

City of Cottonwood, Arizona

Executive Summary

BACKGROUND INFORMATION

The City of Cottonwood is situated in central Arizona bordering the Verde River to its north. The total geographic area is 15.75 square miles. Cottonwood is near the geographic center of Arizona near Interstate 17 on State Highways 89A and 260. The 2000 Census places the population at 9,179. Cottonwood is the retail and services center for upper Verde Valley Area. The main industries are tourism, government services, retail and education.

GOVERNMENTAL ORGANIZATION AND SERVICES PROVIDED

The Community of Cottonwood was settled in 1879. The first settlers were ranchers utilizing the fertile grasslands along the Verde River to feed their herds. The city incorporated in 1960 as the Town of Cottonwood. In 1987, the voters approved a name change from Town to City. 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.

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

BUDGET PHILOSOPHY/POLICIES

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

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

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

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

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

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

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

BUDGET PROCESS

The budget process is always a cyclical process. A "beginning point" is the preparation of the base budget by each department head. These budgets are based on expenditures to date and the previous year's experience. The department's 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 department's requests, a tentative budget is presented to the City Council by the City Manager in June.

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

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

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

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

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

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

The implementation process consists of city management and departments monitoring revenues and expenditures in conjunction to responding to the demands of the community. These activities lead

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directly to the preparation of next year=s budget. Thus, some part of the budgetary process for the current year is occurring simultaneously with preparation for the next year=s budget.

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

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

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 2003-04

1. Distribute Budget Worksheets & Instructions	March 02, 2004
2. Distribute Goals & Performance Measures Forms	March 09, 2004
3. Budget Worksheets Due to Finance	March 12, 2004
4. Goals & Performance Measures due to Finance	March 19, 2004
5. 1 st Round Budget Meetings (Dept Heads / Finance)	March 22 - 26, 2004
6. Budget Meetings (Dept Heads / Finance / City Manager)	April 05 – April 09, 2004 April 12 – 16, 2004
7. Present Draft Budget to City Council	Early May 2004
8. Budget Work Sessions with City Council	May / June, 2004
9. Adopt Tentative Budgets, set Expenditure Limitation	July 06, 2004
10. Adopt Final Budget	August 03, 2004

PROCESS FOR CHANGING THE BUDGET

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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 budget legally must be approved by the City Council. The budget amendment process has been developed to provide for such adjustments.

Expenditures may not legally exceed expenditure limitations of all fund types as a whole. The types of adjustments that must be handled through the budget amendment process include additional funding above the department's budget allocations, request for new positions, reclassification of existing positions, capital projects exceeding \$2000, 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.

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FUND DESCRIPTIONS

Governmental Funds

General Fund - The General Fund is the general 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 special assessments, expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes.

Debt Service Fund - The Debt Service Fund accounts for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

Capital Project Fund - The Capital Project Fund accounts for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds).

Proprietary Funds

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

Internal Service Fund - The Internal Service Fund is used to account for the City's limited risk self-insurance program for employee and dependent medical care.

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.

Expendable Trust Fund - The Expendable Trust 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.

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All Governmental and Expendable Trust 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 Pension Trust Funds are accounted for using the accrual basis of accounting. The recording of 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, Capital Projects, and Expendable Trust 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 Funds (Sewer Enterprise and Internal Service Fund), on the other hand, are budgeted on a full accrual basis. Not only are expenditures recognized when a commitment is made (as with 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).