



December 16, 2005

The Honorable Mayor and City Council

**RE: Transmittal - Fiscal Year 2005-06 Budget**

It is my pleasure to present to you the 2005-06 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 expenditures budget is \$43,708,245, excluding transfers out. This is an overall increase of \$23,011,191 from the previous fiscal year of \$27,382,015. The total commitments and fund balances is \$69,675,374. This increase is largely attributed to the reallocation of resources for continuing projects and the many new 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 fourth and last of the local water distribution facilities, Cottonwood Water Works (CWW). This project is a rollover from last fiscal year, since it did not come to fruition as originally anticipated. This year's budget also includes several additional 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 FY 2005-06. A general discussion about the funds follows; however, in-depth information is in the Key Issues section of this document. There will be an increase in the water rate structure for those customers on the CWW system when the water company is acquired due to debt service requirements and necessary upgrades and improvements to the system. In addition, there is a Transaction Privilege Tax increase of 1% proposed for all Construction Activities within the City of Cottonwood. No other tax or user fee increases are anticipated or budgeted this year.

The General Fund's operational budget is \$11,251,950. This is a \$2,814,605 increase over the previous fiscal year of \$8,437,345. This net increase includes an additional \$661,130 in additional personnel & related benefits. An in-house evaluation was performed on the entire City's salary structure with some recommendations being incorporated into the budget. Salary as well as range adjustments were made to numerous positions. Anyone not falling into the range adjustment category, was, however, provided with a 2% pay adjustment with no range change. Additional staffing includes one and a half court clerks and one court administrator, a staff attorney and administrative assistant, one communications specialist, two firefighters, a special events coordinator, one construction and maintenance worker, and a building inspector. Also included is the over-hire program for the Police and Communications Departments. Other increases in the budget included a 7.5% rise in employee health insurance premiums for employees and their dependents. This alone cost the City an additional \$122,897 compared to last fiscal year. There was also a 29.8% increase in retirement contributions from 5.7% to 7.4%.

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 267-69.

The total budget for the Special Revenue Funds is \$3,729,605. This fund's expenditures increased by \$487,815 over last year's funding of \$3,241,790. This increase is primarily due to the "rollover" of some major projects that began or were programmed to begin in fiscal year 2004-05 and need to be completed or will be initiating for 2005-06. Such things as the final payment to Yavapai County for the Mingus Street extension (\$135,000), and \$500,000 allocated to grants, as well as continuation of our CDBG programs are such rollover projects. The Highway User Revenue Fund (HURF) reflects a breakeven for this fiscal year. Approximately \$772,805 in transfers in to the Special Revenue will be utilized as the City strives to complete these projects.

The Debt Service Fund is budgeted for \$2,527,005. Last year's budget was \$2,424,075. The increase of \$102,930 is designated for capital equipment for the wastewater collection system's backup program. Also included in the budget is reimbursement for the construction of the Rodeo Drive.

The City budgeted \$15,934,560 in the Capital Projects Fund this year to fund five major projects. The largest of these projects is the acquisition of fourth and final water company and its upgrade. This acquisition and upgrade is anticipated to cost \$14,213,030. Other projects include Library expansion for \$1,247,360, the Riverfront Park - Heritage Grant Improvement Project for \$154,300, the Railroad Wash Flood Control Improvement Project for about \$80,000, and Airport Improvements for \$239,870.

The Enterprise Fund budget has increased from last fiscal year's \$3,390,845 to \$11,393,280 for fiscal year 2005-06. The \$8,002,435 increase is attributed to a full year of maintenance and operations expenses totaling \$1,607,620 for the recently created Water Utility, as well as for the planned improvements to the system of \$6,387,870 and \$1,613,700 for the anticipated debt service on the revenue bonds issued to make the acquisition.

The Internal Service Fund and Fiduciary Fund aggregate total is down by \$15,300. The decrease in the Internal Services Fund is due to less services being provided by the City's Employee Benefits Trust. The Fiduciary Fund had an unusual year where it reimbursed back many of it firefighter's contribution. It expected to stabilize this year.

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 \$1,392,160 as it makes \$1,143,455 in transfers to various other funds. The HURF remains unchanged only through a transfer in from the General Fund of \$208,750 to assist in the completion of several major projects. Debt service is expected to transfer an estimated \$315,425 to the Sewer Enterprise for back up systems to the various lift stations throughout the City. 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 and the expansion of the Public Library. Finally the Fiduciary 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. Continued difficult economic conditions and rising costs of insurance, including health, workers compensation, and general liability continue to tighten its grip 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 approximately 4 percent for the period.

Revenue projections were based on several different factors, 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 4.9% for the past five years, ending June 30, 2005. Fiscal year 2004-05 showed a great recovery with a 7.3% increase over 03-04 which started a recovery after the first real loss (2002-03) in over ten years for the local sales tax. For fiscal year 2005-06, a more aggressive than usual 10% increase is anticipated for city sales tax over FY 2004-05. All indications from both our tracking as well as conversations with other area revenue analysts seem to concur that the economy is taking flight in our area. We are also opening a Home Depot in the City that will be a great addition to our retail base.







Residential and commercial construction valuations are 6.3% lower than FY 03-04 which in itself was 96.6% higher than FY 02-03. Prior to 1991, the construction category represented less than 2.0% of our sales tax base compared to the 8+% representation in recent years. Wholesale and retail trade has increased an average of 7.5% per year, for the same period. Retail sales tax collection compared to total sales tax has slowly been eroding from 68.1% in FY 1995-96 to 63.4% in FY 2003-04. Combined, these three components represent 73.5% of our sales tax base.

Retail sales tax revenues are projected to increase by 10.0% for fiscal year ending June 30, 2006. Construction sales tax receipts are projected to remain stable, in comparison to the five-year average of 1.0% increase.

## **KEY ISSUES - FISCAL YEAR 2005-06**

### **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 7.5% and retirement contributions are also on the rise. These are just a couple of examples of the rising costs being faced by the City. These costs, 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 an increase in State Shared Income Tax of \$16,620 from last year's \$844,040. Unfortunately, it is \$115,380 behind three years ago. State Shared Sales Tax is budgeted at a 10.4% increase over FY 2004-05. State Sales Tax is anticipated to generate \$899,140 in 05-06.
  
-  **Public Safety Staffing & Compensation** – With the growth of our community, is the need for service to the growth areas. Law enforcement, as well as fire suppression is being strained, yet those departments continue to provide the necessary coverage wherever they are needed. Budgetary constraints and competition among the various agencies throughout the valley area for qualified applicants continue to be at the top of the list of issues in resolving this dilemma. This budget includes a substantial upgrade to Police Officer's salaries and adds two Firefighters to come on-board at the second quarter of the fiscal year.
  
-  **Water Issues** - It continues to be evident over the past several years, the need for the City to continue its active role 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 includes \$23,710,000 in bond proceeds to be used in the acquisition of the last of four local water companies. \$14,213,030 is in the Capital Projects Fund for the acquisition, including any associated costs involved. \$1,634,140 is in the Debt service as a restricted reserve required by the bond covenants. And lastly, \$7,862,830 is in the Water System Construction budget for future improvements and upgrade to the existing systems.
  
-  **Cemetery** – Known to all, the City Cemetery has been full for some time. The City Council identified the need to establish a new public cemetery. \$60,000 has been budgeted to proceed with some preliminary work 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 has been completed for some time 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 in this budget.

### **City Staffing**

This budget continues the employee merit program. This year, however, salary range adjustments were made to improve the internal equity and external competitiveness of our pay plan. Some position's that did not see a range change still received a minimum of a 2% salary adjustment. This year also saw 29 requests for staffing; unfortunately, a decision was made to add only 11.5 FTEs.

Building Inspector	\$33,275
Library Clerk	25,055
Communications Specialist	31,915
Firefighters (2)	75,760
Construction and Maintenance Worker	17,020
Special Events Coordinator	19,485
1.5 Court Clerks	43,905
Court Administrator	40,800
City Attorney	69,840
Administrative Coordinator	34,940
Total of employees (including training, benefits and accruals)	<u>\$391,995</u>

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

Rising medical and prescription costs continue to force the cost on health insurance to record levels. Unfortunately, employees will absorb a 15% increase in their dependent coverage as will the City. The Verde Valley Employee Benefits Pool (VVEBP), the City's health insurance provider, has been actively looking and making changes to everything from providers to the plan document in order to bring the best and most affordable coverage to its members.

Below is a summary of some of the future changes to the total costs on health insurance for employees and their dependents. The VVEBP has been successful in slowing double digit increases for health coverage. For families in overall good health, employees can choose the High Deductible Health Plan (HDHP) and save on their dependent coverage and the City will contribute \$31 a month to their Health Savings Account. For moderately healthy families, an employee may choose the Core Plan. This is essentially what the City has carried for the past two years. And for families with some health issues, there is the Core Plus Plan with its lower out of pockets and deductibles, however, it comes with a cost, higher premiums.

Beginning January 1, 2006 the Pool is rolling out yet more options for employees and their dependents to choose from. More information will follow as we move closer to making the transitions.

**Employee Health Care Rates Summary January 2005 to December 2005**

Category	Core Plan		Core Plus Plan		HDHP	
	Employer	Employee	Employer	Employee	Employer	Employee
Employee	389		389	27	358	
Employee + Family	389	566	389	631	358	519
Dual Spouse	389	90	389	123	358	82
Retiree Only		676		722		621
Retiree + Family		1,665		1,778		1,529

Note: The dependent coverage is split between the employee and the employer. The employee pays 20% of the cost for one dependent, 30% of the cost for two dependents and 40% of the cost for three or more dependents.

Note: The High Deductible cost does not include the employer contribution to the HSA of \$31.00 per month.

**Employee Health Care Rates Summary January 2006 to December 2006**

Category	Core Plan		Core Plus Plan		HDHP	
	Employer	Employee	Employer	Employee	Employer	Employee
Employee	418		418	35	377	
Employee +Spouse	418	493	418	547	377	427
Employee + Children	418	441	418	486	377	391
Employee + Family	418	619	418	687	377	556
Retiree		732		792		660
Retiree +Spouse		1,594		1,687		1,407
Retired +Children		1,504		1,581		1,344
Retiree + Family		1,815		1,934		1,633

Note: The High Deductible cost does not include the employer contribution to the HSA of \$41.00 per month.

**Special Revenue Funds**

The Street Department has slimmed down a bit from last year with only a few projects for this fiscal year. The Mingus Street Extension, which has been completed in conjunction with Yavapai County, straddled the HURF with a \$1,000,000 responsibility of the total cost of the construction. This year is Cottonwood's final contribution of \$135,800. Another project is the design and engineering planned for the Willard Street Extension. This extension will provide another route for the community to take from the Southside of town to the Northside. The Highway User Revenue Fund (HURF) eliminated its fund balance for FY 2004-05 to complete the Old Town Streetscape project and numerous other necessary projects. In order to begin rebuilding its reserves, the City will be contributing \$208,750 in operating transfers and \$300,000 for actual street construction and improvements.

The Cottonwood Area Transit System (CATS) shows the continued expansion of the bus stop facilities started back 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 and is anticipated to add yet another diesel bus this year and increase the frequency of the routes.

The Library continues to be heavily supported by the General Fund with \$541,660 in operational transfers in. A major expansion of the Library facility is allocated for this year, and is included in the Capital Improvements Fund. All related information is in that section of the document, pages 145.

The Cemetery reflects .3 FTE to more accurately reflect the amount of time the Maintenance employees spend on that job. The General Fund continues to support the Cemetery operations with a transfer in of \$22,395.

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 is not anticipated that the General Fund will not need to transfer any funds to this department this fiscal year. There are some transfers out, however, to the General Fund (\$23,490) for reimbursement for T-Hangar construction and the Airport Improvements Fund (\$11,780) to assist in providing matching funds for Airport Improvement Grants.

This will be the fifth 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 \$816,070. This year's projects are as listed below:

<b>Description</b>	<b>Amount of Funding</b>
Self Help Housing Program	\$320,000
Senior Citizen's Center	170,000
Housing Rehabilitation	9,420
Housing Rehabilitation–HOME Grant	273,180
Contract – Administration	43,470
<b>Total CDBG Funding</b>	<b>\$816,070</b>

**Debt Service Funds**

This year Debt Service Funds remain stable with only a slight decrease of \$22,610 in principal and interest. The necessary debt service for the acquisition of the remaining local water company is budgeted in the Enterprise Funds since it will be repaid through user fees. This fund also shows an increase in balance of \$1,476,245 due to a strong sales tax base. There is a \$315,425 transfer out to the Wastewater Division of the Enterprise Fund for major equipment needing to be purchased.

### **Capital Projects Funds**

There are four projects programmed for FY 2005-06 in the Capital Project Fund. They are the Airport Improvements, Cottonwood Waterworks Company Acquisition, the Riverfront Park Heritage Grant Project and the Library Facility Expansion.

In the Airport Improvements Fund there is an allocation of \$215,950 for some perimeter roadwork. This follows the fence work that was recently completed and is part of securing our airport against intrusion.

The Cottonwood Waterworks Company acquisition is also programmed for this year with \$14,213,030 in bond proceeds needed to acquire the company and integrate it into our current system. There are also plans in the works to upgrade in the form of more fire hydrants for fire protection, and linking of the systems to insure adequate flow throughout the entire coverage area, as well as arsenic removal which must be in place January, 2006.

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 as part of transfer in monies from the General Fund. 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).

The Library Facility Expansion is the final of the Capital Projects in the budget with an allocation of \$1,247,360 to expand the building to accommodate more resources and patrons. The funding for the construction has been transferred from the Debt Service Fund restricted specifically for this purpose.

### **Enterprise Funds**

The newly formed Utilities Department contains both the Wastewater Treatment and the Water Distribution Divisions. The Sewer Fund has completed Phase I of the State Route (SR) 260 Seer Design Project, which will extend a sewer main down SR 260, thus opening up that area for much needed commercial business. This division continues the release of effluent into Del Monte Wash to establish a riparian area along the wash.

The Water Fund has spent much of its time doing some much needed maintenance work on the recently acquired companies. Other parts of the time have been spent on formulating a plan to comply with the upcoming Federal Arsenic Mandate to take affect in January 2006. This Division is looking into the acquisition of the final water company.

The acquisition of Cottonwood Waterworks is anticipated to take place early in FY 2005-06. The source of funding for the acquisition will be revenue bonds or obligations. Repayment for the issue will be user fees.



## **BUDGET POLICIES - FISCAL YEAR 2005-06**

This budget continues the prior years' fund balance restriction policies of the City. A restricted reserve of \$856,050, 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 ninth year of this policy with \$832,040 reserved in the City Council budget for capital projects. This amount has decreased slightly by \$30,380 from last year's \$856,050, due mainly to an authorized Council contribution of \$100,000 to the Senior Center Construction headed by the County. \$343,800 is available in additional capital reserves, which come 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 2004-05. 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.

## **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 2004-05 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 13-17). 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 2004-05, 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 \$37,174,810 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 2004-05 are budgeted.

The 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 beginning on page 267 of the budget document.

<b>Equipment</b>	
<b>Function</b>	<b>Estimated Cost</b>
General Government	\$218,600
Public Safety	792,180
Culture & Recreation	25,000
Transit	70,000
Streets	8,500
Health & Sanitation	330,000
<b>Total Equipment</b>	<b>\$1,444,280</b>

<b>Capital Projects</b>	
<b>Project Description</b>	<b>Estimated Cost</b>
Cemetery	\$60,000
Court Council Chambers Remodel	30,000
Riverfront Park Fields & Rehab	260,000
Streets Replacement	443,990
Willard Street Extension	75,000
Mingus Extension	135,800
System Improvements	8,173,770
Arsenic Mitigation	4,000,000
Well Booster Station	1,540,000
Water Company Acquisition	14,213,030
CDBG Projects	816,070
Railroad Wash Improvements	80,000
Airport Improvements	215,950
Riverfront Heritage Grant	154,300
Wastewater Master Plan	150,000
SR 260 Line Extension Design	65,000
Library Expansion	1,247,360
<b>Total Capital Projects</b>	<b>\$31,660,270</b>

**"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 many 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 2005-06 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

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## 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>
2004 – 15.50 Square Miles	Primary	\$ 78,592,832
	Secondary	\$ 83,257,333

### Paved Streets

38 Miles

### Cottonwood Labor Force Data

	<u>2001</u>	<u>2002</u>	<u>2003</u>
Civilian Labor Force	3,516	3,719	4,064
Employed	3,382	3,552	3,890
Unemployed	134	167	174
Unemployment Rate	3.8%	4.5%	4.3%

Source: Arizona Department of Economic Security



<u>Year</u>	<u>Population (1)</u>	<u>Public School Enrollment (2)</u>	<u>Unemployment Rate (3)</u>
2005	10,665	3,432	3.9%
2004	10,240	2,981	3.6% est.
2003	10,020	2,642	4.3% est.
2002	9,770	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%

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>
2005		2005	767	\$43,759,186
2004	\$311,644,070	2004	485	46,687,964
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

Source: Planning, Zoning and Building Departments

<b><u>Major Employers</u></b>	<b><u># Of Employees</u></b>
Verde Valley Medical Center	800
Cottonwood/Oak Creek Schools (Cottonwood only)	306
Wal-Mart - Retail	440
Mingus Union High School	136
City of Cottonwood	145
Fry's - Retail	137
Food City - Retail	85
Arizona Public Service	51
Phelps & Sons, Inc.	200
Home Depot	120

<b><u>Education</u></b>	
Elementary Schools	2
High School	1
Exceptional Children Program	1
Community College	1
Students:	
Grades K-8	2213
Grades 9-12	1219
<b>Total Students</b>	<b><u>3,432</u></b>

Source: Cottonwood/Oak Creek and Mingus School Districts

**2004-05 Service Statistics**

<b><u>Fire Protection</u></b>		<b><u>Police Protection</u></b>	
Stations	1	Employees (Full-time)	44
Employees (Full-time)	14	Sworn	28
Fire & Haz Mat Calls	161	Non-Sworn	16
Rescue & Medical Calls	1,533	Part I Crimes	892
Public Assist Calls	191	Part II Crimes	3,951
Fire Inspections (various kinds)	1001	Traffic Warnings	603
Plan Reviews & Permits	409	Traffic Citations	2,931
		Communications Dispatched	16,869
 <b><u>Public Works</u></b>		 <b><u>Library</u></b>	
Engineering Reviews (ea. proj)	182	Items in Collections	83,334
Subdivisions (lots)	163	Total Items Circulated	281,845
Right of Way Permits (ea)	100	Circulation Transactions Per Day	939
Flood Plain Inquires	225		
Streets Inspected (LF)	3,830		
 <b><u>Recreation Programs</u></b>		 <b><u>Municipal Parks</u></b>	
Participation:		Developed Parks	5
Adult Sports	33,000	Developed Acres	42
Special Events	19,000	Undeveloped Acres	79
Recreational Swimming	18,500	Swimming Pools	1
Instructional Classes	19,000	Tennis Center	1
Youth Sports	10,000	Lighted Ballfields	5
 <b><u>Sewer</u></b>		 <b><u>Transit System</u></b>	
Sewer Line Inspected (LF)	8,000	Annual Ridership	36,745
Miles of Line	35	Miles Traveled	105,046
Average Daily Treatment	909,589	Cottonwood Ridership	21,215
Plant Capacity	1.5mgd	Disabled Ridership	3,700

**Weather**

<b><u>Month</u></b>	<b><u>Average Temperature (F)</u></b>		<b><u>Average Total</u></b>
	<b><u>Daily</u></b> <b><u>Maximum</u></b>	<b><u>Daily</u></b> <b><u>Minimum</u></b>	<b><u>Precipitation</u></b> <b><u>(inches)</u></b>
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 36.

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 water distribution system, 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 §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 2005-06**

 Distribute Budget Worksheets / Diskettes / Information	February 16, 2005
 Distribute Goals / Performance Measures / Org Chart Forms	February 21, 2005
 Budget Worksheets / Diskettes Due to Finance	February 28, 2005
 Goals / Performance Measures / Org Chart due to Finance	March 07, 2005
 1 <sup>st</sup> Round Budget Meetings (Dept Heads / Finance)	March 21-28, 2005
 Budget Meetings (Dept Heads / Finance / City Manager)	May 16-20, 2005
 Present Draft Budget to City Council	Late May 2005
 Budget Work Sessions with City Council	Early June 2005
 Adopt Tentative Budgets, set Expenditure Limitation	July 05, 2005
 Adopt Final Budget	August 02, 2005

### **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, requests 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

1. 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

2. 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.

### **DEBT SERVICE POLICY**










The goal of the City of Cottonwood's debt management policy is to maintain the City's ability to incur debt at the most favorable interest rates in the amounts needed for financing capital projects and equipment, while keeping adverse affects to the City's ability to finance essential City services to a minimum.

The City may issue bonds for general improvement purposes or for specific programs within the statutory limitations on the amount of bonds sold as a percentage of secondary assessed valuation. Twenty percent (20%) of secondary assessed valuation represents the amount of bonding that can be used for water, sewer, lights, parks, open space and recreational facilities. An additional six percent (6%) of secondary assessed valuation can be used for all other "general municipal uses".





General obligation bonds are secured by the ad valorem taxing of the City. Within the percentage of assessed valuation limitation above, the City may issue bonds for general improvement purposes or for specific projects. For statutory purposes, the City's outstanding bonds are not considered general obligation bonds subject to the statutory limits listed above because the City's bonds outstanding at June 30, 2005 were secured by sales taxes instead of property taxes.

<b>Computation of Legal Debt Margin June 30, 2005</b>	
Net secondary assessed valuation (Full Cash Value)	\$99,189,189
<b>Calculation of 20% Debt Limitation</b>	
20% of secondary net assessed valuation	\$19,837,838
Bonds outstanding	0
Net 20% Debt Limitation	\$19,837,838
<b>Calculation of 6% Debt Limitation</b>	
6% of secondary net assessed valuation	\$5,951,351
Bonds outstanding	0
Net 20% Debt Limitation	\$5,951,351
<b>Total Bonding Capacity</b>	<b>\$25,789,189</b>

**Policy Statement**

-  A five year Capital Improvements Plan will be developed and updated annually along with corresponding funding sources.
-  Financing of Capital projects will not exceed the useful life of the project.
-  Debt Service Schedules will be prepared and included in the Annual Budget as well as the Five Year Capital Improvement Plan with annual updates.
-  Debt Service payment will be scheduled in equal installments over the life of the bonds.
-  Efforts will be made to maintain and improve the City’s bond rating.
-  Timely submittal to the Nationally Recognized Municipal Securities Information Repository (NRMSIR).
-  Pay-as-you-go financing will be an essential part of the City’s Capital Improvement Plan
-  Efforts will be made to maintain and improve the City’s bond rating.
-  The City will carefully monitor compliance with all bond covenants.

**Debt Performance**

-  The City will limit long-term debt to only those capital improvements that cannot be financed through current revenues or designated capital reserves.
-  Terms of repayment for any debt will not exceed the estimated useful life of the asset acquired.
-  Debt will not be issued for recurring expenditures normally considered maintenance and operational expenditures
-  Minimize debt service impact to taxpayers by:
  - Creating sinking funds when possible to provide for expansion or replacement of capital equipment.
  - Seek grant funding opportunities and lower interest debt options such as Water Infrastructure Finance Authority (WIFA) or Greater Arizona Development Authority (GADA), or the State Revolving Loan Funds to lower the size of the debt obligation.
  - Working closely with the City’s financial advisors to structure debt in such a way that the debt load is explicitly related to the operating budget yet not impair operational needs.
  - Maintaining a good working relationship with City Financial Advisors, bond rating agencies, and insurance carriers, and providing full disclosure on all financial reports.

The following is a list of the City’s current bond obligations along with their respective funding source.

Total Outstanding Debt by Type of Bond As of June 30, 2005				
Project	Term	Principal	Interest	Funding Source
Sewer Expansion	07/2007	\$1,095,000	\$89,450	1% Sales Tax
WIFA–Sewer Expansion	07/2007	2,000,000	109,800	1% Sales Tax
GO Bonds-Library Expansion	07/2013	990,000	261,465	.2% Sales Tax
MPC-Streets & Sewer Improvements	07/2007	565,000	42,750	State Shared Revenues
GADA-Railroad Wash Improvements	07/2013	625,000	169,042	.2% Sales Tax
GADA-Public Safety Building	07/2013	1,790,000	366,720	.2% Sales Tax
MPC-Water System Acquisition	07/2029	13,580,000	9,067,213	Use Fees
Total Debt Service		\$20,645,000	\$10,106,440	

## STRATEGIC PLANNING

### Long Range Financial Projections

#### GENERAL FUND

<u>Revenues</u>	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10
Taxes	\$4,654,300	\$4,814,608	\$6,968,207	\$7,177,253	\$7,392,571
Licenses and Permits	393,000	404,790	416,934	429,442	442,325
Intergovernmental Revenues	2,949,260	2,669,811	2,778,529	2,892,448	3,011,839
Charges for Services	958,240	979,900	1,004,374	1,029,507	1,055,321
Fines and Forfeitures	208,000	216,210	222,606	229,194	235,980
Use of Monies & Properties	100,900	102,800	119,738	106,715	123,731
Miscellaneous Revenues	42,600	44,750	45,832	46,946	48,093
Other Financing Sources	553,490	23,490	23,490	23,490	23,490
<b>Total Revenues</b>	<b>\$9,859,790</b>	<b>\$9,256,359</b>	<b>\$11,579,710</b>	<b>\$11,934,995</b>	<b>\$12,333,350</b>

<u>Expenditures</u>	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10
Administration	\$364,090	\$391,661	\$408,054	\$430,315	\$450,209
Personnel	167,910	180,502	188,611	197,358	206,273
City Council	1,885,260	1,698,373	1,729,557	1,762,101	113,850
Water Resource Project	17,035	17,849	18,707	19,613	20,570
Finance	252,990	267,388	282,903	299,653	317,772
Planning & Zoning	385,290	406,107	428,235	452,226	477,669
Building Inspection	186,520	197,549	208,981	221,295	235,369
Police	2,458,920	2,591,996	2,735,126	2,889,385	3,055,992
Animal Control	87,755	92,817	98,267	104,147	110,502
Communications	480,840	507,751	536,745	568,296	602,157
Fire	1,222,950	1,308,838	1,406,558	1,518,715	1,648,599
Municipal Court	301,320	324,005	342,028	362,974	381,825
Legal	214,700	215,947	225,282	235,144	245,579
Engineering	231,280	243,740	257,100	271,486	286,998
Parks & Recreation	406,660	427,945	450,596	474,730	567,111
Pool	89,800	93,997	98,398	103,013	107,853
Weight room	51,030	53,741	56,646	59,764	124,986
Building Maintenance	477,290	505,259	535,433	571,417	590,689
Custodial	131,100	137,655	144,538	151,765	161,951
Non-Departmental	396,040	424,230	454,668	487,551	523,093
Transfers Out	1,143,455	1,201,288	1,266,817	1,336,867	1,371,701
<b>Total Expenditures</b>	<b>\$10,952,235</b>	<b>\$11,288,638</b>	<b>\$11,873,250</b>	<b>\$12,517,815</b>	<b>\$11,600,748</b>
<b>Gain/(Loss)</b>	<b>(\$1,092,445)</b>	<b>(\$2,032,279)</b>	<b>(\$293,540)</b>	<b>(\$582,820)</b>	<b>\$732,602</b>

## CONCLUSION

The result of this five-year analysis demonstrates that revenues will have difficulty keeping up with operating expenditures for the General Fund in the next five years. This situation is reflective of the City's inability to increase substantially the current revenue streams via rate increases or through diversifying the current revenues through additional fees or charges for services.

Other issues that are out of the City's control are employee benefit costs. Health insurance for employees and their dependents will increase 7.5% for fiscal year 2005-06. Likewise, workman's compensation is also on the rise with well over a 7% increase this year, however, it is anticipated that increases for this item will slow as the City's experience modifier (E-mod) begins to decline as some substantially high claims begin to drop off in the next couple of years. Rising fuel prices also play a very large factor in the City's future. These rising costs affect our fleets, our utilities, and our ability to do our jobs efficiently. 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.

## SPECIAL REVENUE FUND

<u>Revenues</u>	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10
Street Department	\$1,126,635	\$1,182,967	\$1,242,115	\$1,304,221	\$1,431,249
Transit System	467,360	490,728	515,264	541,028	568,079
Library	689,100	720,370	758,837	800,057	844,309
Airport	72,950	65,300	65,300	65,300	65,300
Grants	500,000	500,000	500,000	500,000	500,000
CDBG	545,240	-	-	-	-
<b>Total Revenues</b>	<b>\$3,401,285</b>	<b>\$2,959,365</b>	<b>\$3,081,516</b>	<b>\$3,210,606</b>	<b>\$3,408,937</b>
<u>Expenditures</u>	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10
Street Department	\$1,118,130	\$874,042	\$807,354	\$768,092	\$811,943
Transit System	377,735	400,260	424,646	451,100	479,855
Library	689,100	720,370	758,837	800,057	844,309
Airport	144,285	138,936	144,659	150,668	156,978
Grants	500,000	500,000	500,000	500,000	500,000
CDBG	545,240	-	-	-	-
<b>Total Expenditures</b>	<b>\$3,374,490</b>	<b>\$2,633,608</b>	<b>\$2,635,496</b>	<b>\$2,669,917</b>	<b>\$2,793,085</b>
<b>Gain/(Loss)</b>	<b>\$26,795</b>	<b>\$325,757</b>	<b>\$446,020</b>	<b>\$540,689</b>	<b>\$615,852</b>

## CONCLUSION

### Street Department

Revenues will fluctuate over the years as the City strives to assist the Street Department with some of its costs. The City of Cottonwood also is planning to transfer monies over to the HURF to accomplish many of its future goals.

### 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>	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10
Taxes	\$3,846,325	\$3,617,248	\$3,617,248	\$3,617,248	\$3,617,248
Interest Income	101,700	223,800	223,801	223,802	223,803
User Fees	0	0	0	0	0
Transfers In	\$370,650	370,650	364,925	364,925	364,925
<b>Total Revenues</b>	<b>\$4,318,675</b>	<b>\$4,211,698</b>	<b>\$4,205,974</b>	<b>\$4,205,975</b>	<b>\$4,205,976</b>

<u>Expenditures</u>	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10
Trustee Fees	\$18,500	\$18,500	\$18,500	\$18,500	\$18,500
Interest Payments	1,643,430	2,201,517	2,207,679	2,214,118	2,220,848
Principal Payments	1,356,000	767,638	767,638	767,638	767,638
Transfers Out	315,425	315,425	315,425	315,425	315,425
<b>Total Expenditures</b>	<b>\$3,333,355</b>	<b>\$3,303,080</b>	<b>\$3,309,242</b>	<b>\$3,315,681</b>	<b>\$3,322,411</b>
<b>Gain/(Loss)</b>	<b>\$985,320</b>	<b>\$908,618</b>	<b>\$896,732</b>	<b>\$890,294</b>	<b>\$883,565</b>

### CONCLUSION

A special one percent (1%) 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 to rise to 2.2x in FY 2005-06 compared to 2.0x in FY 2004-05. This small increase is due to the stabilization of the debt service payments and continued strong growth in the sales tax base. This ratio is expected to continue to rise until 2007 when the debt will be extinguished and that tax sunsets.

The special two-tenths of a percent (.2 %) 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 increase from 4.4x in FY 2004-05 to 4.8x in FY 2005-06. This trend is expected to continue to increase, demonstrating exceptional coverage.

Included in the schedule above is the anticipated Debt Service for the acquisition of the local water companies. Three of the four were acquired October 2004 with the remaining company expected to be acquired within this fiscal year.

**ENTERPRISE FUND**

<u>Revenues</u>	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10
Taxes	-	-	-	-	-
User Fees	1,809,932	1,864,110	1,919,910	1,977,381	2,036,573
Miscellaneous Income	4,820,830	5,057,242	5,305,453	5,566,053	5,839,662
Transfer In	1,634,140	1,715,847	1,801,639	1,891,721	1,986,307
<b>Total Revenues</b>	<b>\$8,264,902</b>	<b>\$8,637,199</b>	<b>\$9,027,002</b>	<b>\$9,435,155</b>	<b>\$9,862,542</b>

<u>Expenses</u>	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10
Construction	\$370,000	\$370,500	\$370,500	\$370,500	\$370,500
Operations	2,300,977	2,265,835	2,388,347	2,518,971	2,658,062
Administration	434,646	455,180	476,331	498,689	522,347
<b>Total Expenses</b>	<b>\$3,105,623</b>	<b>\$3,091,515</b>	<b>\$3,235,178</b>	<b>\$3,388,160</b>	<b>\$3,550,909</b>
<b>Gain/(Loss)</b>	<b>\$5,159,279</b>	<b>\$5,545,684</b>	<b>\$5,791,824</b>	<b>\$6,046,995</b>	<b>\$6,311,633</b>

**CONCLUSION**

The Enterprise Funds, which includes the Water and Wastewater Divisions are both self-sufficient and depend on their user fees to fund their operations. The Wastewater Division is no longer being subsidized by the special one-percent sales tax enacted in 1987, or the General Fund. 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.

The Water Division also relies on only its user fees to fund all of its operations, including capital projects and debt service. Original Bond distributions assist the fledgling company to handle its first interest payment on the bonds and sets up a capital improvement fund to initiate some system improvements. Other revenue sources for both divisions are interest on investments, building rentals, sale of effluent, and miscellaneous income. The Council will be presented with a proposal, keeping sewer rates at the same level as FY 2004-05.

Included in the schedule above is the anticipated operational and construction costs if the acquisition of last of four local water companies comes to fruition. The large net income amounts are to be set aside for future system improvements and expansion of the current system.

**INTERNAL SERVICE FUND**

<u>Revenues</u>	<b>FY 2005-06</b>	<b>FY 2006-07</b>	<b>FY 2007-08</b>	<b>FY 2008-09</b>	<b>FY 2009-10</b>
Contributions	-	-	-	-	-
Other Income	2,500	2,500	2,500	2,500	2,500
<b>Total Revenues</b>	<b>\$2,500</b>	<b>\$2,500</b>	<b>\$2,500</b>	<b>\$2,500</b>	<b>\$2,500</b>
<u>Expenditures</u>	<b>FY 2005-06</b>	<b>FY 2006-07</b>	<b>FY 2007-08</b>	<b>FY 2008-09</b>	<b>FY 2009-10</b>
Benefits Paid	\$2,500	\$2,500	\$2,500	\$2,500	\$2,500
Other Expenses	0	0	0	0	0
<b>Total Expenditures</b>	<b>\$2,500</b>	<b>\$2,500</b>	<b>\$2,500</b>	<b>\$2,500</b>	<b>\$2,500</b>
<b>Gain/(Loss)</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</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 cities in the Verde Valley. This fund now funds the City's short-term disability coverage for the City employees.

**CEMETERY TRUST FUND**

<u>Revenues</u>	<b>FY 2005-06</b>	<b>FY 2006-07</b>	<b>FY 2007-08</b>	<b>FY 2008-09</b>	<b>FY 2009-10</b>
Other Income	\$25	\$20	\$20	\$20	\$20
Charges for Services	6,000	6,300	6,615	7,293	5,105
Operating Transfers - GF	\$22,395	\$23,734	\$25,176	\$26,738	\$28,432
<b>Total Revenues</b>	<b>\$28,420</b>	<b>\$30,054</b>	<b>\$31,811</b>	<b>\$34,051</b>	<b>\$33,557</b>
<u>Expenditures</u>	<b>FY 2005-06</b>	<b>FY 2006-07</b>	<b>FY 2007-08</b>	<b>FY 2008-09</b>	<b>FY 2009-10</b>
Operations	\$28,420	\$30,054	\$31,811	\$33,704	\$35,745
<b>Total Expenditures</b>	<b>\$28,420</b>	<b>\$30,054</b>	<b>\$31,811</b>	<b>\$33,704</b>	<b>\$35,745</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 and economic factors provided by the State. 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 4.9% for the past five years, ending June 30, 2005. Fiscal year 2004-05 showed a great recovery with an 7.3% increase over 03-04 which started a recovery after the first real loss (2002-03) in over ten years for the local sales tax. All indications from both our tracking as well as conversations with other area revenue analysts seem to concur that the economy is taking flight in our area. We are also opening a Home Depot in the City that will be a great addition to our retail base.

For Fiscal Year 2005-06 the increase for all funds is 23.1% over revised figures of \$18,240,380 in FY 2004-05. The cause of the sharp increase is the inclusion of the user fee associated with the new Utilities Department. These numbers are exclusive of Other Funding Sources. 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 2005-06 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 8-9% due to anticipated increases being proposed by the various local utilities and rising cost of fuel. Salaries and associated benefits were projected to increase at an annual rate of over 4%, excluding any personnel requests and salary adjustments. This increase is predominately due to increases in health insurance costs of 7.5% and increased contributions to the Arizona State Retirement System.

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 11.5 new full-time equivalents (FTEs), the adoption of an in-house salary compensation study, and a 2% salary adjustment for any employee that did not fall with the salary compensation study recommendation. The budget also includes 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 267-71 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 2005-06 budget, total local sales tax revenues are aggressively projected to increase 10.0%. Local city sales tax compared to total operating revenues has increased in importance from 40% in FY 1998-99 to an estimated 47.9% in FY 2005-06. Large fluctuations in the economy can dramatically affect this revenue source.

Residential and commercial construction valuations are 6.3% lower than FY 03-04 which in itself was 96.6% higher than FY 02-03. Prior to 1991, the construction category represented less than 2.0% of our sales tax base compared to the 8+% representation in recent years. Wholesale and retail trade has increased an average of 7.5% per year, for the same period. Retail sales tax collection compared to total sales tax has slowly been eroding from 68.1% in FY 1995-96 to 63.4% in FY 2003-04. Combined, these three components represent 73.5% of our sales tax base.

Retail sales tax revenues are projected to increase by 10.0% for fiscal year ending June 30, 2006. Construction sales tax receipts are projected to remain stable, in comparison to the five-year average of 1.0% increase. 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 5.4% after fiscal year 2005-06 through 2006-07. In FY 2007-08 there will be a 60% spike after the restrictions are lifted on the 1% sales tax currently reserved for Sewer Debt Service. After which, it settles in at about 3% through FY 2009-10.

State shared revenues constitute 27.93% of total operating revenues or about \$2.5M for FY 2005-06. State finances as well as state legislation can have a dramatic affect on the City's budget. 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, which will be eliminated due to the City acquiring the companies. It also collects 1% from power, 2% for gas, and a 3% fee for cable television. Franchise revenues have increased an average of 7.7% per year over the past five years. This year's budget reflects a conservative decrease of 2.7% in this area.

### Licenses and Permits

License and permit revenues which had peaked in FY 1997-98 and had been declining since has seen a resurgence in the past two years culminating in an estimated \$520,000 for FY 2004-05. It is expected to stay in the upper 300 to mid \$400K for the next two years as more commercial establishments and several residential developments get under way. For next year, license and permit revenues are projected to decrease by about 31.6% to \$355,000.

### **Intergovernmental Revenues**

Intergovernmental revenues have a combined increased average of 4.4% 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 increase of 19.9% for this year. The State Shared Income Tax is distributed to the cities based on collections two years prior. The large increase (13.8%) 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 13.9% per year over the past five years. The largest increase was for a \$300,000 water system evaluation reimbursement at the acquisition of the water companies. Another contributor to this sharp increase is the sewer inspection fees. This revenue source is projected to decrease by about 18.9% this year.

### **Fines and Forfeitures**

Fines and forfeitures have increased an average of 6.3% 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 into 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 5.3%.

### **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 changed drastically since then with reserves being used for capital projects and earnings of slightly under 2% interest. The relatively conservative increase of 4.4% is presented for FY 2005-06 is in the area of interest income as the City is anticipating a rise in interest rates and better yields on its investments. The City recently adopted an investment policy 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 to increase by .7% on a five-year average of 27%.

## **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 35.2% this fiscal year. This translates to a \$2,630,530 increase over the previous fiscal year of \$7,477,965. The majority of this increase is attributed to the City Council authorizing some major capital expenditures to be budgeted using the City’s Capital Accumulation Fund. This along with the approval of the Salary Compensation Study and rising employee benefits make up the largest part of the increase.

Total personnel allocation for this fiscal year is \$6,110,115 up \$1,309,760 from last year’s revised budget of \$4,800,355. Additional personnel staffing includes 11.5 additional Full Time Equivalents (FTEs) as depicted below.

Building Inspector	\$33,275
Library Clerk	25,055
Communications Specialist	31,915
Firefighters (2)	75,760
Construction and Maintenance Worker	17,020
Special Events Coordinator	19,485
1.5 Court Clerks	43,905
Court Administrator	40,800
City Attorney	69,840
Administrative Coordinator	34,940
Total of employees (including training, benefits and accruals)	<u>\$391,995</u>

The Council also approved an in-house Salary Compensation Study as well as a Cost of Living Adjustment (COLA) any remaining employee not affected by the Salary Compensation Study.

The City provides paid Health Insurance coverage for all employees and part of 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 will rise 7.5% on January 1, 2007.

Operating supplies category has increased from \$306,490 last year to \$323,000 this year. This 5.4% increase is basically due to the continuing rise in fuel costs and every day supplies. Cost control measures set in place in previous years due to uncertain local economic slow downs and the dependency on local and state shared sales tax revenues are keeping this category from escalating even further. Department heads take a very close look at their operating supplies and most are able to stay within their overall requests.

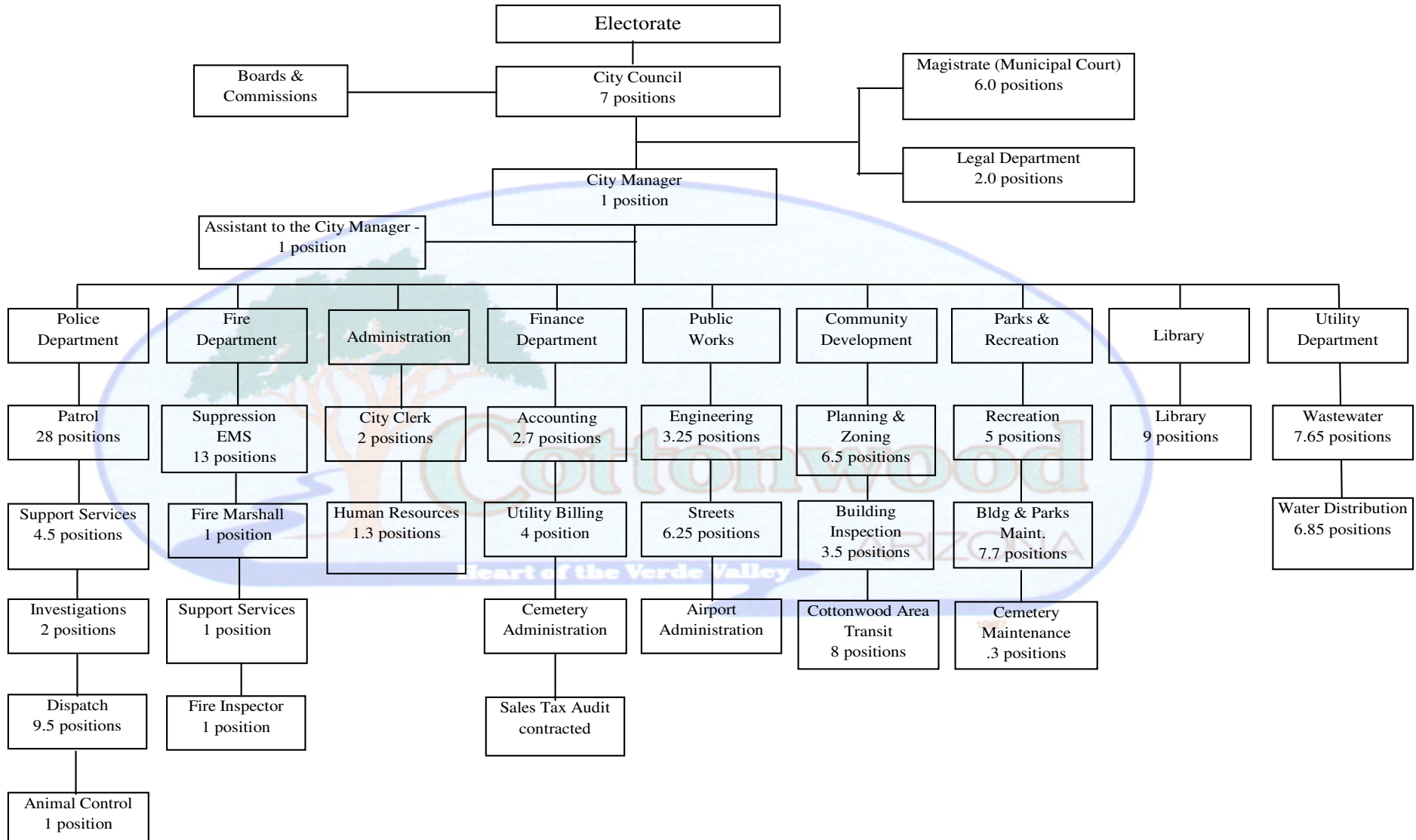
Contractual Services is anticipated to increase by 13.9%. The City major agreement causing the substantial increase is one of reimbursement of sales tax to the commercial developer which provided the infrastructure to being in the WalMart Supercenter.

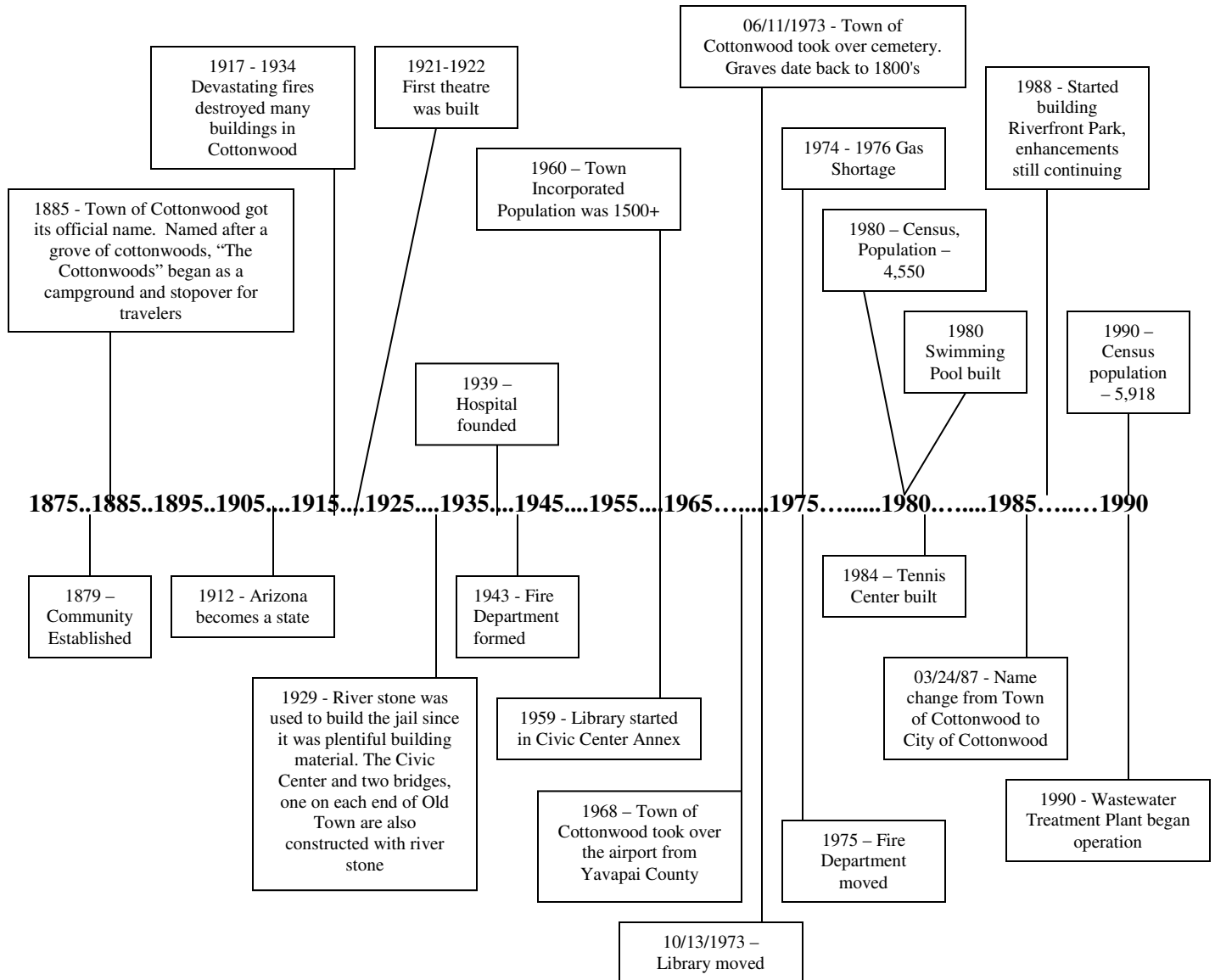
Other services and charges reflect a 17.8% increase or \$175,390. This category contains the substantial increases in grant funding for the Police \$186,320 up from \$51,900.

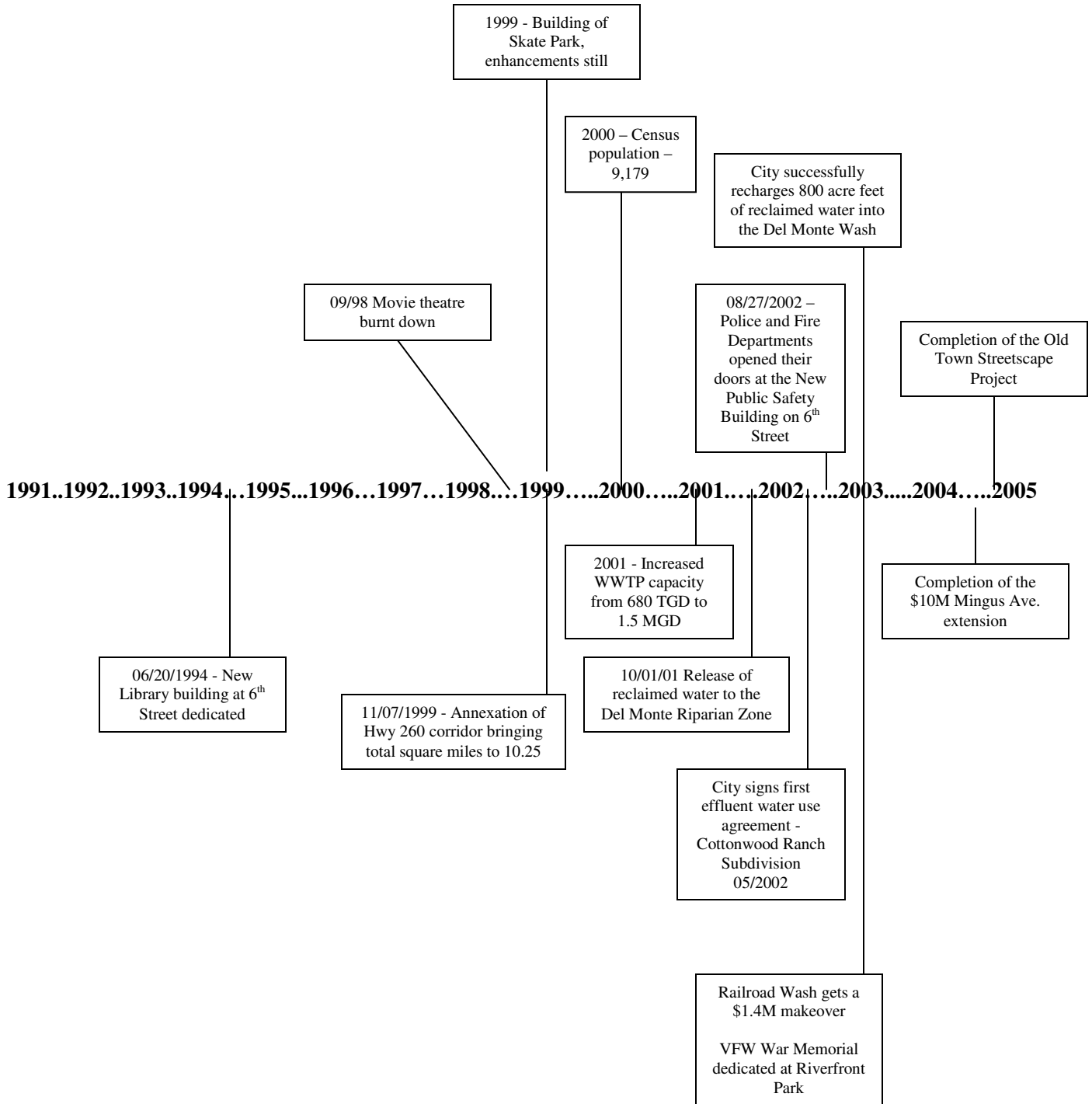
Capital Outlay Increased by 948,265 or 141.5% under last year's revised figure of \$670,315. This large increase are due to the acquisition of some needed fire apparatus and the commitment of the Council to use some capital accumulation reserves on some much need projects, such as street improvements, remodel of several old town building, and continued restoration of the Riverfront Park.

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

# ORGANIZATIONAL CHART











GOVERNMENT FINANCE OFFICERS ASSOCIATION

*Distinguished  
Budget Presentation  
Award*

PRESENTED TO

**City of Cottonwood  
Arizona**

For the Fiscal Year Beginning

**July 1, 2004**

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, 2004. 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. Due to time constraints and other circumstances, we will not be submitting this budget to GFOA for eligibility for another award. We will resubmit in the 2006-07 Fiscal Year.