions to the Cities as well as our struggling local economy and lack of making additional revenue sources available to the organization.

Other issues that are out of the City's control are employee benefit costs. Health insurance for employees and their dependents will increase 20% for fiscal year 2003-04 and are expected to continue in a similar double-digit trend into the near future. Likewise, workman's compensation is also on the rise with a 38% increase this year, however, it is anticipated that increases for this item will slow as the City's experience modifier (E-mod) begins to drop. The above analysis reflects a conservative view of current City revenues sources and the Department Heads estimated costs to carry on current level of services into the projected period. These numbers will change drastically as staffs are made aware of the City's current and future economic situation. The City staff is committed to keeping within its budgets and still providing the best possible services to the community.

Our City, along with all other Arizona cities, are always interested to see how the State's economic plight will play out at the local level. There is also a very close watch on the local economy for signs of strengthening or weakening. Needless to say, unless additional revenue streams are approved, the City will be looking at some sort of financing mechanism for any capital equipment and projects rather than a pay-as-you-go plan.

**SPECIAL REVENUE FUND**

<u>Revenues</u>	<b>FY 2003-04</b>	<b>FY 2004-05</b>	<b>FY 2005-06</b>	<b>FY 2006-07</b>	<b>FY 2007-08</b>
Street Department	\$1,169,973	\$882,427	\$1,320,875	\$935,650	\$963,465
Transit System	347,500	270,715	281,982	293,743	304,727
Library	677,710	665,641	690,738	716,780	742,606
Airport	81,450	65,300	65,300	65,300	65,300
Grants	500,000	500,000	500,000	500,000	500,000
CDBG	581,810	0	0	0	0
<b>Total Revenues</b>	<b>\$3,358,443</b>	<b>\$2,384,083</b>	<b>\$2,858,895</b>	<b>\$2,511,473</b>	<b>\$2,576,098</b>

<u>Expenditures</u>	<b>FY 2003-04</b>	<b>FY 2004-05</b>	<b>FY 2005-06</b>	<b>FY 2006-07</b>	<b>FY 2007-08</b>
Street Department	\$1,017,903	\$915,172	\$1,278,559	\$774,204	\$793,386
Transit System	334,140	351,127	363,675	378,879	392,190
Library	677,710	665,641	690,738	716,780	742,606
Airport	97,850	63,056	63,011	62,965	62,918
Grants	500,000	500,000	500,000	500,000	500,000
CDBG	581,810	0	0	0	0
<b>Total Expenditures</b>	<b>\$3,209,413</b>	<b>\$2,494,996</b>	<b>\$2,895,983</b>	<b>\$2,432,828</b>	<b>\$2,491,100</b>
<b>Gain/(Loss)</b>	<b>\$149,030</b>	<b>(\$110,913)</b>	<b>(\$37,088)</b>	<b>\$78,645</b>	<b>\$84,998</b>

**CONCLUSION**

**Street Department**

Revenues fluctuate over the years, as ISTEPA project comes to fruition and the funds are drawn. Fund balances are traditionally built up for a number of years then consumed by a project or combination of projects. Intergovernmental revenue, primarily Highway User Revenue Funds (HURF) was positively influenced by a good 2000 census.

### Transit System

Revenues are primarily from Arizona Department of Transportation (ADOT) – Transit Division grants that reimburse 50% of operational costs and 80% of administrative costs to run the program. Additional funds come from intergovernmental agreements with the Town of Clarkdale, Yavapai County, Northern Arizona Council of Governments (NACOG), Department of Economic Security (DES), and some local area assisted living facilities. Any expenditure over revenues is absorbed by HURF funding not used by the Street Department.

### Other Departments

The remaining departmental expenditures are tied to the actual revenues received. Expenditures will not exceed projected revenue sources.

### DEBT SERVICE FUND

<u>Revenues</u>	<b>FY 2003-04</b>	<b>FY 2004-05</b>	<b>FY 2005-06</b>	<b>FY 2006-07</b>	<b>FY 2007-08</b>
Taxes	\$2,880,218	\$3,088,984	\$3,181,748	\$3,651,527	\$3,651,527
Interest Income	256,916	267,813	289,348	299,275	299,277
User Fees	1,359,188	0	0	0	0
Transfers In	364,660	360,430	370,650	364,925	364,925
<b>Total Revenues</b>	<b>\$4,860,982</b>	<b>\$3,717,227</b>	<b>\$3,841,746</b>	<b>\$4,315,727</b>	<b>\$4,315,729</b>

<u>Expenditures</u>	<b>FY 2003-04</b>	<b>FY 2004-05</b>	<b>FY 2005-06</b>	<b>FY 2006-07</b>	<b>FY 2007-08</b>
Trustee Fees	\$16,000	\$14,500	\$13,000	\$10,000	\$10,000
Interest Payments	1,585,251	574,073	474,168	421,268	421,268
Principal Payments	2,342,500	1,980,000	2,075,000	2,130,000	2,130,000
Transfers Out	2,138,850	0	0	0	0
<b>Total Expenditures</b>	<b>\$6,082,601</b>	<b>\$2,568,573</b>	<b>\$2,562,168</b>	<b>\$2,561,268</b>	<b>\$2,561,268</b>
<b>Gain/(Loss)</b>	<b>(\$1,221,619)</b>	<b>\$1,148,654</b>	<b>\$1,279,578</b>	<b>\$1,754,459</b>	<b>\$1,754,461</b>

### CONCLUSION

A special one percent city sales tax, enacted in 1987 funds the debt service of the Sewer Project of 1987. The coverage ratio of income to debt payment is estimated at 1.7 in FY 2003-04, a small increase from FY 2002-03 due to the stabilization of the debt service payments. This ratio is expected to continue to rise over the next five years. The \$730,200 loss in FY 2002-03 is due to a transfer out from the Debt Service Fund to the Enterprise Fund for the Siler property acquisition, Ramada relocation and other capital projects.

The special two-tenths of a percent city sales tax enacted in 1992, funds the debt service of the Library Project of 1992. The coverage of income to debt payment is expected to remain stable at 3.7 in FY 2003-04. This trend is expected to continue to increase, demonstrating exceptional coverage.

Included in the schedule above is the anticipated Debt Service for the potential acquisition of three local water companies. Due to the confidential nature of the negotiations between the City and the current owners of the facilities, only FY 2003-04 is depicted in the Debt Service schedule above.

**ENTERPRISE FUND**

<u>Revenues</u>	<b>FY 2003-04</b>	<b>FY 2004-05</b>	<b>FY 2005-06</b>	<b>FY 2006-07</b>	<b>FY 2007-08</b>
Taxes	\$0	\$0	\$0	\$0	\$0
User Fees	1,269,530	1,307,786	1,347,198	1,387,801	1,429,632
Miscellaneous Income	62,650	60,115	61,161	62,240	63,351
Transfer In	2,138,850	0	0	0	0
<b>Total Revenues</b>	<b>\$3,471,030</b>	<b>\$1,367,901</b>	<b>\$1,408,359</b>	<b>\$1,450,041</b>	<b>\$1,492,983</b>
<u>Expenses</u>	<b>FY 2003-04</b>	<b>FY 2004-05</b>	<b>FY 2005-06</b>	<b>FY 2006-07</b>	<b>FY 2007-08</b>
Construction	\$2,142,400	\$0	\$0	\$0	\$0
Operations	1,054,850	1,094,258	1,132,220	1,171,575	1,210,203
Administration	199,740	220,859	228,169	235,970	243,865
<b>Total Expenses</b>	<b>\$3,396,990</b>	<b>\$1,315,117</b>	<b>\$1,360,389</b>	<b>\$1,407,545</b>	<b>\$1,454,068</b>
<b>Gain/(Loss)</b>	<b>\$74,040</b>	<b>\$52,784</b>	<b>\$47,970</b>	<b>\$42,496</b>	<b>\$38,915</b>

**CONCLUSION**

The Sewer Enterprise Fund operation has become self-sufficient and is no longer being subsidized by the special one-percent sales tax enacted in 1987. The tax will end with the final bond payment July 1, 2007. The City began “weaning” itself off the dependence of this subsidy in FY 2000-01 and now relies predominately on user fees. Other revenue sources are interest on investments, building rentals and other miscellaneous income. The Council will be presented with a proposal, keeping sewer rates at the same level as FY 2002-03.

Included in the schedule above is the anticipated operational and construction costs if the acquisition of three local water companies comes to fruition. However, due to the confidential nature of the negotiations between the City and the current owners of the facilities, only FY 2003-04 is depicted in the Enterprise Fund schedule above.

**INTERNAL SERVICE FUND**

<u>Revenues</u>	FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08
Contributions	\$92,400	\$95,172	\$98,027	\$100,968	\$103,997
Other Income	2,300	2,369	2,440	2,513	2,589
<b>Total Revenues</b>	<b>\$94,700</b>	<b>\$97,541</b>	<b>\$100,467</b>	<b>\$103,481</b>	<b>\$106,586</b>
<u>Expenditures</u>	FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08
Benefits Paid	\$68,000	\$69,700	\$71,443	\$73,229	\$75,059
Other Expenses	10,000	10,000	10,000	10,000	10,000
<b>Total Expenditures</b>	<b>\$78,000</b>	<b>\$79,700</b>	<b>\$81,443</b>	<b>\$83,229</b>	<b>\$85,059</b>
<b>Gain/(Loss)</b>	<b>\$16,700</b>	<b>\$17,841</b>	<b>\$19,024</b>	<b>\$20,252</b>	<b>\$21,527</b>

**CONCLUSION**

This fund includes our Employee Benefits Trust Fund, which used to be the City’s health insurance for employees and dependents. In FY 2001-02, the City became a member of the Verde Valley Employee Benefits Pool, which provides health, dental, and vision coverage for many of the schools and other cities in the Verde Valley. This fund continues to provide some benefits to the employees such as AFLAC’s un-reimbursed medical and is planning to provide short-term disability coverage for the City employees by the end of Fiscal Year 2003-04.

**CEMETERY TRUST FUND**

<u>Revenues</u>	FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08
Other Income	\$100	\$100	\$100	\$100	\$100
Charges for Services	4,200	4,350	4,400	4,550	4,700
Operating Transfers - GF	8,314	8,231	8,250	8,172	8,172
<b>Total Revenues</b>	<b>\$12,614</b>	<b>\$12,681</b>	<b>\$12,750</b>	<b>\$12,822</b>	<b>\$12,972</b>
<u>Expenditures</u>	FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08
Operations	\$12,614	\$12,681	\$12,750	\$12,822	\$12,972
<b>Total Expenditures</b>	<b>\$12,614</b>	<b>\$12,681</b>	<b>\$12,750</b>	<b>\$12,822</b>	<b>\$12,972</b>
<b>Gain/(Loss)</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

**CONCLUSION**

The City will continue to subsidize the operations of the cemetery from the General Fund for the next five years. Volunteers established the cemetery in the 1880’s. Burials were provided at cost over the years and perpetual care funds were never established. The City took over the operations of the cemetery in 1976. At that time, most plots were either reserved or filled. The City is responsible for the perpetual maintenance of the cemetery.

## **REVENUE AND EXPENDITURE ANALYSIS**

### **Consolidated Revenues - All Funds**

Revenue projections were based on several different factors this year, including a detailed analysis of the past five years. This period was selected based on the broad experience of the economic cycles. Special attention was given to our local city sales tax and the economic situation at the State and Federal level. The City has experienced an average annual growth of 11.0% for the past five years, ending June 30, 2002. Fiscal year 2000-01 began to show an anticipated slowing trend when it only increased 6.5% compared to FY 1999-2000. This year's estimated operating revenues are about even with last year's as State Shared Revenues are still estimated to be low, as is the local sales tax during our weak economy. Fortunately, all indications are that the trend is expected to turn around soon, until then, however, the City will continue to be conservative in revenue projections.

Though for Fiscal Year 2003-04 the increase for all funds is 177.2% over revised figures of \$15,935,090 in FY 2002-03. The cause of the sharp increase is the inclusion of the costs involving the acquisition of the three local water companies. These numbers were not included in the calculations above, however, are included in the budget.

A listing of All Funds Consolidated Revenues by Sources is on page 54. A further breakdown by source and fund may be found on page 56.

### **Consolidated Expenditures - All Funds**

Expenditure projections for Fiscal Year 2003-04 began with the preparation of a "*base budget*" for each department. The base budget is defined as "*the essential expenses to operate a department at its current level of service*". Projections were made in commodities and utilities based on an inflationary projection of 3%. Salaries and associated benefits were projected to increase at an annual rate of 4% for fiscal year 2003-04.

With the completion of the base budget, departmental budget requests were reviewed. Requests for new programs, buildings projects, position reclassifications and equipment were reviewed with each department head.

Included within the budget is the addition of 3 new full-time equivalents (FTEs), the continuation of the vehicle replacement program, numerous capital projects and capital equipment acquisition. These items are detailed on the Capital Outlay Summary on pages 263-6 and in the individual departmental budgets.

### **General Fund - Revenues**

Revenue projections for the General Fund are based on both historic years' receipts and the best future assumptions known at this time. General Fund Revenues Schedule is provided on pages 60 and 61 of this document.

## **Taxes**

Special attention was given to our local city sales tax. In developing the fiscal year 2003-04 budget, total local sales tax revenues are conservatively projected to increase .5%. Local city sales tax compared to total operating revenues has increased in importance from 40% in FY 1998-99 to an estimated 45.5% in FY 2003-04. Large fluctuations in the economy can dramatically affect this revenue source.

Residential and commercial construction revenues have increased an average of .14% per year, for the past five years. These increases are dramatically lower than the 31.9% average of the late 90's. Prior to 1991, construction represented less than 2% of our sales tax base compared to the 7.7% representation in FY 2002-03. Wholesale and retail trade has increased an average of 4.2% per year, for the same period. Retail sales tax collection compared to total sales tax has slowly been eroding from 70.1% in FY 1992-03 to 63.7% in FY 2002-03, a ten-year period. Combined, these three components represent 74.0% of our sales tax base.

Retail sales tax revenues are projected to increase by .5% for fiscal year ending June 30, 2004. Construction sales tax receipts are projected to increase by approximately .5% next year, in comparison to the five-year average of .14%. Despite the lower percent to total of the retail sales tax, it remains the mainstay of our sales tax base. In developing long-range revenue projections, sales tax revenues are projected to increase a conservative 3.0% after fiscal year 2003-04 through 2008.

State shared revenues constitute 21.1% of total operating revenues or nearly \$1.55M for FY 2003-04. How the State continues to handle its budgetary shortfalls could radically affect the City budget in the future. These revenue sources are being watched closely for any legislative action that could trickle down to cities.

Franchise revenues are a percentage of utility sales to customers. The City receives a 1% fee for water and power, 2% for gas, and a 3% fee for cable television. Franchise revenues have increased an average of 4.7% per year over the past five years. This year's budget reflects a conservative increase of 2.0% in this area.

## **Licenses and Permits**

License and permit revenues peaked in FY 1997-98 and have been declining since. It is expected to stabilize in the next year or two. For next year, license and permit revenues are projected to decline once again to about 7.0% to \$173,500.

## **Intergovernmental Revenues**

Intergovernmental revenues have a combined increased average of 11.6% per year for the past five years. Intergovernmental revenues are based on a sharing of state sales taxes, state income taxes and motor vehicle in-lieu tax on a per capita basis. Using the 2000 census and the Department of Economic Security (DES) estimates, intergovernmental revenues were adjusted to the new per capita formula. The City can expect a combined decrease of 13.3% for this year. The majority of this decrease is in the area of shared income tax with about a 15.2% decrease over last fiscal year. This revenue is distributed to the cities based on collections two years prior. The large decrease reflects the state of the Arizona economy, as well as the local economy, at that period and not necessarily current trends.

### **Charges for Services**

Charges for services have increased an average of 5.9% per year over the past five years. The largest increases traditionally were in fees for police and fire dispatching to other agencies; however, this has changed over the past two years. Fire dispatching was taken over in FY 2001-02 by Sedona Fire District nearby, thus changing the way we charge dispatch fees for Police only to our member communities. And in FY 02-03, the Yavapai Apache Tribe withdrew from the consortium. The loss of revenue associated with these two incidents was over \$37,800 or 25% of our dispatching fees. With this in mind, this source is projected to increase about less than 1% this year.

### **Fines and Forfeitures**

Fines and forfeitures have increased an average of 5.8% per year over the past five years. There was a sharp increase in 1998-99 due to a new judge being sworn in. This again spiked in FY 01-02 as an additional motorcycle officer was placed in to service late the previous year. The subsequent years tapered off with the trend expected to change with a replacement judge having been sworn in for the past judge. For the upcoming year, revenues in this area are expected to increase about 8.3%.

### **Uses of Monies and Properties**

Uses of monies and properties revenues show an all time high in FY 1999-2000 with the high returns on City investments, around 6.5+%. Things have changed drastically, with reserves being used for capital projects and earnings of slightly over 1% interest. The relatively small increase of 4.2% presented for FY 2003-04 is in the area of interest income as the City is becoming more aggressive in their efforts to move any idle monies into investment accounts to increase yields. The City plans to review its investment policies to allow greater investment flexibility to capitalize on opportunities other than strictly the State's Local Government Investment Pool (LGIP).

### **Miscellaneous**

Miscellaneous revenues have always fluctuated wildly with donations and one-time revenues that do not fit into other revenue line accounts. This category is conservatively budgeted and will surely be surpassed as we enter the new year.

## **General Fund - Expenditures**

The General Fund is used to account for resources traditionally associated with government that are not required legally to be accounted for in another fund. The general fund provides for municipal services including public safety (police, fire and building code enforcement), cultural and recreational activities, community planning and zoning, and general administrative services.

### **Expenditures**

Total General Fund expenditures are projected to increase by 10.5% this fiscal year. This translates to a \$796,490 increase over the previous fiscal year of \$7,584,660. The majority of this increase is attributed to general operating expenses, and several significant increases in personnel and benefit costs for employees. Those personnel and related costs are projected to increase by 10.6% this fiscal year.

Total personnel allocation for this fiscal year is \$4,825,790 up \$460,560 from last year's revised budget of \$4,365,230. Additional personnel staffing includes three additional Full Time Equivalents (FTEs). The Council did not, however, approve a Cost of Living Adjustment (COLA) for the new fiscal year.

The City Council approved the addition of one additional firefighter, a planner, and an assistant court clerk. The City provides paid coverage for all employees and part on dependent coverage based on a tiered system, implemented as a cost containment measure to offset rising premiums. The tiered system is based on the number of dependents being covered dictating the amount of contribution from the employee. Despite containment efforts, the City's cost for employee and dependent coverage has risen 20% from \$592,203 to \$709,856.

Personnel related increases in the budget included a 37.8% increase in our workers compensation costs as well as an increase in the city's experience modifier (e-mod) from .95 to 1.31, increasing that expense by over \$43,600. Still another personnel related significant increase was a 20% hike in employee health insurance premiums for employees and their dependents. This alone cost the City an additional \$138,350 compared to last fiscal year.

Operating supplies category has decreased from \$273,195 last year to \$264,740 this year. This 3.1% decrease is basically due to cost controls set in place due to uncertain local economy slow downs and the dependency on local and state shared sales tax revenues. Department heads took a very serious look their operating supplies and were able to stay, for the most part, within the containment requests.

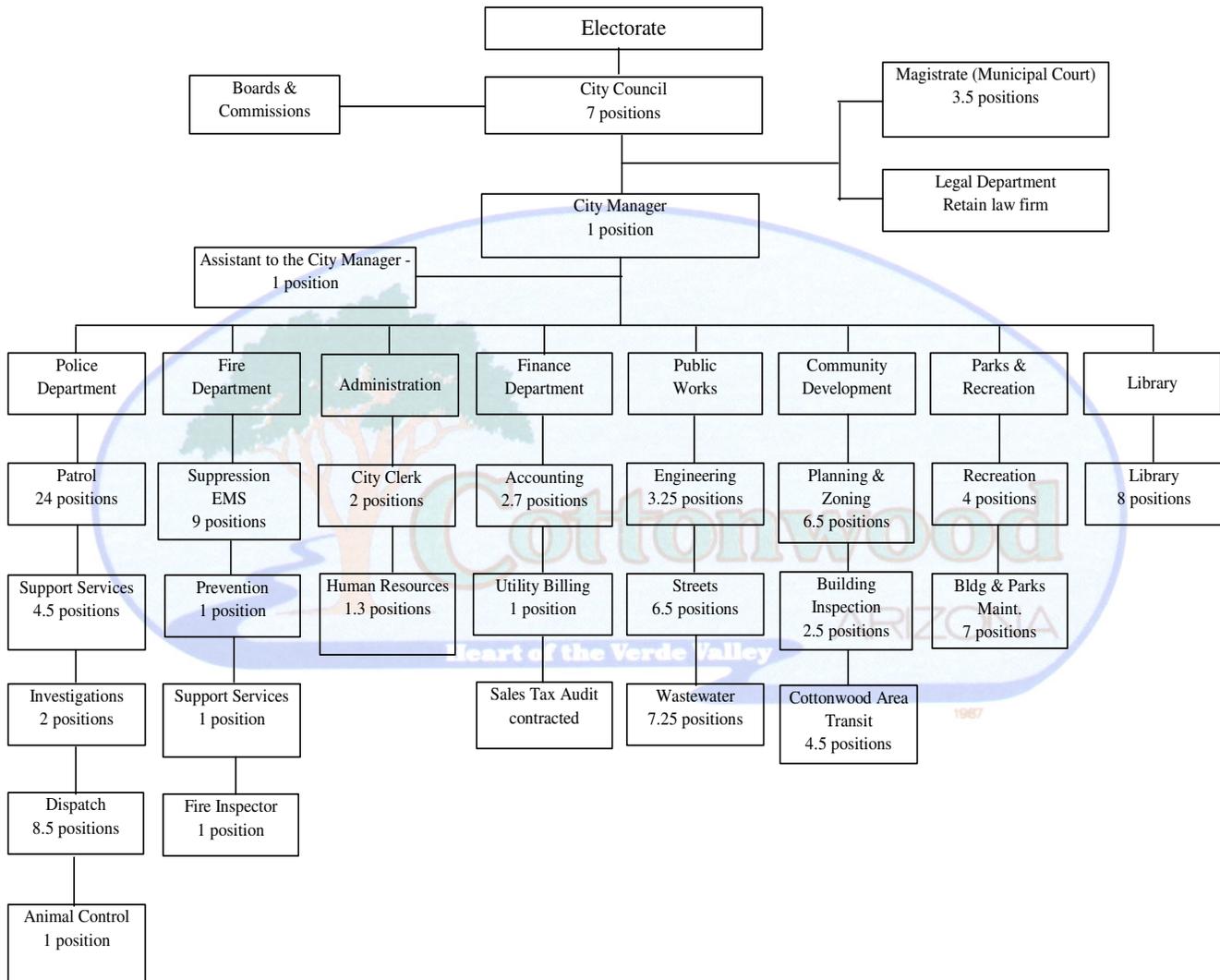
Contractual Services stayed near the same as last year with less that a 2% increase. The City did not take on any additional contracts nor does it plan to do so. The only contractual services that may be entered into are those for capital projects whose services are charges to the cost of the project and not departmental contractual services line item.

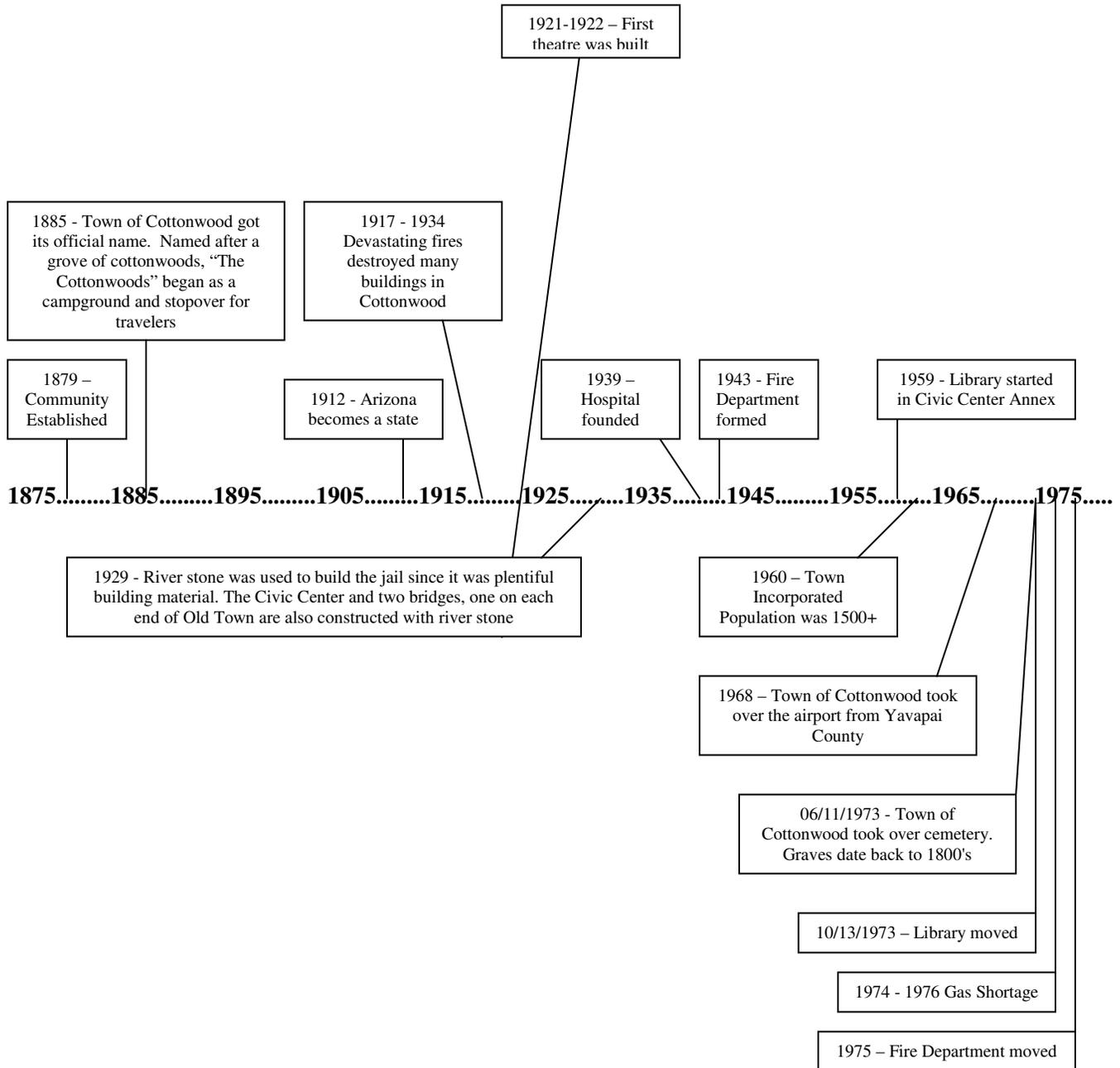
Other services and charges reflect a 3.3% increase or \$28,035. This category contains the City Council and Manager's Contingency which increased from last year's \$28,800 to \$47,500, which accounts for one of the major increases in this category. With the economy uncertainty being faced by the community, the \$47,500 was far from the traditional \$70,000 for these contingency line items.

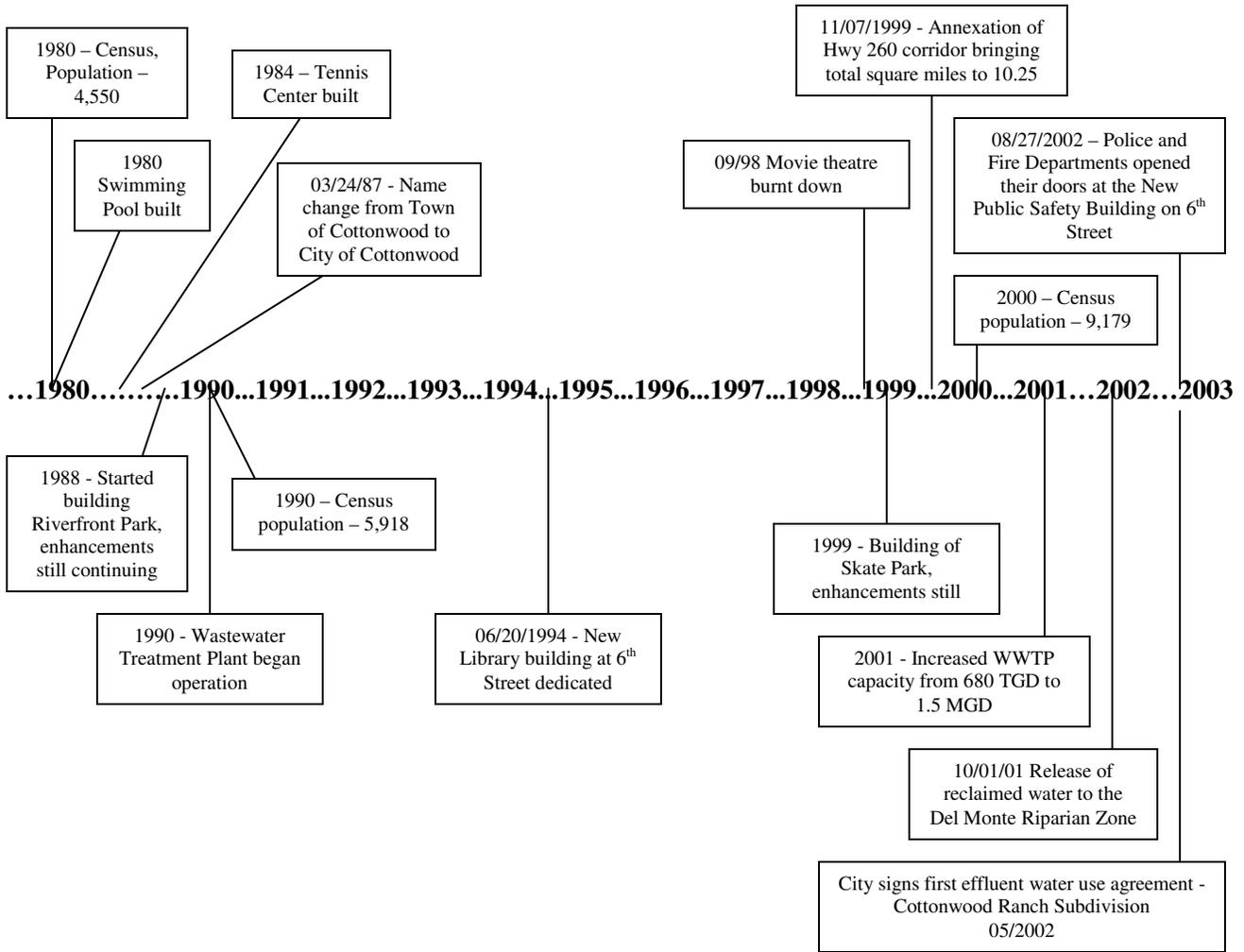
Capital Outlay has increased by \$524,310 or 152.3% over last year's revised figure of \$342,120. This large increase is due a \$421,280 grant to upgrade the Police Department's Spillman mainframe, and the City Council's concern for street improvements by budgeting \$110,000 for that endeavor. A listing of the department's capital requests can be viewed either in the individual budgets or on the Capital Outlay listing on pages 263-6 in the body of the document.

More information may be viewed in the summary pages of the individual funds and departments.

## ORGANIZATIONAL CHART









GOVERNMENT FINANCE OFFICERS ASSOCIATION

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Arizona**

For the Fiscal Year Beginning  
**July 1, 2002**

President

Executive Director

The Government Finance Officers Association of the United States and Canada (GFOA) presented a Distinguished Budget Presentation Award to the City of Cottonwood, Arizona for its annual budget for the fiscal year beginning July 1, 2001. In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, as an operational guide, as a financial plan, and as a communications device.

This award is valid for a period of one year only. We believe our current budget continues to conform to program requirements, and are submitting it to GFOA to determine its eligibility for another award.