



December 21, 2007

The Honorable Mayor and City Council

RE: Transmittal - Fiscal Year 2008 Budget

It is my pleasure to present to you the Fiscal Year 2008 Adopted Budget for your review. There have been several budget work sessions with department heads to review, in detail, their staffing, programs, and project planned expenditures. This year's total budgeted expenditures budget is \$55,491,585 excluding transfers out. This is an overall increase of \$32,447,170 over the previous fiscal year of \$23,044,415. This difference is largely attributed to the reallocation of resources for continuing projects and the many new large projects being proposed for the new fiscal. Also included in the large increases are fund balance amounts that are not reflected in the previous year's amounts.

The largest single expenditure increase is in the Capital Improvements Fund which includes the design and construction of the new Recreational Center, the Expansion of the Public Library, the completion of Riverfront Park, and the acquisition of land adjacent to the Public Safety Facility. 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 FY 2008. A general discussion about the funds follows; however, in-depth information is in the Key Issues section of this document. There is no tax or user fee increases anticipated or budgeted this year.

The General Fund's total budget is \$14,006,245. This is a \$1,814,045 increase over the previous fiscal year of \$12,192,200. This net increase includes \$183,875 in new programs, \$219,470 in additional personnel and reclassifications, including their related benefits, and some rollover projects. There is also a sizeable increase in the Debt Service due to the transfer of the Greater Arizona Development Authority (GADA) loans to the General Fund from which they are being paid. Inclusive in the personnel budget is a 2% Cost of Living Adjustment (COLA) and a new longevity program. The additional staffing for this year includes a Project Manager, a Budget Analyst, and Police Officer.

Other increases that are reflective in the General Fund as well as all other funds are the rising cost of fuel, a 5.5% increase in retirement contributions to 9.6%, and health care cost of approximately 5%. 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 ix.

The total budget for the Special Revenue Funds is \$5,832,885. This fund's expenditures increased by \$2,884,785 over last year's funding of \$2,948,100. This increase is primarily due to additional personnel, the new projects being programmed to begin in fiscal year 2008, and some that were not completed and needed to be rolled over into FY 2008. Some of the projects currently being planned are the construction of the Willard Street Extension, West Mingus Street Reconstruction, and the design of

the 12th Street reconstruction with the aid of a CDBG coming into play in FY 2009. C.A.T.S. has \$1,014,740 programmed, including an additional driver, maintenance and operations of the transit system, as well as equipment and infrastructure. The CDBG program does not have any programming planned for FY 2008 but will be an important part of the previously mentioned 12th Street reconstruction. The Highway User Revenue Fund (HURF) reflects an increase in its reserves as the 1% construction activities sales tax completes its second full year, and major projects have been completed. There is also \$500,000 in the Other Grants budget used to cover any sizable and unforeseen grant opportunities. Lastly, approximately \$711,350 in transfers into the Special Revenue Funds will be utilized for operational purposes as the City strives to complete these projects.

The Debt Service Fund is budgeted for \$152,995. Last year's budget was \$3,391,710. The decrease of \$3,238,715 is due to the payoffs of the Sewer Debt Service, the elimination of the transfers out to the Wastewater Treatment Facility, and reallocation of the 1% sales tax previously dedicated for this purpose to other funds. This will leave only the Library Debt Service which will continue through July 1, 2013 in this fund. Two Greater Arizona Development Authority loans have also been moved to the General Fund along with their respective funding.

The City budgeted \$23,065,605 in the Capital Projects Fund this year to fund several major projects. Some of the projects included in the budget are the Library Expansion for \$2,904,640, land acquisition for \$675,000, the relocation of Heritage Ball Field (\$125,000), construction of another cemetery for \$575,000 and rebuilding of some Old Town parking areas. The largest, however, is the new Recreational Center, with \$17,411,965 programmed this year for design work and construction over the next year.

The Enterprise Fund budget, which consists of water and wastewater, has increased from last fiscal year's \$5,825,790 to \$13,158,595 for fiscal year 2008. The \$7,332,805 increase is attributed mainly to a sewer line extension down State Route 260 in the wastewater department and mandated arsenic mitigation in the water system. As for the Water Utility, the arsenic project is so large, that the City will bring on a Construction Manager at Risk to ensure that the water system is prepared properly to handle the arsenic equipment. Another reason for the sizable increases is that this is the first full year of debt service payments on both of the Water Revenue Bonds issues in 2004 and 2006.

The Internal Service Fund and Fiduciary Fund aggregate total is up by \$21,600. There is an aggregate increase of \$200 overall. The City's Volunteer Firefighters Pension is anticipated to increase in value 27.2% to \$206,430.

Material changes are expected in the fund balances of several funds as anticipated projects get underway. General Fund increase in fund balance is anticipated at \$327,170 as it makes \$711,350 in transfers to various other funds. The HURF fiscal position is eliminated through the completion of projects. Debt service is expected to transfer its reserves to other funds for capital improvement projects. The Capital Project Fund will use its reserves to complete the expansion of the Public Library along with additional funding from a \$20M bond issue to be used to also finance the recreation center.

General Commentary

The preparation of the budget continues to pose an extraordinary challenge to all department heads this year. Cost containment measures are beginning to show value back to the City of Cottonwood with smaller increases in health insurance, workers compensation, and general liability. There are, however, issues that are out of our control such as rising fuel prices, as well as utility costs. Some external forces are placing demands on our staffing and capital equipment requirements. These issues along with the City's dedication to placing the citizens' insistence for quality services as one of its highest priorities have increased the challenge to balance this budget.

Long range financial planning has taken the forefront in this year's 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 5 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 8.9% for the past five years, estimated through the period ending June 30, 2007. Fiscal year 2007, however, has shown decline in our sales tax revenues with a 2.0% decrease over FY 2006. For fiscal year 2008, a conservative approach is being maintained in estimating city sales tax for the year. We are currently projecting a 5% growth in local sales tax.

Residential and commercial construction valuations are 5.0% higher than FY 2006 for the same period. The construction category currently represents 5.3% of our sales tax base. This category has ranged from sub 2.8% in the late 80's to nearly 11.3% in the late 90's. Wholesale and retail trade has increased an average of 10.1% per year, over the last five years. Retail sales tax collection compared to total sales tax has been around 65% of total sales tax. Combined, these three components represent 76.2% of our sales tax base.

Retail sales tax revenues are projected to increase by 5.0% for fiscal year ending June 30, 2008. This includes the construction activities sales tax currently designated to street improvements.

KEY ISSUES - FISCAL YEAR 2008

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 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.

 **Slowing Economy** – After a strong FY 2006, the 2007 year has seen some decreasing revenues streams. The most critical has been the local sales tax which has seen double digit increases go to single digit decreases. This has proved to be quite a challenge when the City is growing and in need of resources.

 **Uncontrollable Rising Costs** – Health Insurance Premiums will rise an average of 5% overall. This is a far cry from the double digit increase of years past. In its place we are being confronted

with the rising cost of fuel, and the toll it takes on several departmental budgets. These costs, to a large extent, are uncontrollable.

 **State Shared Revenues** – These revenue sources are always of concern to municipalities. The budget reflects an increase in State Shared Income Tax of \$296,990 from last year's \$1,231,350. State Shared Sales Tax is budgeted at a 1.6% increase over FY 2007. State Sales Tax is anticipated to generate \$1,082,835 in FY 07-08.

 **General Staffing & Compensation** – With the growth of our community, is the need for service to the growth areas as well as administrative support. Most 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 longevity program to provide some additional compensation for our tenured employees. It also contains a 2% Cost Of Living Adjustment (COLA) to assist employees with rising costs.

 **Public Safety Compensation**

- The Police Department has been experiencing some salary compression among the different levels in the departmental hierarchy. Some Patrol Officers are earning as much as Sergeants, and Sergeants are earning as much as Commanders. This has prompted the City to take this year to compile a plan to correct the deficiencies in that department.
- The Fire Department has a different set of issues where by firefighters are only paid for 16 hours a day, and not for their sleep time unless their sleep is disturbed. They have request that the City research the feasibility of moving to a 24 on/48 off work schedule. This work schedule is currently a standard method of work among fire departments and it too will be researched this year for possible implementation in FY 2009

 **Water Issues** – The growth of the Cottonwood and its neighboring communities continue the need for the City to maintain an active role in the water issues that are affecting the local area, as well as the Verde Valley region. Issues of water quality, availability, management, water rights, water system development, conservation, 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 City Manager's position has a major focus on water issues.

 **Wastewater Issues** – The City of Cottonwood wastewater treatment facility is gradually getting to its capacity. It is expected that with the current growth patterns, the City will be looking for a location, and beginning the design process in the next year. It is also expected that a new facility will be on-line by FY 2013.

 **Cemetery** – Some years ago the City Council identified the need to establish a new public cemetery, since the current cemetery is full. \$575,000 has been budgeted to proceed with the construction of a new public cemetery in the South clear zone of the Cottonwood Airport. The Capital Improvements Program section reflects the \$575,000 allocation.

 **Economic Development** – In fiscal year 2007 the Economic Development department hired its first full time position, an Economic Development Planner, dedicated full time to economic development. In this budget that position is proposed to be upgraded to Economic Development Director, and is proposed to come under the direct supervision of the City Manager.

The Cottonwood Chamber of Commerce has reconstructed its long standing economic development committee, the Foundation for Economic Development. The committee is now known as the Cottonwood Economic Development Council (CEDC). The CEDC has expanded its membership and is staffed by the city's Economic Development Director. The CEDC receives 15% of the bed tax paid to the Chamber from the City, or approximately \$12,600 per year.

City Staffing:

This budget continues the employee merit program and contains a 2% Cost of Living Adjustment (COLA) for all fulltime employees. This year also saw 22 requests for staffing; unfortunately, a decision was made to add only 5 and eliminate 1 part-time FTE. There were also 16 reclassification requests, of which only thirteen are planned.

Additional Positions

FTE Description	Timing		Budgeted
Project Manager	¾ year	40	\$43,354
Budget Analyst	¾ year	35	39,144
Police Officer	½ year	37	32,321
C.A.T.S. Dispatcher	¾ year	21	28,680
Library Clerk	¾ year	17	28,687
Water & Wastewater Inspector	¾ year	28	34,950
Total Additional Personnel			\$207,136

Reclassifications

FTE Description	Old Range	New Range	Budgeted Amount
Assistant to City Manager to Assistant City Manager	54	56	\$3,995
Economic Development Planner to Economic Development Director	40	42	2,280
Accountant/Benefits Coordinator to Accounting/Budget Manager	40	42	2,475
Police Records Clerks	17	21	4,200
Police Officers	36	37	34,485
Sergeants	42	44	19,530
Commanders	46	50	11,160
Attorney	52	61	4,080
Firefighter	31	32	6,875
Firefighter/Engineer	34	35	4,190
Captains	42	44	11,380
Wastewater Superintendent	37	39	4,240
Water Operations Manager	39	41	2,380
Total Reclassification Adjustments			\$111,270

This budget has a longevity program contained in the Council’s budget. This is to provide an additional incentive for the City’s tenured employees. Other matters were previously noted in the Key Issues under Public Safety Compensation.

Contributions to Dependent Health Insurance Coverage

Around the nation, rising medical and prescription costs continue to force the cost on health insurance to record levels. This year the Verde Valley Employee Benefits Pool (VVEBP), the City’s health insurance provider, has decided to make adjustments to the plan which will reduce rates in some categories. Rate changes vary from a 12.4% decrease for the High Deductible Health Plan (HDHP) – Employee and Children category to an increase of 7.7% for the Core Plus Plan – Employee + Family.

Below is a summary of the total costs on health insurance for employees and their dependents. The VVEBP has successfully contained costs of health coverage by way of plan changes, education, and sound health care management. For families in overall good health, an employee can choose the High Deductible Health Plan and save on their dependent coverage, as well as take advantage of the City’s increased contribution from \$41 to \$74 a month into their Health Savings Account (HSA). For moderately healthy families, an employee still has the option to choose the Core Plan. 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 premium.

Employee Health Care Rates Summary July 01, 2007 to June 30, 2008						
Category	Core Plan		Core Plus Plan		HDHP	
	Employer	Employee	Employer	Employee	Employer	Employee
Employee	437		437	53	363	
Employee +Spouse	437	433	437	540	363	360
Employee + Children	437	373	437	473	363	310
Employee + Family	437	641	437	753	363	530
Retiree		758		851		629
Retiree + Spouse		1,516		1,703		1,259
Retired + Children		1,411		1,586		1,171
Retiree + Family		1,879		2,075		1,556

Note: The High Deductible cost does not include the employer contribution to the HSA of \$74 per month.

New Programs

Several departments introduced some programs to assist with several facets of the City operations, from personnel morale to quality of life.

Rhythm & Ribs - With the City of Cottonwood always looking for fresh new family recreational ideas, this one has already proven to be very successful on a small scale. This year we are doing it up quite a bit bigger. \$60,000 has been programmed for this event with a performance by the Marshall Tucker Band being the highlight of the event. Many other family events are also being programmed for the occasion.

Vehicle Allowance Program – The City will be providing options for management level employees that log over 7,000 miles of use on their personal vehicle for City business to request a vehicle allowance. Currently there is \$7,200 programmed for this program.

Police Take Home Vehicles Program - The budget includes \$3,300 for additional fuel costs to implement a program which allows for Police Officers to take vehicles home. This provides for great visibility of patrol units throughout the community rather than parked at the Public Safety

Building when not in use, and improves the response to emergencies by having an officer suit up and get straight to the scene, without detouring to the station to get their vehicle.

City-wide Asset Inventory – The City will be taking an organization-wide inventory of all the assets owned by the City of Cottonwood. This \$20,000 program will help reconcile our records to what is actually out on the streets, allow us to compile all necessary records for all City assets, and updates the City infrastructure listing to comply with GASB 34.

City-wide Security Off-site Backup Program – Security and being able to restore services as quickly as possible is behind the need for this \$10,000 program. This program will provide for secure off site location of all City server data backups in case of catastrophic event. It allows for back up data retrieval and restoration anywhere in the world where we can obtain an internet connection. The City databases can be restored anywhere to resume function of the City of Cottonwood.

Longevity Pay – The City has been contemplating this idea for some time and has finally developed a program to provide longevity pay to our tenured employees. This one time annual distribution would take place in mid December in time for one of the busiest time of year. This plan is based on 5 year service increments and an employee's compa-ratio, so it has both a service as well as an incentive factor. This program is expected to cost about \$68,375 and is expected to stay relatively static in cost over time.

BUDGET POLICIES - FISCAL YEAR 2008

This budget reflects a mid-year change to the fund balance restriction policies of the City. The policy changed from 12.5 to 16.67% of the previous years operating revenues. This amendment to the policy brought this year's unrestricted fund balance reserve to \$1,656,720. This is also estimated to be about 60 days of expenditures coverage.

Additionally, an accumulating reserve of 2.67% of the previous year's general fund operating revenues is reserved for capital projects. This year represents the twelfth year of this policy. In November 2006 the Council decided with a recommendation from management to fund an additional \$700,000 from excess sales tax into this capital accumulation fund. This brought the fund up to \$1,526,220 and subsequently allows some capital projects to be programmed. This fund is now at \$1,000,000 with the \$526,220 being used for capital purchases under the \$35,000 Capital Improvement Plan threshold. \$874,995 was originally available in additional capital reserves, which come from the excess .2% Library Debt Service sales tax. A portion of this capital reserve was used this year to fund some public safety capital items. After the programming of capital was completed, a \$512,365 balance is still remaining. These policies, along with development of five-year budget projections, will ensure 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 2008 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 barely keep up with operational expenditures for the next five years. This is mainly due to the economy and the state's future financial picture. Any capital acquisition would require some financing alternatives (see pages 29-35). 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 2008, have been integrated into the work plans of the appropriate department responsible for implementation. A summary depicting the funding resources available for the many projects is also presented.

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

CAPITAL ACQUISITION PLAN – FISCAL YEAR 2008

Included in the budget is \$18,005,970 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 2008 are budgeted.

Equipment	
Function	Estimated Cost
General Government	\$77,800
Public Safety	1,053,730
Culture & Recreation	64,000
Airport	25,000
Health & Sanitation	844,700
Transit	291,000
Streets	49,500
Total Equipment	\$2,405,730

Capital Projects	
Project Description	Estimated Cost
Cemetery	\$575,000
Old Town Parking	26,200
Communication & Evidence Storage Building	350,000
PS Radio Reception Improvements	100,000
Pavement Preservation	336,600
W. Mingus St. Reconstruction	700,000
12th Street Reconstruction - Design	50,000
Dump Trucks	55,000
Willard St. Extension	910,000
Increase Wet Well Capacity	150,000
Hwy 260 Sewer Line	1,900,000
Arsenic Mitigation	1,043,800
Valve Replacement Program	125,000
Water Wells & Storage Facilities	1,000,000
Booster Pumping	50,000
Construction Manager at Risk	2,000,000
Runway Lighting	289,000
Land Acquisition/Environmental Study	300,000
Library Expansion	2,904,640
Recreation Center Bonding, Design & Construction	17,411,965
Riverfront Park Improvements	125,000
Tennis Center Resurfacing	40,000
Viejo Park	60,000
Old Town Parking	335,000
Land Acquisition	675,000
Total Capital Projects	\$31,512,205

"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 assembling this informative document. Special thanks to the finance staff for the time spent in providing the financial information needed during the budget process, to Ms. Kirsten Lennon, Accountant/Budget Manager for the compiling of this enlightening document, and Mr. Jesus R. Rodriguez, CGFM, Finance Director for managing the process. In addition, thanks to the rest of the department heads that assisted in the development of the FY 2008 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 Acting City Manager to have been a part of the City's continued financial success through the preparation of this budget document.

Sincerely,

Marianne Jiménez
Acting City Manager

Table of Contents

EXECUTIVE SUMMARY	PAGE
City Profile - Demographic/Economics.....	1
Budget Philosophy/Policies	5
Balanced Budget.....	5
Budget Process.....	5
Budget Calendar.....	6
Process for Changing the Budget.....	7
Budget Monitoring.....	7
Fund Accounting.....	7
Budget Basis	8
Fiscal Policy.....	9
Debt Service Policy.....	10
Investment Policy.....	12
STRATEGIC PLANNING	
City Accomplishments FY 2007.....	18
Organizational Goals FY 2008	19
Organizational Goals FY 2008-2013	23
5 year Capital Improvement Plan	29
Long Range Financial Projections	36
Revenues and Expenditures Analysis	40
Organizational Chart.....	45
Community Timeline.....	46
GFOA Award.....	48
FINANCIAL RESOURCES	
City Sales Tax Revenues	49
State-Shared Income Tax Revenues	50
State-Shared Sales Tax Revenues.....	51
Motor Vehicle In-Lieu Revenues.....	52
Investment Revenues	53
Building Permit Revenues	54
Fines and Forfeitures.....	55
Franchise Tax Revenues	56
Highway User Revenues.....	57
Local Transportation Assistant Revenues.....	58
Wastewater Service Revenues	59
Water Utility User Fees	60
CONSOLIDATED SUMMARY - ALL FUNDS	
Revenues/Expenditures and Changes in Fund Balance - All Funds.....	61
Revenues - All Funds - Graph	62
Expenditures - All Funds - Graph.....	63
Budget Summary - By Fund	64

Table of Contents

GENERAL FUND	PAGE	
Description and Fund Balance Presentation	65	
Revenues/Expenditures and Changes in Fund Balance	66	
Revenues/Expenditures Comparison - Graph	67	
Revenues Summaries - Charts & Graphs.....	68	
Expenditures Summaries - Charts & Graphs	73	
 General Government		
Administration	75	
Personnel.....	79	
City Council	83	
Natural Resources	87	
Finance.....	91	
IT Services	95	
Planning and Zoning	99	
Municipal Court	103	
Legal	107	
Non-Departmental.....	111	
Greater Arizona Development Authority (GADA) Information	115	
Engineering.....	119	
 Public Safety		
Building Inspection Department	123	
Police.....	127	
Animal Control	131	
Communications	135	
Fire	139	
 Cultural and Recreation		
Parks and Recreation.....	143	
Construction and Parks Maintenance.....	147	
Custodial Services.....	151	
 SPECIAL REVENUE FUND		PAGE
Description and Fund Balance Presentation	155	
Consolidated Revenues/Expenditures and Changes in Fund Balance	156	
Departmental Budgets		
HURF Revenues/Expenditures and Changes in Fund Balance	157	
Street Department	161	
Street Construction.....	165	
Cottonwood Area Transit System	169	
Library.....	175	
Cemetery Trust Fund	181	
Airport Authority	187	
Other Grants.....	193	
Community Development Block Grant	198	

Table of Contents

DEBT SERVICE FUND	PAGE
Description and Revenues and Reserves Presentation.....	203
Revenues/Expenditures and Changes in Fund Balance	204
Debt Service.....	205
Bonded Indebtedness	
Indebtedness Summary	209
Consolidated Debt Service Schedule	210
Library General Obligation Bonds Information	211
Computation of Legal Debt Margin.....	214
CAPITAL PROJECTS FUND	PAGE
Fund Description.....	215
Consolidated Revenues/Expenditures and Changes in Fund Balance.....	216
Airport Improvements.....	217
Railroad Wash Improvements.....	221
Heritage Grant / Riverfront Park Improvements	225
Library Expansion Project	229
Rec. Projects	233
PROPRIETARY/ENTERPRISE FUNDS	PAGE
Description/Revenues	237
Revenues/Expenses & Changes in Retained Earnings	238
Wastewater Department.....	239
Water System Department	245
Water System Revenue Bond 2004	251
Water System Revenue Bond 2006	252
INTERNAL SERVICE FUND	PAGE
Description/Revenues/Retained Earnings.....	255
Revenues/Expenditures and Changes in Retained Earnings.....	256
Employee Health Benefit Trust Fund	257
FIDUCIARY FUNDS	PAGE
Descriptions/Fund Balance	261
Consolidated Revenue/Expenditures and Changes in Fund Balance	262
Volunteer Firefighter's Pension Fund.....	263

Table of Contents

APPENDIX	PAGE
Schedules	
Capital Outlay	267
Salary Ranges.....	273
Authorized Position Classification Plan & Three Year Comparison.....	274
Resolution #2309 - Adopting the 2008 Budget	278
Schedule A	279
Schedule C	280
Schedule D	283
Schedule E	284
Glossary of Terms	286
Glossary - Acronyms.....	291
City Map	292

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 picturesque 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 close to Interstate 17 on State Highway 89A and 260. The City is at an elevation of 3,320 feet above sea level with a total geographic area of 15.75 square miles.

The 2000 census set the City's population at 9,179, depicting a 55% increase over the 1990 census. July 1, 2006 the Department of Economic Security estimates the population at 10,925. 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>2006 Property Tax Assessed Valuation</u> (1)	
2006 – 15.75 Square Miles	Primary	\$ 97,019,991
	Secondary	\$ 105,746,913

Paved Streets

38 Miles

Cottonwood Labor Force Data (2)

	<u>2003</u>	<u>2004</u>	<u>2005</u>
Civilian Labor Force	4,064	4,246	4,840
Employed	3,890	4,087	4,626
Unemployed	174	159	214
Unemployment Rate	4.3%	3.7%	4.4%

Source:

(1) Arizona Department of Revenue

(2) Arizona Department of Economic Security

<u>Year</u>	<u>Population</u> (1)	<u>Public School Enrollment</u> (2)	<u>Unemployment Rate</u> (1)
2006	10,925	Est.3600	3.8%
2005	10,860	3,432	4.4%
2004	10,570	2,981	3.7%
2003	10,300	2,642	4.3%
2002	10,020	2,559	4.5%
2001	9,770	2,510	3.8%
2000	9,179	2,432	3.6%
1999	8,845	2,248	4.4%
1998	7,775	2,419	4.3%
1997	7,300	2,282	4.7%

Sources:

- (1) Arizona Workforce information website
- (2) School census - Cottonwood School Districts

Building Permits

<u>Gross Taxable Sales</u>		<u>Year</u>	<u>Number</u>	<u>Value</u>
2006	\$427,052,394	2006	880	\$45,924,027
2005	357,682,343	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

Source: City of Cottonwood

<u>Major Private Employers</u>	<u>Education</u>	
Verde Valley Medical Center	Elementary Schools	2
Phelps & Sons, Inc.	High School	1
Wal-Mart - Retail	Exceptional Children Program	1
Fry's - Retail	Community College	1
<u>Major Public Employers</u>	Students:	
City of Cottonwood	Grades K-8	2,213
Cottonwood/Oak Creek Schools	Grades 9-12	1,219
Arizona Public Service	Total Students	3,432
Mingus Union High School	Source: Cottonwood/Oak Creek and Mingus School Districts	

2006-7 Service Statistics

<u>Fire Protection</u>		<u>Police Protection</u>	
Stations	1	Stations	2
Employees (Full-time)	16	Employees (Full-time)	44
Fire & Haz Mat Calls	183	Sworn	27
Rescue & Medical Calls	1,764	Non-Sworn	17
Public Assist Calls	295	Part I Crimes	517
Good Intent Calls	114	Part II Crimes	4,310
Fire Inspections (various kinds)	654	Traffic Warnings	749
Plan Reviews & Permits	389	Traffic Citations	2,310
Public Ed Contact Hours	2,774	Communications Dispatched	17,787
<u>Public Works</u>		<u>Library</u>	
Engineering Reviews (ea. proj)	30	Items in Collections	95,000
Subdivisions (lots)	545	Total Items Circulated	340,768
Right of Way Permits (ea)	80	Circulation Transactions Per Day	1,132
Flood Plain Inquires	225		
Streets Inspected (LF)	26,000		
 		<u>Municipal Parks</u>	
		Developed Parks	5
		Developed Acres	36
		Undeveloped Acres	85
		Swimming Pools	1
		Tennis Center	1
		Lighted Ball fields	6
 		<u>Transit System</u>	
		Annual Ridership	45,947
		Miles Traveled	211,506
		Cottonwood Ridership	22,757
		Disabled Ridership	3,800
 		<u>Water Utility</u>	
		Blue Stake Requests	2686
		Pumping Capacity	6.34mg
		Average Pumpage	3.2mg
		Number of Wells	28
		Number of Storage Tanks	22
<u>Sewer</u>			
Sewer Line Inspected (LF)	23,570		
Miles of Line	48		
Average Daily Treatment	1.04mg		
Plant Capacity	1.5mgd		
Blue Stake Requests	892		
Reclaimed Water Sold	7.0 mg		
Number of Sewer Accounts	3,862		
Sewer Taps installed	8		

Weather

<u>Month</u>	<u>Average Temperature (F)</u>		<u>Average Total</u>
	<u>Daily Maximum</u>	<u>Daily Minimum</u>	<u>Precipitation (inches)</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
Annual Average	78.8	45.4	12.21

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 48.

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 a municipal airport.

BUDGET POLICY

These budget policies provide general guidance for preparing the City of Cottonwood's operational budget, as well as its adoption, and implementation. These policies are presented below in the various categories.

Budget Philosophy

The City's budget philosophy includes planning based on available information, developing a process by which financial guidelines and goals are established, implementation of those financial and programmatic goals, and the review and evaluation of the achievement of those goals. Policies are set forth to provide support guidance for the City's budget philosophy.

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.

Balanced Budget – The City of Cottonwood will develop a balanced budget in which current resources (current revenues plus fund balance) will equal or exceed current expenditures. The City will avoid budgetary or accounting procedures that balance the budget at the expense of meeting future year's expenditures, such as postponing expenditures, accruing future year's revenues, or rolling over short-term debt. The budget will provide for adequate maintenance and replacement of capital plant and equipment.

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 proposed 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 1996, 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.

Proposed Budget Calendar for FY 2008

	Distribute Budget Worksheets & Instructions	January 31, 2007
	Distribute Goals & Performance Measures Forms	February 05, 2007
	Capital Improvements Meeting (Finance & City Manager)	February 06, 2007
	Budget Worksheets Due to Finance	February 09, 2007
	Distribute Capital Improvements Schedules, Forms, & Instructions	February 12, 2007
	Council Annual Goal Setting Workshop	February 13, 2007
	Goals & Performance Measures due to Finance	February 16, 2007
	Personnel Requests to City Manager	February 23, 2007
	Capital Improvement Forms due back to Finance	March 01, 2007
	Review of 1 st Budget Draft with Finance & Administration	March 14-16, 2007
	1 st Round Departmental Budget Meetings	March 26-April 9, 2007
	Capital Improvements Workshop- All Day (Staff)	April 12, 2007
	Review of 2 nd Budget Draft with Finance & Administration	April 16-20, 2007
	2 nd Round Departmental Budget Meetings (if necessary)	April 16-27, 2007
	Capital Improvements Workshop with City Council	April 24, 2007
	Department Head Budgetary Update Meeting (Pre-Council Workshops)	May 08, 2007
	Present <i>Proposed</i> FY 2008 Budget to City Council	Early May 2007
	Budget Work Sessions with City Council @ Council Chambers	May/ June 2007
	o Introduction to the Budget/ Personnel Matters/ Capital Requests	May 22, 2007
	o Departmental Presentations	May 23 & 29, 2007
	o Budgetary Wrap-up	June 7, 2007
	Adopt <i>Tentative</i> FY 2008 Budgets, set Expenditure Limitation	July 3, 2007
	Adopt <i>Final</i> FY 2008 Budget	August 14, 2007

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 water and wastewater funds. These funds are 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 (i.e. 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.

FISCAL POLICY

The overall goal of the City's fiscal policy is to establish and maintain effective management of the City's financial resources. The City's formal policy statements and major objective provide the foundation for achieving this goal. Accordingly, this section outlines the policies used to guide the preparation and management of the City's overall budget and major objectives to be accomplished.

-  A comprehensive annual budget will be prepared for all funds expended by the City.
-  The Budget will be prepared in such a manner as to facilitate its understanding by citizens and elected officials.
-  In addition to any required hearings, the Council will hold work sessions on the budget which will be open to the public.
-  Copies of the budget will be made available to citizens and elected officials prior to work sessions.
-  Budgetary emphasis will focus on providing those municipal services which provide the maximum level of services, to the most citizens, in the most cost effective manner, with due consideration to economic, fiscal, and social costs.
-  The budget will provide for adequate maintenance of capital, plant, and equipment and their timely replacement.
-  The City will avoid budgetary practices the balance current expenditures at the expense of meeting future years' expenses.
-  The City will give highest priority in the user of one-time revenues to the funding of capital assets or other non-recurring expenditures.
-  The City will maintain a budgetary control system to help it adhere to the established budget.

- Reports comparing actual revenues and expenditures to budgeted amounts will be prepared monthly.

Financial stability of the City

To insure the financial stability of the City, some strict guidelines have been set forth by City Council and implemented by City management.

- Maintain a restricted General Fund Balance of 16.67% 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 expenditures projections and analyze trends.
- Ensure that operating expenditures remain within operating revenues for all funds.

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 current outstanding bonds are not considered general obligation bonds subject to the statutory limits listed above because the City's bonds outstanding at June 30, 2006 were secured by sales taxes instead of property taxes.

Computation of Legal Debt Margin	
June 30, 2006	
Net secondary assessed valuation (Full Cash Value)	\$105,746,913
<u>Calculation of 20% Debt Limitation</u>	
20% of secondary net assessed valuation	\$21,149,383
Bonds outstanding	0
Net 20% Debt Limitation	<u>\$21,149,383</u>
<u>Calculation of 6% Debt Limitation</u>	
6% of secondary net assessed valuation	\$6,344,815
Bonds outstanding	0
Net 20% Debt Limitation	<u>\$6,344,815</u>
Total Bonding Capacity	<u>\$27,494,198</u>

Policy Statement

-  A Five Year Capital Improvement 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
-  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.
 - Seeking 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 does 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, 2007				
Project	Term	Principal	Interest	Funding Source
GO Bonds-Library Expansion	07/2013	780,000	207,180	0.2% Sales Tax
GADA-Railroad Wash Improvements	07/2013	495,000	134,775	.2% Sales Tax
GADA-Public Safety Building	07/2013	1,395,000	293,535	.2% Sales Tax
MPC-Senior Lien Water Rev Bonds - 2004	07/2029	13,040,000	8,465,879	User Fees
MPC-Senior Lien Water Rev Bonds - 2006	07/2035	23,965,000	21,473,706	User Fees
Total Debt Service		\$39,675,000	\$30,575,075	

INVESTMENT POLICY

Policy

It is the policy of the City of Cottonwood to invest public funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the City and conforming to all applicable state and city statutes governing the investment of public funds.

Scope

This investment policy applies to all financial assets of the City of Cottonwood. These funds are defined in the City of Cottonwood's Comprehensive Annual Financial Report (CAFR) and include:

-  General Funds
-  Special Revenue Funds
-  Debt Service Reserve Funds
-  Debt Service Sinking Funds
-  Capital Project Funds
-  Proprietary Funds
-  Fiduciary Funds
-  Expendable Trust Funds
-  Any new funds created unless specifically exempted by Council

Objectives

The primary objectives, in priority order, of the City of Cottonwood's investment activities shall be:

Safety of Principal - The City recognizes its fiduciary responsibility for the stewardship of public funds with which it has been entrusted. Therefore, its foremost investment objective is to ensure safety of principal. Investments of the City shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

Liquidity - City of Cottonwood's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements, which might be reasonably anticipated.

Yield - City of Cottonwood's investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account City of Cottonwood's investment risk constraints and the cash flow characteristics of the portfolio.

Standard of Care

Prudence - This policy shall apply the "prudent person" standard, as defined in the glossary, in the context of managing the overall portfolio. Investment officials acting in accordance with procedures consistent with this policy and exercising due diligence, shall not be held personally liable for market price changes or the credit risk of a certain investment, provided that any unexpected deviations are reported in a timely manner and that appropriate action is taken to control adverse developments.

Ethics and Conflicts of Interest - Investment officials shall refrain from personal business activity that could conflict with proper execution of the investment program or which could impair their ability to make impartial investment decisions. Investment officials shall disclose to the City Manager any material personal financial interests in financial institutions that conduct business within this jurisdiction and they shall further disclose any large personal financial/investment positions that could be related to the performance of the City, particularly with regard to the time of purchases and sales.

Delegation of Authority - Authority to manage the investment program is granted to the Finance Director and derived from the Arizona Revised Statutes §35-323. Procedures for investing of Trust and Sinking Funds are specified in Arizona Revised Statutes §35-324 and §35-328. Investments in the State Treasurer's Pool investment fund for collective investments of public funds is authorized in Arizona Revised Statutes §35-326. Responsibility for the operation of the investment program is hereby delegated to the Finance Director, who shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with this investment policy. Procedures should include references to: safekeeping, delivery vs. payment, investment accounting, repurchase agreements, wire transfer agreements, and collateral/depository agreements, and resolutions for participation in the State Treasurer's Local Government Investment Pool – LGIP are included with this. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the investment officer within the City's Financial Operations Guide. The Finance Director, with the concurrence of the City Manager, shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

Authorized Financial Dealers and Institutions

The Finance Director shall maintain a list of financial institutions, which are authorized to provide investment services. In addition, a list will be maintained of approved security brokers/dealers selected by credit worthiness who are authorized to provide investment services in the State of Arizona. No public deposit shall be made except in a qualified public depository as established by state laws.

Banks and Savings & Loans shall provide their most recent "Consolidated Report of Condition" (call report) at the request of the city.

Securities dealers not affiliated with a bank shall be required to be classified as reporting dealers affiliated with the New York Federal Reserve Bank as primary dealers, or meet certain other criteria as determined by the Finance Director.

All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the Finance Director with the following:

-  Most recent audited annual financial statements
-  Proof of National Association Security Dealers membership,
-  Proof of State of Arizona registration, and a
-  Completed broker/dealer questionnaire

An annual review of the financial condition and registrations of qualified bidders will be conducted by the Finance Director.

A current audited financial statement is required to be on file for each financial institution and broker/dealer with which the City does business.

Safekeeping and Custody

Delivery vs. Payment - All trades of marketable securities will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in an eligible financial institution prior to the release of funds.

Safekeeping - All securities shall be held by a third party custodian designated by the Finance Director. The third party custodian shall be required to issue a safekeeping receipt to the City listing the specific instrument, rate, maturity and other pertinent information.

Collateralization shall be required on two types of investments:

-  Certificates of deposits
-  Repurchase agreements

In order to anticipate market changes and provide a level of additional security for all funds, the collateralization level will be 102% of market value of principal and accrued interest. Acceptable types of collateral for repurchase agreements shall consist of treasuries and agency notes with a maximum maturity of 5 years and a collateralization level of 102% of market value of principal and accrued interest.

Internal Controls - The Finance Director shall establish a system of written internal controls, which will be reviewed annually with the independent auditor. This review will provide internal control by assuring compliance with policies and procedures.

Suitable and Authorized Investments

Authorized Investments

The City is empowered by statute to invest in the following types of securities. If an investment is not specifically listed in the suitable list, it is prohibited.

-  Fully insured or collateralized certificates of deposit and other evidence of deposit at banks and savings and loan associations;

-  Interest bearing savings accounts in banks and savings and loan institutions doing business in Arizona whose accounts are insured by federal deposit insurance.
-  Repurchase agreements with a maximum maturity of one hundred eighty days, collateralized at no less than 102 percent, provided a signed PSA Master Repurchase Agreement is on file with the counterpart bank or broker/dealer;
-  Deposits in the local government investment pool operated by the Treasurer of the State of Arizona.
-  Bonds or other evidences of indebtedness of the United States or any of its agencies or instrumentalities if the obligations are guaranteed as to principal and interest by the United States or by any agency of instrumentality of the United States.
-  Bonds or other evidences of indebtedness of this state or any of its counties, incorporated cities or towns, school districts, or municipal improvement districts which carry as a minimum one of the A ratings of Moody's Investors Service or one of the A ratings of Standard and Poor's Rating Service or their successors.
-  Commercial Paper with an A-1/P-1 rating or higher rating.
-  Mortgage-backed securities

Prohibited Investments

-  Reverse Repurchase Agreements
-  Futures, Contractual Swaps, Options
-  Inverse Floaters
-  Interest Only Securities
-  Interest Bearing Securities that have the possibility of not accruing current income
-  Closed end management type companies
-  Securities whose yield/market value is based on currency, commodity or non-interest indices
-  Bearer-form securities
-  Securities lending
-  Any security product not described in this document until reviewed and approved by the City Council.

Investment Pools

A thorough investigation of any investment pool is required prior to investing. There shall be a questionnaire developed which will answer the following general questions:

-  A description of eligible investment securities and a written statement of investment policy and objectives.
-  A description of interest calculations and how it is distributed and how gains and losses are treated.
-  A description of how the securities are safe kept (including the settlement processes), and how often the securities are priced and the program audited.
-  A description of who may invest in the program, how often, what size deposit and withdrawal.
-  A schedule for receiving statements and portfolio listings.
-  Are reserves, retained earnings, etc. utilized by the pool?
-  A fee schedule, and when and how is it assessed.
-  Is the pool eligible for bond proceeds and/or will it accept such proceeds?

Diversification and Maturity Limitations

The City will diversify its investment portfolio to minimize the risk of loss resulting from over concentration of assets in a specific maturity, specific issuer, or specific class of securities. Diversification standards by security type and issuer shall not exceed the following:

 Fully insured or collateralized CD's	no more than 25%
 U.S. Treasuries and Securities having principal and interest guaranteed by the U.S. Government or agencies or instrumentalities of the U.S. Government	100%
 State, county, school district and other district municipal bonds or debt with an A rating or better	no more than 25%
 Repurchase agreements	100%
 Local Government Investment Pool	100%

The Finance Director shall be required to diversify maturities. To the extent possible, the Finance Director and the City Manager will attempt to match investments with anticipated cash flow requirements. Matching maturities with cash flow dates will reduce the need to sell securities prior to maturity, thus reducing market risk. Unless matched to a specific requirement, the Finance Director may not invest more than 25% of the portfolio for a period greater than three years. Unless matched to a specific requirement, the Finance Director may not invest any portion of the portfolio for a period greater than 5 years.

Reporting

Method

The Finance Director shall prepare quarterly reports for the City Manager’s review, which provide a clear picture of the status of the current investment portfolio. The management reports shall include:

-  Comments on fixed income markets and economic conditions,
-  Discussions regarding restrictions on percentage of investment by category,

-  Possible changes in portfolio structure going forward, and
-  Thoughts on investment strategies.
-  Any schedules should include:
 -  A listing of individual securities held at the end of the reporting period by authorized investment category
 -  Weighted average maturity and final maturity of all investments listed
 -  Coupon, discount or earnings rate
 -  Par Value, Amortized Book Value and Market Value
 -  Percentage of the portfolio represented by each investment category

The City Manager and Finance Director shall be responsible for making recommendations to the City Council of changes in the investment policy and in establishing performance benchmarks based upon City of Cottonwood's portfolio composition and current investment strategy.

The Finance Director shall include a market report on investment activity and returns in City of Cottonwood's Comprehensive Annual Financial Report - CAFR.

Performance Standards

The City of Cottonwood's cash management portfolio shall be designed with the objective of regularly meeting or exceeding a selected performance benchmark, which could be the average return on three-month U.S. Treasury bills, the state investment pool, a money market mutual fund or the average rate of Fed funds. These indices are considered benchmarks for lower risk investment transactions and therefore comprise a minimum standard for the portfolio's rate of return.

Investment Policy Adoption

City of Cottonwood's Investment Policy shall be adopted by the City Council. The policy shall be reviewed on an annual basis by the City Manager and significant modifications thereto must be approved by the City Council.

STRATEGIC PLANNING

City Accomplishments for Fiscal Year 2006-07

The following depicts the continued commitment of the City of Cottonwood to make the community a better place to live. Fiscal year 2007 goals obtained are summarized within this list of accomplishments:

Physical Development

-  Acquired 3 acres of land along the southwest line of the airport for future airport development
-  Completed the security upgrade project that added an automatic gate and card key system to the main gate at the Municipal Airport.
-  Completed the perimeter security road at the Municipal Airport.
-  Made significant upgrades to the reclaimed water fill station which has significantly increased the sale of reclaimed water.
-  Renewed wastewater lab State certification.
-  Completed impact fee study
-  Replaced wells CWW 5, 1-1, 2-2, 5-1, 6-2, 7-1, C2, Verde Santa Fe, CWW 1, CWW 2, CWW 7, and 3-1 to increase capacity.
-  A rubberized chip seal project placed 14,000 square yards of product to extend the pavement life in the 6th Street area.
-  Completed the design and construction of Aspen Street from 11th Street to Main Street.

Community and Economic Development

-  Continued to provide equipment, labor and trash disposal to the Stewards of Public Lands for public lands clean ups and assisted several neighborhood with clean ups.
-  Developed the use of volunteers in patrol, investigations and crisis intervention in a better effort to support the community.
-  Transitioned Cottonwood Area Transit System as a partner in the Northern Arizona Intergovernmental Public Transit Authority.
-  Represented on the State-wide Water Adequacy Group.
-  Established a comprehensive approach to the review of old Conditional Use Permits and other time specific hearing actions.
-  Initiated staffing of Cottonwood Economic Development Council (CEDC) with new economic development planner. Set up program mission, goals, direction. Began interviewing local businesses regarding needs.
-  Concluded 4-year CDBG grant process (\$370k).

Public Safety

-  Redeployed a better equipped bicycle function to more effectively patrol Old Town and the parks.
-  Implemented the Crime Free Multi-housing Program that has reduced police activity by an average of 47 percent in the participating complexes.
-  Completed work to upgrade the Sunshine Hill repeater site building.
-  Replaced major part of the patrol fleet (16 vehicles).
-  Accepted delivery and placed in service a new light/air/support vehicle to replace a 26-year old vehicle.
-  Completed specifications and ordered a new fire engine to replace a 16 year old fire engine.
-  Completed a substantial rebuild of our Public Education/Public Relations Muster Wagon with donations.

-  Our four Certified Vehicle Child Restraint Seat Technicians installed 60 donated child restraint seats for those in need in our community and inspected 80 other vehicles for proper installation of child/infant seats.

General

-  Continued to update the City's Website.
-  Received the Government Finance Officers Association's (GFOA) award for the City's Comprehensive Annual Financial Report for the 14th straight year.
-  Submitted the City's Comprehensive Annual Financial Report to the Government Finance Officers Association's (GFOA) to compete for the Certificate of Achievement in Excellence in Financial Reporting for the 15th year.
-  Incorporated Debt Service Policy and Investment Policy into the FY 2007 budget.
-  Active participation in the SR 260 Access Management Plan – representing Cottonwood interests.
-  Conducted a series of informational meetings on the Cottonwood Recreation Center prior to the November 2006 election.

Organizational Goals - Fiscal Year 2008

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 2008.

Physical Development

Project – Utilities - Construction Manager at Risk (reprogrammed) - This project is a prerequisite to installation of the arsenic remediation equipment mandated by the United States Environmental Protection Agency (USEPA). It replaces three existing storage reservoirs into one 500,000 gallon reservoir and booster station, allowing for centralized arsenic treatment. This also provides for the replacement of booster pumps and electrical equipment at all Cordes Lake sites except 3-1 which are already properly fitted.

Fiscal/Programmatic Impact - This \$2,000,000 project is funded through system improvements reserves. It provides a more efficient and reliable operation directly related to less crisis management and a reduction in the amount of time staff spends monitoring and maintaining the system.

Project – Utilities - Arsenic Mitigation (reprogrammed) - The new Federal regulations require reduction in arsenic concentrations in potable water to ten (10) parts per billion or less. This regulation is an unfunded mandate and the City is required to bear the full cost of compliance. This program will fund purchase and/or lease of the arsenic treatment systems and operational costs.

Fiscal/Programmatic Impact - This program will provide customers with drinking water in compliance with new Federal arsenic regulation and avoid costly noncompliance fines and sanctions. The \$5,000,000 project will be funded through a lease program totaling \$950,000 a year.

Project – Utilities - Replacement of Main Line Valves (reprogrammed) - This project calls for the progressive replacement of defective or damaged main line valves.

Fiscal/Programmatic Impact - This \$125,000 program is to replace defective or damaged valves that were discovered during a recent valve exercising program. Funding for this project is through system improvement reserves.

Project – Utilities – Other System Improvements (reprogrammed) - This program provides for improving well capacity as well as storage and booster pumping.

Fiscal/Programmatic Impact - The \$1M allocation is part of an overall \$2.4M projects which will improve overall capacity of the system over the next five years and will provide for the continued growth in the Cottonwood area. The funding will be absorbed by the system improvements fund and user fees.

Project – Utilities - Increase Wet Well Capacity at Lift Stations 1, 2, 3, 4 (reprogrammed) - This project is for design and construction of additional wet wells next to existing wet wells to increase capacity of each lift station. The project begins with the Main Lift Station #4 and then proceed to Lift Stations 3, 2, 1.

Fiscal/Programmatic Impact - Increasing the current capacity of the lift station wet wells will significantly decrease the likelihood of raw sewage spilling onto the surrounding properties. This \$150,000 expense will also reduce the constant cycling of the pumps and also increase the peak flow capacity. This project will be funded by a Debt Service reserve funds designated for sewer capital improvement.

Project – Utilities - Forced Air Blowers at Wastewater Treatment Plant (reprogrammed) - The use of larger forced air blowers and a redesign of the piping that carries the air will help reduce the number of Dissolved Oxygen Demand crashes, especially in the summer months.

Fiscal/Programmatic Impact - Savings on labor cost will occur by using forced air blowers, adjustment decreases and operator interaction. A positive impact to the quality of the effluent can significantly reduce the regulatory implications and can avert mandated improvements and/or regulatory penalties. This \$245,000 expense is funded by a Debt Service reserve fund designated for sewer capital improvement.

Project – Utilities – SR 260 Sewer Line Extension - This project installs sanitary sewer lines along the State Route 260 corridor.

Fiscal/Programmatic Impact - It is anticipated that a large part of the \$1.9M cost would be recaptured from the development utilizing this expansion of the sewer system. Development of this area will increase the sales tax base for the City. It also allows the City the ability to provide centralized sewer service to this area. Funding is expected to come from debt service reserves.

Project – HURF - Street Improvements (on-going) - This program consists of the continual repair and maintenance of streets throughout the community. This program does not provide for any major construction work on streets.

Fiscal/Programmatic Impact - Funding for this program has been transferred solely to the HURF, with the allocation of a 1% sales tax taking place January 1, 2006. There is a strong need to upgrade our streets, including the addition of sidewalks when funds are available. There is

\$336,600 allocated to maintain streets, bridges and sidewalks throughout the community. The City's Street Maintenance Department will be responsible for the program.

Project – HURF - Mingus Street Reconstruction - This reconstruction project is a 1,800 foot segment of collector street to be widened.

Fiscal/Programmatic Impact - This new pavement section will have a 20-year useful life. It will be constructed to handle the additional traffic brought about by the Mingus Street extension. It will also have sidewalk and bike lanes, and will have the poor drainage corrected.

Project – HURF - Willard Street Extension - This project will construct a new collector street from Cottonwood Street to the intersection of Mesquite Drive and Monte Tesoro, approximately 3,000 linear feet.

Fiscal/Programmatic Impact - The total estimated project cost is \$910,000. The City has obtained \$680,000 in grant funds for the project from ADOT/FHWA, with the City's matching share of \$230,000 or 25.3% of the construction cost. This extension improves emergency response in the southwest portion of the City, improves access to the regional medical center, and unlike 6th Street, will provide an "all weather" crossing of Silver Springs Gulch.

Project – Administration - New City Cemetery (reprogrammed) - This project will continue to 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 \$575,000 is budgeted in the Capital Improvements Fund for 2008. This project goes from the planning phase to actual development of the site. Currently, the fiscal implications are being addressed.

Project – Administration - Old Town Parking Lots - These improvements are on our Old Town "public parking". These projects repave the Finance/Court parking lot and the Parks and Recreation parking lot. The Parks and Recreation lot also receives lighting so that it can be used at night.

Fiscal/Programmatic Impact - The fiscal impact of about \$335,000 is projected through the 1% City sales tax. On a safety note, a uniform, level surface will prevent trip and fall accidents. Proposed lighting will improve safety for night time users.

Project – Library - Facilities Expansion (reprogrammed) - The expansion of the current building is to accommodate the growing number of patrons that use the facility. The additional space will also provide more room for the increasing collection of books, and videos.

Fiscal/Programmatic Impact - The expansion will be funded through library reserves that have been sitting in one of the City's investment accounts. The programmed cost for this project is budgeted at \$2,904,640. The expansion will increase the library's budget substantially; the largest single increase will be an increase in staffing for operating the larger facility.

Project – Parks - Herridge Field Relocation-Light Project - The relocation of Herridge Field to Riverfront Park will provide for the completion of the Little League facilities at the park.

Fiscal/Programmatic Impact - This relocation will be used by the little league and it meets Parks & Recreation Commission Five (5) Year Planning Document. This project will be funded by the 1% City sales tax.

Project – Parks – Tennis Center Resurface - This program is to install a polyurethane coating materials to the surface of the Cottonwood Tennis Center courts. The City has five (5) tennis center courts at Garrison Park which will be resurfaced and then have the lines and court interior/exterior boundaries marked.

Fiscal/Programmatic Impact - An estimated cost of \$40,000 is to be funded in FY 2008 from the City's 1% sales tax dedicated to general government facilities. The resurface will extend the life of the courts which are used heavily year-round.

Project - Parks – Multigenerational Center Design/Engineering - This project provides for the engineering and architectural design of an approximately 82,000 sq. ft Aquatics/Recreation Center,.

Fiscal/Programmatic Impact - This project meets community health and quality of life needs for a quickly expanding community. The direct funding impact to City would be the cost of the debt service estimated to be \$1.4M and another \$400,000 in operating costs. Only \$1,500,000 is budgeted for this year for the design and architecture of the facility. This project is part of the Cottonwood General Plan – Priority Community Service Project and the Parks & Recreation Commission 5 Year Planning Document.

Project – Airport - Design and Construction of Runway Lighting - This project involves final design of the airfield lighting upgrades to the 20-year old lighting.

Fiscal/Programmatic Impact - The upgrading of the airport lighting will improve safety for the Airport users. This \$289,000 project is 97.5% FAA and ADOT grant funded with a 2.5% local share provided by the Airport Fund. This project is also programmed in the 2003 Cottonwood Airport Master Plan and Airport Layout Plan (ALP).

Public Safety

Project – Police - Vehicle Replacement Program (on-going) - This project provides for the systematic replacement of police patrol vehicles before they become too costly to maintain.

Fiscal/Programmatic Impact - This year Council, budgeted \$186,680 in lease purchase financing for of this program. This continues the program that began last year with the replacement of sixteen vehicles. By having a newer fleet, maintenance costs are reduced as well as avoiding down time.

Project – Police - Public Safety Radio Reception Improvements - This program will allow for the installation of the infrastructure to support both radio and wireless mobile communications which will significantly improve radio reception and reliability. As a result these improvements will also create redundancy, if one site is disabled the second will still allow for radio communications.

Fiscal/Programmatic Impact - The radio infrastructure has been inadequate for many years placing officers at risk and creating difficulties in providing services. Implementation of these improvements benefits not only our community but all of the agencies that we dispatch for,

including Clarkdale and Jerome. This year's allocation of \$350,000 is for design work for a project costing over \$4M.

Project – Police/Fire - Communications Infrastructure and MDT Upgrades - This program with an estimated \$640,500 price tag will allow the City to meet federal interoperability and narrow band requirements. We must contribute to the communications infrastructure development in the Verde Valley.

Fiscal/Programmatic Impact - Homeland security issues have created a tremendous need for improvements in our ability to operate multi-jurisdictionally. Interoperability is necessary to efficiently and safely respond to and mitigate major emergencies in our community. \$540,500 will be packaged together with other Lease purchase items and financed. The annual cost of the program is to be funded through the City's .2% sales tax.

Project – Police/Fire – Acquisition of Land Adjacent to the Public Safety Building - This program is to acquire land for future use by the City for expansion of the Public Safety facility.

Fiscal/Programmatic Impact - This \$675,000 purchase from Yavapai County concludes an acquisition deal struck over five years ago in a land exchange when the Public Safety Building was first built. This land had been held by the County pending our decision to purchase. It is programmed for this year and will allow for space to expand our Public Safety facility to include a communication and evidence building.

The \$2,405,730 of capital equipment programmed this fiscal year is reflected in the Capital Outlay listing on pages 267-271.

Organizational Goals for the Future - Fiscal Years 2008-13

The following long-range goals address issues facing the City in the future. The timing of the various programs and projects are reflected on the Five-year Capital Improvement Plan on pages 29-35. The current year is included in the City's five year plan.

Physical Development

Project - Airport – Acquire Land II (10.9 acres) - This program is to acquire 10.9 AC at the southwest line of the airport to meet standards for object free area (OFA) for the relocated Taxiway A.

Fiscal/Programmatic Impact - The acquisition will allow for the taxiway that is located parallel to the runway to move an additional 90' away from the runway. This greater separation will increase safety for the Airport users. Funding for this project is \$950,000, 97.5% FAA and ADOT grant, with the City contribution 2.5% local share from the Airport Fund. This project is programmed in the 2003 Cottonwood Airport Master Plan and Airport Layout Plan (ALP).

Project - Airport – Relocate Segmented Circle - This project will move the segmented circle and wind cone to a location clear of the new hangar area.

Fiscal/Programmatic Impact - The segmented circle visually provides pattern information and wind direction to pilots. Its relocation is a very important part of keeping the airport patrons safe.

The \$42,000 is 97.5% FAA and ADOT grant funded, with a 2.5% local share provided by the Airport Fund. This project is programmed in the 2003 Cottonwood Airport Master Plan and Airport Layout Plan (ALP).

Project – Airport - Design and Construction of Runway Lighting - This project involves the construction of the airfield lighting upgrades to the 20-year old lighting.

Fiscal/Programmatic Impact - The upgrading of the airport lighting improves safety for the Airport users. This \$450,000 project is 97.5% FAA and ADOT grant funded with a 2.5% local share provided by the Airport Fund. This project is also programmed in the 2003 Cottonwood Airport Master Plan and Airport Layout Plan (ALP).

Project - Airport – Acquire Land II (6.79 acres) - Acquire 6.7 Acres at the southwest line of the airport to meet standards for Object Free Area (OFA) for the relocated Taxiway A and relocated segmented circle and new Automatic Weather Observation Station (AWOS).

Fiscal/Programmatic Impact - The acquisition worth \$590,000 will allow for the taxiway that runs parallel to the runway to move an additional 90' away from the runway. This greater separation will increase safety for the Airport users. The project is \$730,000 funding is 97.5% FAA and ADOT grant, with the City contribution 2.5% local share from the Airport Fund. This project was programmed in the 2003 Cottonwood Airport Master Plan and Airport Layout Plan (ALP).

Project – Airport - Install Automatic Weather Observation Station (AWOS) - This project installs an automatic weather observation station (AWOS), a weather instrument with radio and phone communication capability that allows pilots to get remote, real-time weather information for the airport. This system is required for instrument approaches and commuter service.

Fiscal/Programmatic Impact - This equipment that provides accurate weather information and is an important safety issue for airport users as the airport becomes increasingly busy. The \$250,000 is 97.5% FAA and ADOT grant funded, with a 2.5% local share provided by the Airport Fund. This project is programmed in the 2003 Cottonwood Airport Master Plan and Airport Layout Plan (ALP).

Project - I Airport - T-Hangars Apron/Taxiway - This project is to design and build an apron and taxiway for new T-hangars.

Fiscal/Programmatic Impact - This project allows aircraft to have a paved surface to protect propellers and jet engines from debris. The \$391,000 over two years is 97.5% FAA and ADOT grant funded, with a 2.5% local share provided by the Airport Fund. This project is programmed in the 2003 Cottonwood Airport Master Plan and Airport Layout Plan (ALP).

Project - Airport – Acquire Land III (11 acres) – This program is to acquire 11 acres at the southwest line of the airport to relocate skydive drop zone.

Fiscal/Programmatic Impact - The acquisition of this vacant land will provide a larger drop zone increasing safety for skydivers. The drop zone acts as a buffer from other private uses and the airport. This project's \$959,000 is 97.5% FAA and ADOT grant funded, with the City

contribution 2.5% local share from the Airport Fund. This project is programmed in the 2003 Cottonwood Airport Master Plan and Airport Layout Plan (ALP).

Project - Airport – Grading for T-Hangars - This project is for site preparation for new T-hangars in the vicinity of the current parachute drop zone. The site will need substantial excavation of material to bring the site down to the airfield elevation.

Fiscal/Programmatic Impact - This preliminary work prior to construction will provide additional safety by reducing the risk of vandalism/tampering of aircrafts by providing more secure storage in hangars. The \$500,000 is 97.5% FAA and ADOT grant funded, with a 2.5% local share provided by the Airport Fund. This project is programmed in the 2003 Cottonwood Airport Master Plan and Airport Layout Plan (ALP).

Project - Parks – Multigenerational Center Construction - This project provides for the construction of a large scale Aquatics/Recreation Center, approximately 82,000 sq. ft.

Fiscal/Programmatic Impact - This project meets community health and quality of life needs for a quickly expanding community. The direct funding impact to the City would be the cost of the debt service estimated to be \$1.4M and another \$400,000 in operating costs. Actual cost is estimated around \$17M. This project is the Cottonwood General Plan – Priority Community Service Project and the Parks & Recreation Commission 5 Year Planning Document.

Project – Parks – Maintenance Facility - This project is to construct a facility to house the Building Maintenance Department replacing an old structure that is in dire need of repair.

Fiscal/Programmatic Impact - This project will enable the City to provide a more safe and efficient environment for two reasons: (1) increased growth in work force experienced by the department in Buildings & Parks Maintenance and, (2) the large volume increase in projects. This \$560,000 project is to be funded through the City's 1% sales tax.

Project –Parks - Civic Center Rehabilitation - This project is for the preservation and restoration of a valuable historical building. 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 \$130,000 and is scheduled for FY 2011. 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 operation expenditures should decrease after the building is restored.

Project – Parks - Old Town Trailhead & Parking

This program is for the construction of a park trailhead area at the Old Town Jail Trail. Construction will include an asphalt parking lot, a 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 \$100,000 is projected into FY 2009 and again in FY 2011. The Parks

Maintenance and Street Division will incur additional recurring costs for grounds and parking lot maintenance. This project is funded by the City's 1% sales tax.

Project – Administration - City Hall - This project is for the design and ultimately construct of a New City Hall to be located in Old Town on city-owned property.

Fiscal/Programmatic Impact – Currently, the facilities are over-crowded, old, and scattered throughout Old Town and the community. A new facility will be built up to current life safety code standards, it would centralize City staff, eliminating unnecessary pedestrian and vehicle trips for staff and the public. This \$5.5M facility is expected to be designed in FY 2011 and completed in FY 2012.

Project HURF - Pavement Maintenance Program - This program executes pavement maintenance contracts that will extend the useful life of the streets. Pavement maintenance has typically been chip seal coating.

Fiscal/Programmatic Impact - The first two years of the program will also include crack sealing. Other types of seal coats such as slurry coats may also be used. Chip seals, however, are the only affordable treatment for most “local streets”. Historically Cottonwood gets a very long useful life out of all pavement types, far in excess of the expected useful life. Routine pavement maintenance is required to keep the streets from “going to gravel”. This ongoing program is funded through the HURF fund and the 1% construction sales tax initiated January 1, 2006. \$975,000 is programmed over the next five years.

Project – HURF - 6th Street Reconstruction - This reconstructs 2,600 feet of pavement from Mingus Avenue to SR 89A. The pavement thickness will be improved, to ensure it can handle the weight and the volume of traffic. The drainage problem will also be addressed.

Fiscal/Programmatic Impact - This \$500,000 reconstruction will have a 20-year useful life. A street of this quality in an industrial area as this one promotes business retention and development. This is a HURF and 1% construction sales tax project.

Project – HURF - 12th Street Reconstruction - This project is a 3,700 LF reconstruction project from SR 89A to Fir Street. Also includes reconstruction of a 2,000 foot segment of S. 12th street from Mingus to Birch.

Fiscal/Programmatic Impact - This \$1.7M reconstruction will have a 20-year useful life. It will add a sidewalk and correct the problems with the clayey sub soils. There is a planned vertical alignment to meet standards (hills and valleys). A full reconstruction includes curbs, sidewalk, and new asphalt pavement. This is a HURF and 1% construction sales tax project.

Project – HURF - Paula Street Reconstruction - This project reconstructs the access street in the Garrison Park/County Complex area to add curbs, gutters and sidewalks. The existing street is very narrow and lacks pedestrian facilities in spite of being in a park. If traffic is intensified by the proposed Cottonwood Recreation Center, increased pedestrian and bicycle traffic should be accommodated.

Fiscal/Programmatic Impact - The project will widen the road for easier access. It is also improving emergency response access, as well as access by pedestrians and bicycles. There is

also an opportunity to install a sidewalk on that street. This project is to be funded by the HURF and a 1% construction sales tax.

Project – Utilities – Regional Wastewater Treatment Plant - This project is proposed to purchase land, for the design and ultimate construction of a Regional Wastewater Treatment Plant.

Fiscal/Programmatic Impact - As the current plant reaches capacity, the ability to safely and effectively treat wastewater begins to deteriorate. We have a high priority to protect public health and safety. The City is recognized as the wastewater treatment provider for the Cottonwood area. The new plant would allow the City to redirect wastewater flow from the southeastern side of the City to the new plant and reduce pumping distance and cost. This \$22M dollar project will begin with land acquisition of \$2M in FY 2008 to be funded through existing reserves and other financing sources.

Project – Utilities - Replacement of Main Line Valves (on-going) - This project calls for the progressive replacement of defective or damaged main line valves.

Fiscal/Programmatic Impact - This continuous program replaces defective or damaged valves that are discovered during valve exercising procedures. Allocations for this project are \$100K annually between FY 2009 and FY 2011.

Project – Utilities – Fire Flow Upgrades - This program replaces undersized, substandard and defective water lines and installs fire hydrants in areas which do not currently have a sufficient amount of hydrants to provide adequate fire protection

Fiscal/Programmatic Impact - This project allows increased fire protection capability and replaces substandard and/or defective water lines which inhibit safe delivery of potable water. It will also reduce the amount of waterline repairs. The \$2.25M cost over the next five years will be provided through system improvement reserves and user fees.

Project – Utilities – Other System Improvements

This project aims to provide improved well capacity, as well as storage and booster pumping.

Fiscal/Programmatic Impact

The \$2.24M allocation will improve overall capacity of the system over the next five years and will provide for the continued growth in the Cottonwood area. The funding will be absorbed by the system improvements fund and user fees.

Community and Economic Development

Project – Parks - Cottonwood Farmer's Market – The City of Cottonwood continues to be part of the Old Town events by supporting the Farmer's Market through its Park and Recreation Department.

Fiscal/Programmatic Impact - The fiscal impact of the event is that of initial cost for extending electricity to the Old Town Ball field, where the event will be moved, and the cost of marketing the program. That cost is estimated at \$3,000.

Project – Parks - Summer Concert Series - The Summer Concert Series continues to be under the City’s Park and Recreation Department. It provides numerous evenings of music, dancing, foods and fun for the entire family.

Fiscal/Programmatic Impact

The fiscal impact of the event is the cost of marketing this program, which is estimated at \$3,000 for advertising. This event contributes to making Cottonwood a great place to spend evenings.

Public Safety

Project – Fire - Replacement of Aerial Ladder Truck - The acquisition of a 100’ ladder truck to replace a 20-year old 55’ ladder truck is meant to improve suppression and rescue capabilities as the demand for multi-story development in the community “rises”.

Fiscal/Programmatic Impact - This apparatus will be necessary to provide rescue and fire suppression services in these structures and others in the city. Its \$975,000 cost will be funded through a lease purchase program. The Debt Service on this equipment will be funded by the City’s .2% sales tax.

Project – Fire – Type 3 Fire Engine Pumper – The acquisition of a smaller Wild land/Interface Fire Engine/Pumper is necessary to provide an increased level of wild land interface fire response service in a cost effective manner.

Fiscal/Programmatic Impact - A Wildland/Interface fire engine will provide timely response to wildland and urban interface fires as well as support emergency response throughout the city. The purchase price is estimated to be \$300,000, and scheduled for FY 2011. This apparatus can generate thousands of dollars per year in the wildfire response program through our cooperation agreement with Arizona State Forestry.

Project – Fire – Fire Station – This project is for the design and construction of a fire station on Bill Gray Road to serve development and growth of the Cornville Road/Mingus Ave. & Hwy 89A annexation area. Site acquisition, design and construction of a fire station in the southwest Hwy 260 annexed area to serve future development.

Fiscal/Programmatic Impact – The imminent growth and development of Cottonwood indicates that fire stations are needed to provide timely response to our community in these areas and to provide additional staffed engines to meet the ever increasing demand for service throughout the City. The project cost is estimated at \$1.4M and is expected to be completed in FY 2011.

Project – Police - Communications and Evidence Storage Building - This program has an estimated \$4,050,000 price tag will allow the City to add some much needed space at the Public Safety Building.

Fiscal/Programmatic Impact – The department has outgrown its facilities and is in dire need of additional space. It has become apparent that the area needs a centralized location.

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 \$84,837,600. This figure is imposing and cannot realistically be funded from normal operating revenues (pay-as-you-go financing). It will be necessary for many of the proposed improvements to be funded through other sources. Such funding sources may be the 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 subsequent years. Projects qualifying for the City's CIP shall have a total value of \$35,000 or greater.

As in the past fiscal years, we have programmed and will continue restricting revenues specifically designated to capital improvements projects. There are policies outlining the requirements of the various restricted revenue sources. Restricted revenues have multiple projects assigned based on council guidance.

GRANTS FUND POLICY

-  Any grant that is programmed yet funding is not attained, will not be allowed to proceed.
-  Grants will only be budgeted if there is a strong indication that it will be obtained.
-  All grant application will be reviewed by staff for funding ability prior to application to ensure availability of matching funds.
-  Priority will be given to grant matching funds.
-  Sizeable matching funds and/or large percentage of contribution may keep some grants from being solicited.

Grants Fund

Funding Availability	2008-09	2009-10	2010-11	2011-12	2012-13
Beginning Balance	\$695,000	\$225,000	\$225,000	\$457,000	\$190,003
FAA Aeronautic Grants	882,900	495,000	515,700	515,701	515,702
ADOT Aeronautic Grants	49,050	27,500	28,650	28,651	28,652
Airport Fund Matching	49,050	27,500	28,650	28,651	28,652
Funds Available	1,676,000	775,000	798,000	1,030,003	763,009

Planned Expenditures

Airport

Land Acquisition (10.9 acres)					950,000
Relocate Segmented Circle	42,000				
Runway Lighting	450,000				
Land Acquisition (6.7 acres)				590,000	
Install All Weather Operating System				250,000	
Construct T-hangar Apron		50,000	341,000		
Land Acquisition (11 acres) update from (4.65 acres)	959,000				
Grading		500,000			
Subtotal Planned Expenditures	1,451,000	550,000	341,000	840,000	950,000
Resources Available	\$225,000	\$225,000	\$457,000	\$190,003	(\$186,991)

0.2% SALES TAX

This revenue source is derived from a .2% sales tax originally designated for the payment of debt service on the Public Library. In November of 1998 voters requested that any amount collected above the necessary debt service be restricted to capital improvements.

- Current commitments are priority
 - Library Debt Service
 - Public Safety Building – GADA Loan
 - Public Safety Furnishings - Lease Purchase
- Public Safety Fleets
 - Restricted to Public Safety capital
 - 1st priority is fleet
 - 2nd priority is to other projects
- 5% annual growth policy

.2% Sales Tax – Public Safety

Funding Availability	2008-09	2009-10	2010-11	2011-12	2012-13
Beginning Balance	\$526,365	\$853,867	\$679,598	\$129,429	(\$112,192)
Other Financing Sources					
LP - Aerial Ladder Truck		975,000			
LP - Police Vehicles	158,500				
Bonds - Fire Station & Fire Truck			1,425,000		
Bonds - PD Communications/Evidence Building	4,050,000				
Interest Income	18,423	29,885	23,786	4,530	(3,927)
Annual Deposit (net of DS)	793,190	836,495	887,770	936,830	994,045
Revenue	5,546,477	2,695,248	3,016,154	1,070,789	877,926
Financing Commitments					
GADA - Public Safety Building	272,775	273,755	267,830	267,831	267,832
Other Financing Uses					
LP - Public Safety Furnishings	27,125	-	-	-	-
LP - Aerial Ladder Truck			127,000	127,000	127,000
LP - Police Vehicles (06-07)	101,745	101,745	101,745		
LP - Police Vehicles (07-08)	42,300	42,300	42,300	42,300	21,150
LP - Police Vehicles (08-09)	18,165	36,330	36,330	36,330	36,330
LP - Fire Vehicles	90,000	90,000	90,000	90,000	90,000
Bonds - New Fire station				123,000	123,000
LP - Police Mobile Data Terminals	122,000	122,000	122,000	122,000	61,000
Bonds - Police Communications/Evidence Building		349,520	349,520	349,520	349,520
Subtotal Commitments	674,110	1,015,650	1,136,725	1,157,981	1,075,832
Revenue (net of commitments)	\$4,872,367	\$1,679,598	\$1,879,429	(\$87,192)	(\$197,906)
Planned Expenditures					
<u>Fire</u>					
Fire Mobile Data Terminals	25,000	25,000	25,000	25,000	10,000
Aerial Ladder Truck - (To be Lease Purchased)		975,000			
EMS Replacement Program	50,000				50,000
Fire Engine Pumper			300,000		
Fire Suppression & Safety Equipment	50,000				50,000
Future Fire Station & Fire Engine Pumper (Bonds)			1,425,000		
<u>Police</u>					
Police Vehicle Replacement Program	158,500				
Communication & Evidence Storage Building	3,700,000				
Evidence Bar Coding Software	35,000				
Subtotal Planned Expenditures	4,018,500	1,000,000	1,750,000	25,000	110,000
Resources Available	\$853,867	\$679,598	\$129,429	(\$112,192)	(\$307,906)

1.0% SALES TAX

This revenue source is derived from a 1.0% sales tax originally designated for the payment of debt service on the Wastewater Treatment Plant. This tax was to sunset on July 1, 2007, however, the City Council approved to implement a 1% Sales Tax effective July 1, 2007 to be used for capital improvement projects.

-  Anticipated commitment of funds
 - Remaining revenue prorated among remaining areas
 - 19% General Government M&O – (10%/55%)
 - 81% Capital projects – (45%/55%)
 - 27% Street Improvements
 - 27% Future Sewer Facility Improvements
 - 27% General Government facilities
-  5% annual growth policy

1.0% Sales Tax					
Funding Availability	2008-09	2009-10	2010-11	2011-12	2012-13
Beginning Balance	\$16,048,440	\$659,570	\$704,730	\$142,290	\$321,297
Accumulation Fund					
Other Financing Sources					
Bonds - City Hall				5,000,000	
Interest Income	561,695	23,085	24,666	4,980	11,245
Annual Deposit	2,502,360	3,044,400	3,139,380	3,242,100	3,347,680
Funds Available	19,112,495	3,727,055	3,868,776	8,389,371	3,680,222
Financing Commitments					
Recreation Center DS	1,511,425	1,511,125	1,514,725	1,512,225	1,512,710
Reimbursement to GF - CAF for Riverfront Park (Bonds)					
City Hall DS					500,000
Subtotal Commitments	1,511,425	1,511,125	1,514,725	1,512,225	2,012,710
Revenue (net of commitments)	\$17,601,070	\$2,215,930	\$2,354,051	\$6,877,146	\$1,667,512
Planned Expenditures					
<u>Culture & Recreation</u>					
Recreation Center (Bonds)	15,500,000				
Maintenance Building	560,000				
Civic Center Renovation			130,000		
Urban Trail System	100,000		100,000		
<u>General Government</u>					
City Hall			500,000	5,000,000	
Old Town Field -Heritage Park Project	50,000	100,000			
Additional M&O needs	731,500	1,411,200	1,481,761	1,555,849	1,633,641
Subtotal Planned Expenditures	16,941,500	1,511,200	2,211,761	6,555,849	1,633,641
Resources Available	\$659,570	\$704,730	\$142,290	\$321,297	\$33,871

Highlighted in this five year plan is a request by management for additional funding to cover increases in maintenance & operations, including staffing, due to the many projects in the overall Capital Improvement Plan.

HIGHWAY USER REVENUE FUND (HURF) AND TRANSIT

These funding sources come from several areas. State HURF may be used for maintenance and operations as well as capital projects. The City also approved an increase in the City’s tax on construction activities by 1% to be designated to street improvements. Another is grant funding for major street projects, and 27% of the 1% City Sales Tax mentioned in the previous restricted revenue section. These sources have council imposed guidelines.

-  1% construction sales tax will be used by this fund.
-  27% of the 1% general sales tax will be allocated to HURF after the Recreational Center Debt Service and need for maintenance operations is met
-  Uses of these revenue resources
 - Street Department M&O
 - Street construction
 - Street Capital
-  Transit programs
-  All major street projects will have a 10% restricted funding component to be used for
 - Sidewalks
 - Landscape
 - Bike paths & trails
-  2.5% annual growth policy

Highway User Revenue Fund - HURF

Funding Availability	2008-09	2009-10	2010-11	2011-12	2012-13
Beginning Balance	\$107,531	\$435,456	\$295,745	\$950,330	\$1,204,240
HURF Funds (net M&O)	97,690	95,645	82,290	71,685	59,855
1% Construction Sales Tax	176,400	185,220	194,480	204,205	214,415
Grants					
Grants - CDBG	370,000				
General Fund Contribution (including portion of 1% Sales Tax)	855,835	744,424	802,815	863,020	927,080
Funds Available	\$1,607,456	\$1,460,745	\$1,375,330	\$2,089,240	\$2,405,590
Planned Expenditures					
<u>Streets Construction & Maintenance</u>					
Willard Street Extension					
Pavement Maintenance Program	175,000	185,000	195,000	205,000	215,000
Sidewalk Additions Alternative	80,000	80,000	80,000	80,000	80,000
6th St. Reconstruction		500,000			
12th St. Reconstruction (CDBG)	516,000				
W. Mingus St. Reconstruction					
Paula St. Reconstruction	345,000				
10th Street Reconstruction		400,000			
12 S. St. Reconstruction				600,000	600,000
Street Sweeper			150,000		
Dump Trucks	56,000				
Subtotal Planned Expenditures	1,172,000	1,165,000	425,000	885,000	895,000
Resources Available	\$435,456	\$295,745	\$950,330	\$1,204,240	\$1,510,590

WASTERWATER USER FEES

User fees for Wastewater are not sufficient enough to cover capital projects that are planned for the future in this department. Other revenue sources have been allocated to assist this enterprise fund with its capital needs.

Wastewater User Fees

Funding Availability	2008-09	2009-10	2010-11	2011-12	2012-13
Beginning Balance	\$13,202,297	\$12,380,212	\$13,482,944	\$13,757,663	\$12,902,201
1% Sales Tax Portion	855,835	744,425	802,815	863,020	927,000
Other Funding Sources			22,000,000		
Interest Income	462,080	433,307	471,903	481,518	451,577
Funds Available	\$14,520,212	\$13,557,944	\$36,757,663	\$15,102,201	\$14,280,778
Financing Commitments					
Regional Wastewater Treatment Plant - DS			1,000,000	2,200,000	2,200,000
Subtotal Commitments	0	0	1,000,000	2,200,000	2,200,000
Revenue (net of commitments)	\$14,520,212	\$13,557,944	\$35,757,663	\$12,902,201	\$12,080,778
Planned Expenditures					
<u>Wastewater</u>					
Wastewater Treatment Plant Construction			22,000,000		
Increase Wet Well Capacity	75,000	75,000			
Land Acquisition	2,000,000				
Sewer Collection Cleaning	65,000				
Subtotal Planned Expenditures	2,140,000	75,000	22,000,000	0	0
Resources Available	\$12,380,212	\$13,482,944	\$13,757,663	\$12,902,201	\$12,080,778

Accumulated reserves from a 1% sewer debt service sales tax that was being set aside in the Debt Service Fund have been included into this capital plan. Since this amount is not sufficient to cover the entire cost of a new treatment plant, other funding sources will be explored.

WATER USER FEES

The Water Utility, unlike the Wastewater, is designed to be self-sufficient. It provides enough revenue to cover maintenance, operations, administration, debt service, and capital improvements. User fees provide the majority of the revenue for this utility.

Upon acquisition of the water companies, the City included additional proceeds in the bond issue for future system improvements. That has become useful since the system was in need of some serious attention.

Water User Fees

Funding Availability	2008-09	2009-10	2010-11	2011-12	2012-13
Beginning Balance	\$4,600,390	\$3,792,800	\$3,243,494	\$2,337,434	\$2,146,375
User Fees	1,007,410	1,060,694	1,258,940	1,258,941	1,258,942
Bond Capital Reserves					
Funds Available	\$5,607,800	\$4,853,494	\$4,502,434	\$3,596,375	\$3,405,317

Planned Expenditures

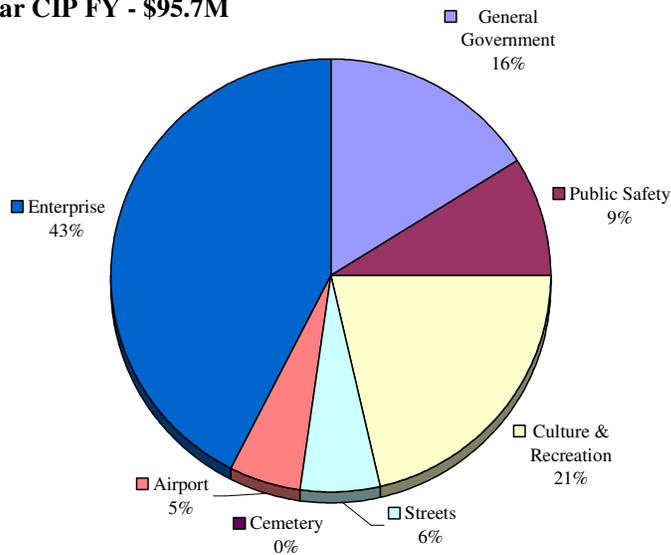
<u>Water</u>					
Arsenic	950,000	950,000	950,000	950,000	950,000
Construction Manager at Risk					
Valves	100,000	100,000	100,000		
Wells	150,000	200,000	500,000		
Fire Flow Upgrades	500,000	250,000	500,000	500,000	500,000
Storage	80,000	85,000	90,000		
Booster Pumping	35,000	25,000	25,000		
Vehicle Purchases					
Subtotal Planned Expenditures	1,815,000	1,610,000	2,165,000	1,450,000	1,450,000
Resources Available	\$3,792,800	\$3,243,494	\$2,337,434	\$2,146,375	\$1,955,317

The City will enter into an operating lease contract for its arsenic treatment equipment. This will allow the City to investigate new technologies are being developed in the future. Currently, the City is working with a Construction Manager at Risk to get all the facilities prepared to accept the new treatment equipment.

SUMMARY OF CAPITAL

Funding Availability	2008-09	2009-10	2010-11	2011-12	2012-13
Beginning Balance	\$36,175,081	\$19,804,413	\$20,745,714	\$20,582,393	\$20,193,236
Taxes	5,183,620	5,554,964	5,827,260	6,109,175	6,410,220
User Fees	1,007,410	1,060,694	1,258,940	1,258,941	1,258,942
Excess Revenue	97,690	95,645	82,290	71,685	59,855
Grants	1,351,000	550,000	573,000	573,003	573,006
Interest Income	\$1,121,437	\$587,723	\$645,270	\$640,733	\$634,769
Other Financing Sources	4,050,000	975,000	23,425,000	5,000,000	0
Water Resource Revenues	541,710	555,250	569,130	583,360	597,945
Revenue	49,527,948	29,183,689	53,126,604	34,819,291	29,727,973
Financing Commitments					
Annual Debt Service - Bonds & Capital Leases	2,185,535	2,526,775	3,651,450	4,870,206	5,288,542
Subtotal Commitments	2,185,535	2,526,775	3,651,450	4,870,206	5,288,542
Revenue (net of commitments)	\$47,342,413	\$26,656,914	\$49,475,154	\$29,949,085	\$24,439,431
Planned Expenditures					
General Government	781,500	1,511,200	1,981,761	6,555,849	1,633,641
Public Safety	4,018,500	1,000,000	1,750,000	25,000	110,000
Culture & Recreation	16,160,000	0	230,000	0	0
Streets	1,172,000	1,165,000	425,000	885,000	895,000
Airport	1,451,000	550,000	341,000	840,000	950,000
Enterprise	3,955,000	1,685,000	24,165,000	1,450,000	1,450,000
Subtotal Planned Expenditures	27,538,000	5,911,200	28,892,761	9,755,849	5,038,641
Resources Available	\$19,804,413	\$20,745,714	\$20,582,393	\$20,193,236	\$19,400,789

Consolidated Expenditures 5 Year CIP FY - \$95.7M



Planned Expenditures

General Government	\$12,463,950
Public Safety	6,903,500
Culture & Recreation	16,390,000
Streets	4,542,000
Cemetery	0
Airport	4,132,000
Enterprise	32,705,000
Capital Purchases	77,136,450
Other Financing Uses	18,522,508
Total Capital & Financing	\$95,658,958

Funding Availability

Taxes	\$29,085,239
User Fees	5,844,927
Excess Revenue	407,165
Grants	3,620,009
Interest Income	3,629,932
Reserves	-
Other Financing Sources	33,450,000
Water Resource Revenues	2,847,395
Use of Reserves	16,774,292
Total	\$95,658,958

Long Range Financial Projections

GENERAL FUND

<u>Revenues</u>	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Taxes	\$8,286,710	\$8,615,780	\$8,961,050	\$9,323,323	\$9,701,400
Licenses and Permits	519,120	534,694	550,734	567,256	584,274
Intergovernmental Revenues	3,521,798	3,575,683	3,633,846	3,696,442	3,843,604
Charges for Services	853,749	874,821	896,460	918,679	935,520
Fines and Forfeitures	254,959	262,517	270,303	278,322	286,582
Use of Monies & Properties	265,700	255,596	275,590	265,684	285,879
Miscellaneous Revenues	26,606	27,355	28,128	28,925	32,843
Other Financing Sources	23,490	23,490	23,490	23,490	23,490
Total Revenues	\$13,752,132	\$14,169,936	\$14,639,601	\$15,102,121	\$15,693,592

<u>Expenditures</u>	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
General Government	\$6,841,556	\$7,154,222	\$7,267,426	\$7,407,813	\$7,657,498
Public Safety	5,635,057	5,873,754	6,141,552	6,424,695	6,704,730
Culture & Recreation	823,414	1,108,309	1,179,204	1,230,257	1,273,204
Total Expenditures	\$13,300,027	\$14,136,285	\$14,588,182	\$15,062,765	\$15,635,432
Gain/(Loss)	\$452,105	\$33,651	\$51,419	\$39,356	\$58,160

CONCLUSION

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

Other issues that are out of the City's control are some of the rising employee benefits costs. Health insurance for employees and their dependents are increasing by an average of 5% for fiscal year 2008. Fortunately, workman's compensation has been improving in recent years, thus lowering City's experience modifier (E-mod).

Rising fuel prices are a very large part of the City's cost. These rising costs affect our fleets, our utilities, and our ability to do our jobs efficiently. There are also the required capital reserves that need to be met. To fund these reserves, the General Fund will run a deficit in the current operating budget that will have to be covered by fund balance. That, too, poses a different set of issues.

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

Revenues	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Street Department	\$1,119,897	\$1,149,066	\$1,179,016	\$1,209,784	\$ 1,241,376
Transit System	670,033	710,973	755,356	803,569	856,048
Library	899,207	946,753	997,685	1,052,349	1,111,134
Airport	74,900	74,900	74,900	74,900	74,900
Grants	500,000	500,000	500,000	500,000	500,000
CDBG	0	0	0	0	0
Total Revenues	\$3,264,037	\$3,381,692	\$3,506,957	\$3,640,602	\$3,783,458

Expenditures	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Street Department	812,142	837,127	874,111	909,054	945,955
Transit System	670,033	710,972	755,356	803,569	856,048
Library	899,206	946,753	997,685	1,052,349	1,111,134
Airport	64,920	66,000	67,130	68,820	70,070
Grants	500,000	500,000	500,000	500,000	500,000
CDBG	0	0	0	0	0
Total Expenditures	\$2,946,301	\$3,060,852	\$3,194,282	\$3,333,792	\$3,483,207
Gain/(Loss)	\$317,736	\$320,840	\$312,675	\$306,810	\$300,251

CONCLUSION**Street Department**

Revenues are a bit more stable in the Streets Department since the City Council approved a 1% contracting activities sales tax designated for street improvements. This will reduce the need for the City's General Fund to transfer in operating funds. This sales tax is to assist this fund in increasing its street improvement endeavors, including street reconstruction, additional sidewalks, and pavement preservation projects.

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.

Airport

Efforts are being made to improve the Airports image in the community. Some of the things on the horizon are installing a card system on the fueling depot, leveraging fuel prices downward by buying fuel in bulk quantities of over 4,000 gallons at a time and establishing an Airport Commission to assist the City in taking care of the needs at the facility.

Other Departments

The remaining departmental expenditures are tied to the actual revenues received. Any expenditure that exceeds the projected revenue sources will be paid for through a General Fund transfer in.

DEBT SERVICE FUND

<u>Revenues</u>	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Taxes	\$155,170	\$153,478	\$156,482	\$153,931	\$156,075
Interest Income	1,830	1,922	2,018	2,119	2,225
Total Revenues	\$157,000	\$155,400	\$158,500	\$156,050	\$158,300
<u>Expenditures</u>	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Interest Payments	\$37,000	\$30,400	\$23,500	\$16,050	\$8,300
Principal Payments	120,000	125,000	135,000	140,000	150,000
Total Expenditures	\$157,000	\$155,400	\$158,500	\$156,050	\$158,300
Gain/(Loss)	\$ 0				

CONCLUSION

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 5.5x in FY 2007 to 6.0x in FY 2008. This trend is expected to continue to increase, demonstrating exceptional coverage. Final disposition of the library debt service and the .2% sales tax is July 1, 2013.

The Debt Service for the water company is reflected in the Enterprise Funds. January 2006 was the month in which the City of Cottonwood completed the acquisition of the final local water company.

ENTERPRISE FUND - SEWER

<u>Revenues</u>	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
User Fees	\$1,432,120	\$1,475,347	\$1,519,878	\$1,565,760	\$1,613,034
Miscellaneous Income	54,600	55,400	56,222	57,066	57,933
Total Revenues	\$1,486,720	\$1,530,747	\$1,576,100	\$1,622,826	\$1,670,967

<u>Expenses</u>	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Operations	\$1,061,880	\$1,119,679	\$1,179,939	\$1,243,851	\$1,311,932
Administration	173,020	178,923	187,633	196,893	206,752
Total Expenses	\$1,234,900	\$1,298,602	\$1,367,572	\$1,440,744	\$1,518,684
Gain/(Loss)	\$251,820	\$232,145	\$208,528	\$182,082	\$152,283

ENTERPRISE FUND - WATER

<u>Revenues</u>	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
User Fees	\$4,962,190	\$5,210,300	\$5,340,557	\$5,474,071	\$5,610,923
Service Charges	90,400	94,920	97,293	99,725	102,218
Connection Fees	4,100	4,305	4,413	4,523	4,636
Other Income	154,430	162,152	166,206	170,360	174,669
Total Revenues	\$5,211,120	\$5,471,677	\$5,608,469	\$5,748,679	\$5,892,446

<u>Expenses</u>	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Operations	\$1,375,410	\$1,472,161	\$1,531,009	\$1,583,366	\$1,520,348
Administration	370,735	368,052	386,794	406,764	428,073
Debt Service	1,980,354	2,298,604	2,520,280	2,530,804	2,513,804
Total Expenses	\$3,726,499	\$4,138,817	\$4,438,083	\$4,520,934	\$4,462,225
Gain/(Loss)	\$1,484,621	\$1,332,860	\$1,170,386	\$1,227,745	\$1,430,221

CONCLUSION

The Enterprise Funds, which includes the Water and Wastewater Divisions, are 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 Water Division also only relies on its user fees to fund all of its operations, including capital projects and debt service. Other revenue sources for the Water and Wastewater Divisions are interest on investments, building rentals, sale of effluent, and miscellaneous income.

CEMETERY TRUST FUND

<u>Revenues</u>	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Other Income	\$165	\$174	\$172	\$191	\$202
Charges for Services	8,269	8,682	9,117	9,572	10,050
Operating Revenues	8,434	8,856	9,289	9,763	10,252
Operating Transfers In	43,080	45,592	48,293	51,204	54,344
Total Revenues	\$51,514	\$54,448	\$57,582	\$60,967	\$64,596

<u>Expenditures</u>	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Operations	\$51,514	\$54,448	\$57,592	\$60,967	\$64,596
Total Expenditures	\$51,514	\$54,448	\$57,592	\$60,967	\$64,596
Gain/(Loss)	(\$0)	(\$0)	(\$0)	(\$0)	(\$0)

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. Currently, the City is preparing to move forward with constructing a new Cemetery. 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 8.9% for the past five years, estimated through the period ending June 30, 2007. Fiscal year 2007, however, has shown decline in our sales tax revenues with a 2.0% decrease over FY 2006. For fiscal year 2008, a conservative approach is being maintained in estimating city sales tax for the year. We are currently projecting a 5% growth in local sales tax.

Residential and commercial construction valuations are 5.0% higher than FY 2006 for the same period. The construction category currently represents 5.3% of our sales tax base. This category has ranged from sub 2.8% in the late 80's to nearly 11.3% in the late 90's. Wholesale and retail trade has increased an average of 10.1% per year over the last five years. Retail sales tax collection compared to total sales tax has been around 65% of total sales tax. Combined, these three components represent 76.2% of our sales tax base.

Retail sales tax revenues are projected to increase by 5.0% for fiscal year ending June 30, 2007. This includes the construction activities sales tax currently designated to street improvements.

For Fiscal Year 2008 the increase for all funds is 44.8% over revised figures of \$59,742,495 in FY 2007. The cause of the increase is the \$20M Greater Arizona Development Authority (GADA) loan for \$20M for multiple projects, and the use of reserve funds for major construction projects. A listing of All Funds Consolidated Revenues by Sources is on page 62. A further breakdown by source and fund may be found on page 64.

Consolidated Expenditures - All Funds

Expenditure projections for Fiscal Year 2007 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 slightly over 4%, excluding any personnel requests and salary adjustments. This increase is predominately due to increases in 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 individually and in a general budget update work session.

Included in the budget is the addition of five new full-time equivalents (FTEs), the implementation of a Longevity Pay Program, and a 2% Cost of Living (COLA) for all employees. The budget also includes the continuation of the vehicle replacement program for the Police Department, the design work for the Recreation Center, the completion of the Library Expansion, the Arsenic Remediation Project, and numerous other capital projects and capital equipment acquisitions. These items are detailed on the Capital Outlay Summary on pages 264-271 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 Schedules with accompanying graphs are provided on pages 67, 71, and 72 of this document.

Taxes

Special attention was given to our local city sales tax. In developing the Fiscal Year 2008 budget, total local sales tax revenues were conservatively projected to increase 5.0%. This included an additional 1% increase in Construction Sales Tax designated for the HURF. Local city sales tax compared to total operating revenues in the General Fund have increased in importance from 40% in FY 1999 to an approximately 51% in FY 2008. Note that this year Council has allocated part of the 1% City sales tax formally allocated to the Debt Service Fund to the General Fund. Large fluctuations in the economy can dramatically affect this revenue source.

Residential and commercial construction valuations are 5.0% higher than in FY 2006 for the same period. The construction category currently represents 5.3% of our sales tax base. This category has ranged from sub 2.8% in the late 80’s to nearly 11.3% in the late 90’s. Wholesale and retail trade has increased an average of 10.1% per year, over the last five years. Retail sales tax collection compared to total sales tax has been around 65% of total sales tax. Combined, these three components represent 76.2% of our sales tax base.

Retail sales tax revenues are projected to increase by 5% for fiscal year ending June 30, 2008. Construction sales tax receipts are projected to increase, predominately due a 1% increase to benefit the HURF. Retail sales tax, in the past two years, has increased its percent total with FY 2006 and FY 2007 seeing a 66.2 percent and 69.62 percent, respectively. This category obviously continues to be the mainstay of our sales tax base. In developing long-range revenue projections, sales tax revenues are projected to increase a conservative 5% every year from fiscal years 2008 through 2013. This fiscal year we expect to see a 60% spike in available revenues after the restrictions are lifted on the 1% sales tax previously reserved for Sewer Debt Service. After which, it settles in at about 5% through FY 2013. This spike is reflected in the 5-year maintenance & operations plan. It is however reflected in the five-year capital improvements plan.

State shared revenues constitute 25.4% of total operating revenues or about \$3.35M for FY 2008. 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 no longer receives a 1% fee for water, since it acquired all the local water companies. It does, however, collect 1% for power, 2% for gas, and a 3% fee for cable television. Franchise revenues have increased an average of 2.7% per year over the past five years. With the loss of the Water Franchise fees, this year's budget reflects a very conservative increase of 4.3%.

Licenses and Permits

License and permit revenues which had peaked in FY 1998 have had some dramatic swings in the past with an estimated \$490,225 for FY 2007. It is expected to begin to pick up with some project currently on the drawing board and to stay in the lower to mid \$500K for the next year or two as more commercial establishments and several residential developments get under way. For next year, license and permit revenues are projected to increase by about 7% to \$524,750.

Intergovernmental Revenues

Intergovernmental revenues have a combined increased average of 7.64% per year for the past five years, with the last two years posting double digits. 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 13.1% for this year, including all police and fire grants. The State Shared Income Tax is distributed to the cities based on collections two years prior. The large increase (24.1%) 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. This revenue stream fluctuates from year to year. This revenue source is projected to decrease by about 1.6% this year.

Fines and Forfeitures

Fines and forfeitures have increased an average of 9.2% per year over the past five years. There was a sharp increase in FY 1999 due to a new judge being sworn in. This increase again spiked in FY 2002 as an additional motorcycle officer was placed into service late in the previous year. For the upcoming year, revenues in this area are expected to increase about 4.9%.

Uses of Monies and Properties

Uses of monies and properties revenues showed an all time high in FY 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 having dipped to sub 2% interest. A 24.1% is estimated for FY 2008 in the area of interest income as the City is anticipating stabilization in interest rates and 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). With the preparation of the five year capital plan, this policy will be a very useful tool.

Miscellaneous

Miscellaneous revenues have always fluctuated wildly with donations and one-time revenues that do not fit into other revenue line accounts.

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 42.4% this fiscal year. This translates to a \$5,169,870 increase over the previous fiscal year of \$12,192,200. This net increase includes \$3,365,015 in reserves, some rollover projects, and \$178,456 in additional personnel, including their related benefits.

The budget includes a Longevity Program to be implemented July 01, 2007 to provide additional pay to employee with over 5 years tenure and is based on their individual job compa ratio. This budget also includes a 2% Cost of Living Adjustment (COLA).

Additional staffing includes a Project Manager, a Budget Analyst, and a Police Officer in the General Fund.. Other increases in the budget include a 5.4% increase in retirement contributions from 9.1% to 9.6%. This year also saw 22 requests for staffing; unfortunately, the decision was made to add only 6 FTEs.

Additional Positions

FTE Description	Timing		Budgeted
Project Manager	¾ year	40	\$43,354
Budget Analyst	¾ year	35	39,144
Police Officer	½ year	37	32,321
Total Additional Personnel			\$114,819

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. A containment effort by the Verde Valley Employee Benefits Pool has helped to

keep costs down. Beginning July 1, 2007 there will be a 5% average increase in dependent health insurance. This is not as bad an increase as the double digit increases in past years.

Operating supplies category has decreased from \$407,865 last year to \$401,945 this year. This slight 1.4% decrease is basically due to the stabilization in fuel and utility costs. 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.

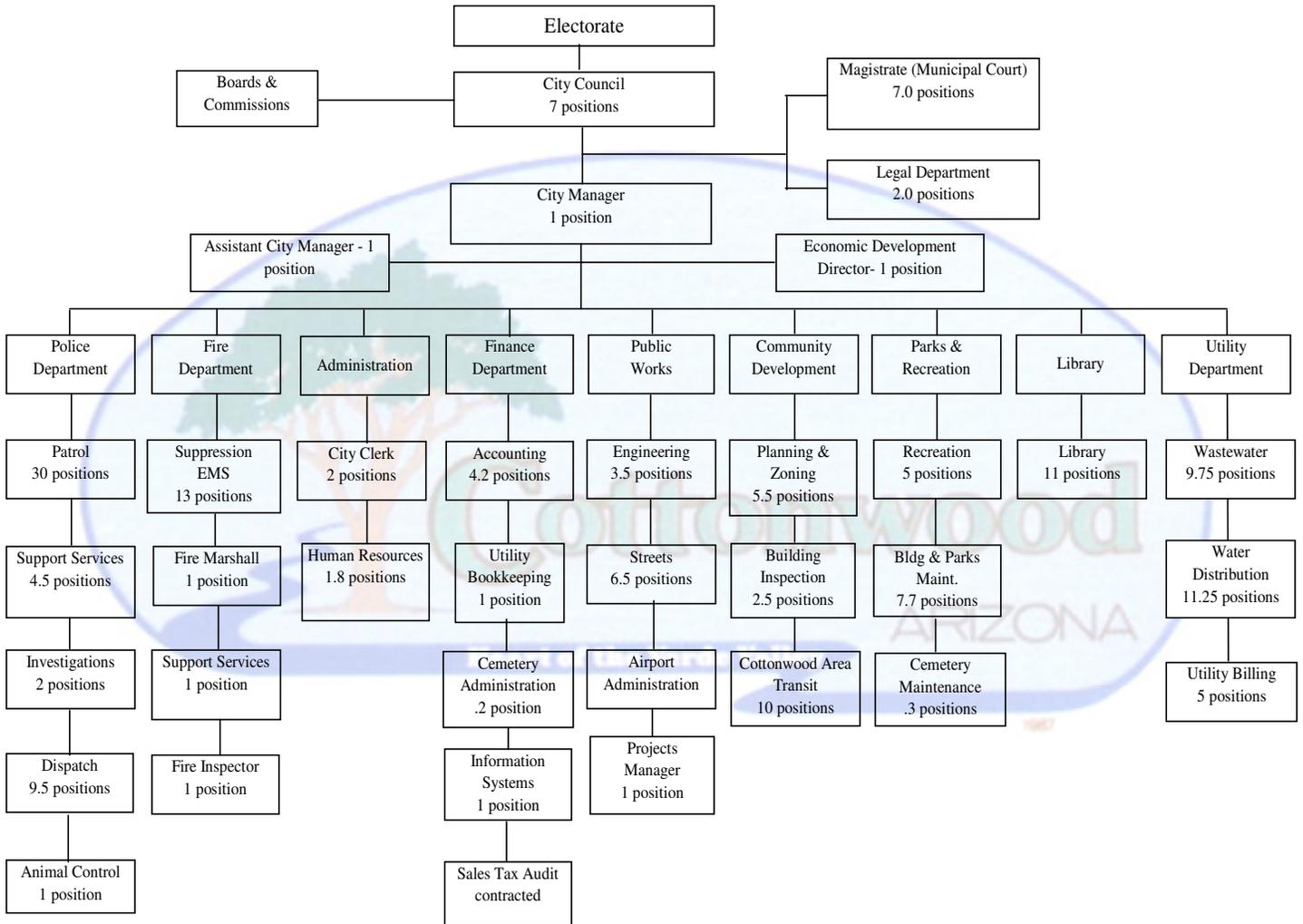
Contractual Services is anticipated to increase by 10.0%. The City major agreement causing the substantial increase is one of reimbursement of sales tax to the commercial developer which provided the infrastructure to being in the WalMart Supercenter. The other major increase is in the fire dispatching contract with Sedona Fire District.

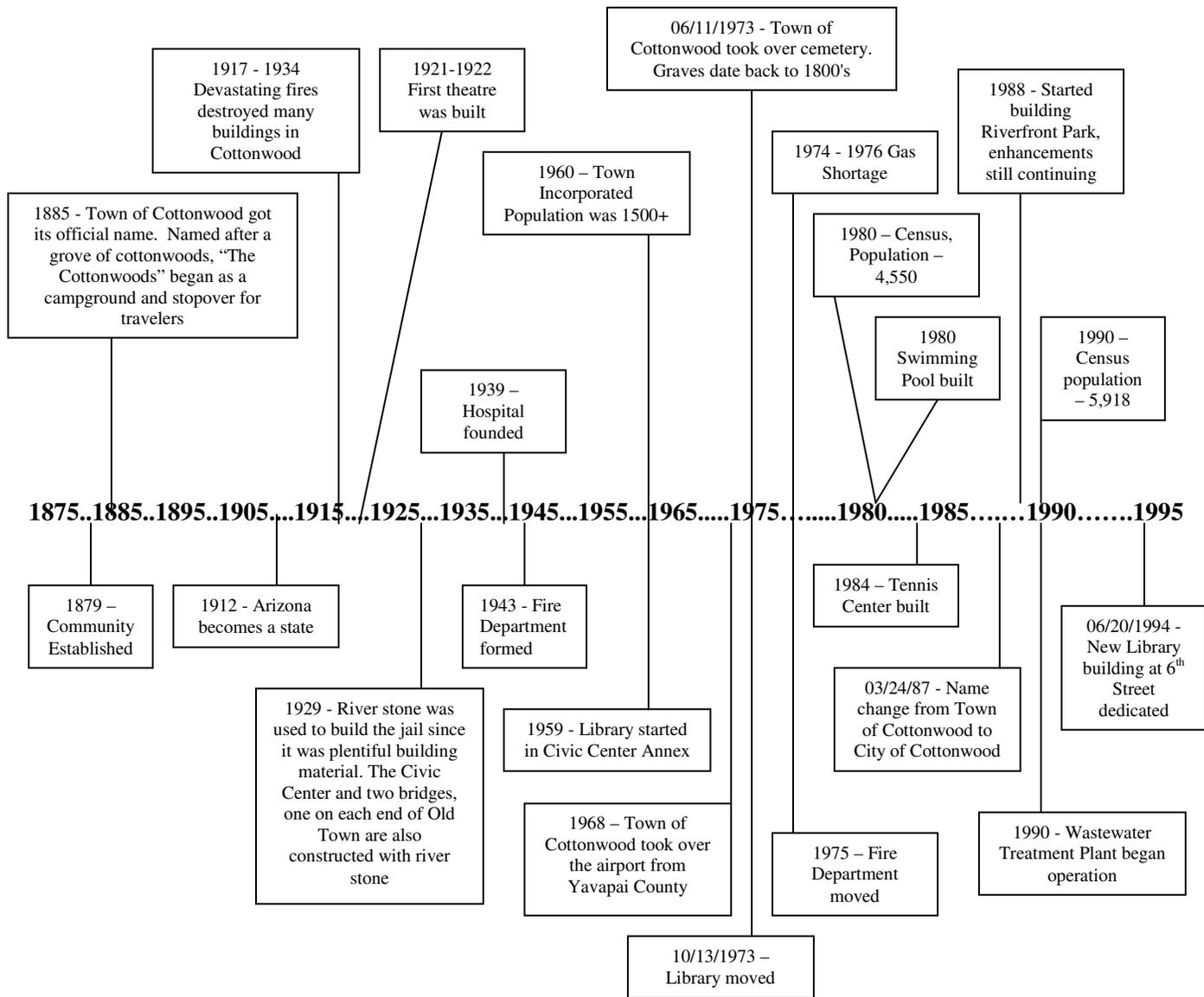
Other services and charges reflect a 2.41% increase or \$299,075. This category contains changes in grant funding for the Police and Fire.

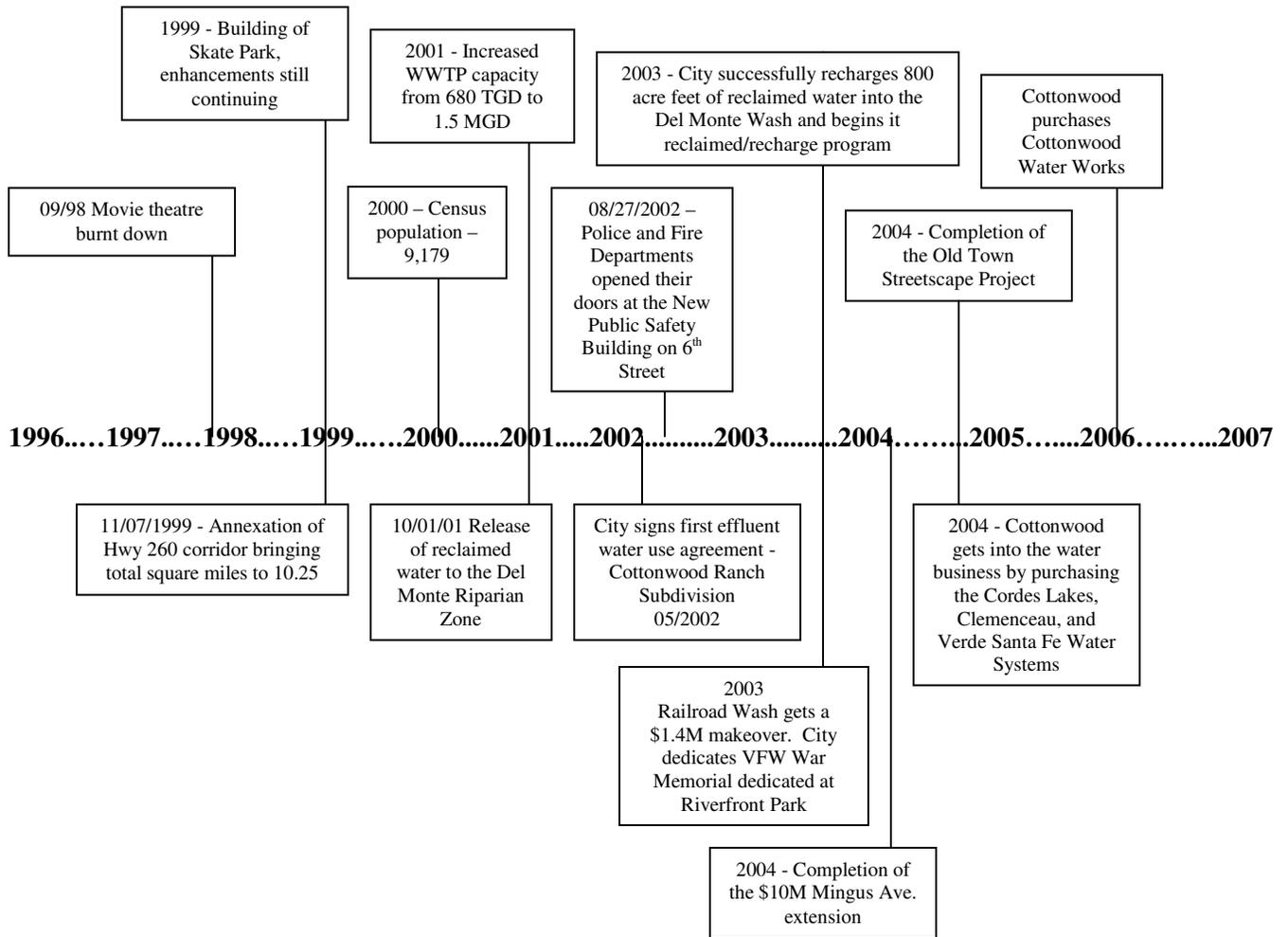
Capital Outlay increased by \$108,730 or 8.0% over last year's revised figure of \$1,346,000. This small increase is due to the rollovers and some capital grants that are being budgeted this fiscal year.

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, 2006

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, 2006. 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.