To: Honorable Mayor and City Council July 06, 2004

From: Brian Mickelsen, City Manager

Subject: **Tentative Budget - Fiscal Year 2004-05**

It is my pleasure to present to you the tentative budget for fiscal year 2004-05 for Mayor and City Council review. This year's total proposed budget is $69,002,735. This is an increase of $42,885,025 or 164.2% from the previous fiscal year's revised budget of $26,117,710. These figures include all carryover amounts. This increase is largely attributed to the many projects being proposed for the new fiscal year. This year's budget includes several rollover projects that have not yet started or will not be completed prior to the close of the current fiscal year and therefore are budgeted in the 2004-05 budget.

Among the rollover projects are the Railroad Wash Improvements, Riverfront Park / Heritage Grant Improvements, Airport Improvements, Water Systems acquisition, Phase II and III Old Town Renovations, and the State Route 260 Sewer Line Extension. These projects alone total $34,765,000. One major new capital project for this year is the Library Facility Expansion Project with a budget of $1,198,560.

Operating transfers out from the General Fund decreased by $209,650, which includes the City's contribution to the Riverfront Park Improvements. Included in the transfers out from General Fund is $360,430 to cover the GADA Loan payments in the Debt Service Fund, $23,070 to the Cemetery and $502,740 to the Library.

General Commentary

The preparation of the budget continues to pose challenges to all department heads this year. Continued difficult economic conditions and rising costs of insurance, including health, workers compensation, and general liability has tightened its grip on budgets that are having difficulties providing the quality services we are all used to. Our budget development involves similar processes used in the past. Each department head prepares 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 services. Department heads then present their budget requests for new personnel, personnel reclassifications, equipment, and new programs.

In developing the fiscal year 2004-05 operating budget, General Fund sales tax revenues, being over 45% of the General Fund budget, are conservatively projected to increase by 6%. This estimated increase is based on a continued upward trend in the local economy. Some of the challenges preparing the budget this year included a 15% increase in health and medical insurance, a 7% hike in our workman's compensation insurance, and a substantial amount of capital equipment requests.

Budget Reserves Policy

This budget continues the prior year fund balance policies of the City. A restricted reserve of $856,050, representing 12.5% of the previous fiscal year's General Fund revenues, or 45 days expenditures coverage, is set-aside in the City Council's budget.

An additional accumulating reserve of 2.67% of the previous year's general fund operating revenues is reserved for capital projects. This year represents the ninth year of this policy with $832,040 reserved in the City Council budget for capital projects. This amount has decreased by $30,380 from last year's $862,420, due mainly a mid year contribution of $100,000 by Council to the Senior Center for their County building remodeling project. Also $75,000 was budgeted out of this fund for the space needs assessment for a new Community Recreation Facility.

The Council budget for this year also includes $135,870 of undesignated reserve funds available for council projects. $343,800 is available in the capital reserves, which comes from the excess .2% Library Debt Service sales tax. The $343,800 includes $100,000 from an anticipated reimbursement of cost incurred for the acquisition of the water companies. The latter of the two funds will not be available until the end of fiscal year 2004-05. This capital reserve was eliminated, until 2003-04, with the transfer of $871,000 to the Public Safety Building construction projects and the Public Safety Building GADA loan debt service payments.

Key Issues

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

< **Uncontrollable Rising Costs** – Health Insurance Premiums up 15%, and Worker's Compensation Insurance increased by 7%. These are just a couple of examples of the rising costs being faced by the City. These cost, to a large extent, are uncontrollable. Rising uncontrollable costs are some of the most difficult to face during a budget.

< **State Shared Revenues** – These revenue sources are always of concern to municipalities. The budget reflects an increase in State Shared Income Tax of $15,590 from last year's $828,450. Unfortunately, it is nearly $133,000 behind two years ago. State Shared Sales Tax is budgeted at a 12.2% increase over FY 2003-04. State Sales Tax is anticipated to generate $814,460 in 04-05.

< **Public Safety Staffing –** With the growth, comes the need for service to the growth areas. Law enforcement, as well as fire suppression is been strained, yet those departments continue to provide the necessary coverage wherever they are needed. Budgetary constraints and competition among the various agencies throughout the valley area for qualified applicants continue to be at the top of the list of issues in resolving this dilemma. This budget includes the addition of two Police Officers and two Firefighter to come on-board at mid-year.

< **Water Issues** - It continues to be evident over the past several years, the need for the City to become more active in the water issues that are and will continue to face the City. Issues of water quality, availability, management, water rights, water system development, and fire protection are all critical issues that we need to become more involved with. This budget contains the continuation of the part-

time Natural Resource Coordinator position shared by all the Verde Valley communities. Additionally, the Assistant to the City Manager position has a major focus on water issues. The budget also includes $85,000, in its new water department budget to continue the evaluation of the private water systems that the City is hoping to acquire in the near future.

< **General Plan Update** – The Community Development Department has completed its work on the update to the General Plan to comply with Growing Smarter requirements. The General Plan was voted and approved by the voters on Tuesday May 18, 2004.

< **Cemetery -** The City Cemetery has been full for some time. The City Council has identified the need to establish a new public cemetery. $20,000 has been budgeted to proceed with some preliminary work on the first phase of a new public cemetery in the South clear zone of the Cottonwood Airport.

< **Economic Development -** Since the Verde Valley Regional Economic Development Council became inactive; a greater burden of economic development efforts has fallen on the Cottonwood Foundation for Economic Development (F.E.D.). Currently, 15% of the bed tax paid to the Chamber goes to the F.E.D., or approximately $9,600 per year. This year's draft budget does not contain any additional funding for Economic Development at this time. The Focus Future II Planning Study is completed and has recommend a full time staff position for economic development. We will continue to look for an opportunity to fund this position, but with current budget conditions it is not recommended.

City Staffing

This budget includes the employee merit program. This year, however, a Cost Of Living Adjustment (COLA) of 2% is included in the budget, along with adjusting the salary scale upward by the same 2% to keep up with rising salaries and to stay competitive.

Besides the two Police Officers and two Firefighters previously mentioned, there are two Transit Drivers included in the budget pending Federal Transit Authority grant funding. These two transit drivers will not be hired if funding is not approved by the FTA.

Listed below are the authorized job description reclassifications:

From Description	To Description	From Range	To Range
Maintenance Supervisor	Maintenance Manager	29	35
Library Coordinator	Circulation Coordinator	29	35
Court Clerk	Senior Court Clerk	23	25
Public Works Inspector	Public Works Inspector	24	28

Contributions to Dependent Health Insurance Coverage

This will be the fourth year of the tiered contribution program for dependent health insurance coverage. Rising medical and prescription costs are forcing the cost on health insurance to record levels. Unfortunately, employees will absorb a 15% increase in their dependent coverage as will the City.

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

Employee Health Care Costs Summary			
Category	**FY 2003-04**	**FY 2004-05**	**Difference**
Employee	$0.00	$0.00	$0.00
Employee +1	$46.60	$56.59	$9.99
Employee +2	$69.90	$80.39	$10.49
Employee 3+	$93.19	$107.17	$13.98

Capital Acquisition Plan

Below is a summary list of equipment purchases by function along with a list of major capital projects included in this budget. More details are provided on tab 13 of the budget document.

Equipment	
Function	**Estimated Cost**
General Government	$20,650
Public Safety	184,170
Culture & Recreation	133,100
Transit	123,300
Streets	1,300
Health & Sanitation	66,300
Total Equipment	$528,820

Capital Projects	
Project Description	**Estimated Cost**
Cemetery	$20,000
Water Company Acquisitions	30,146,250
Street Improvements	110,000
Library Expansion	1,198,560
Old Town Phase II	354,710
Old Town Phase III	464,020
Street Contingency	199,440
SR 260 Line Extension Design & Construction	2,100,000
Line Extensions	106,000
Land Acquisition & General Construction	369,500
Community Development Block Grants	881,810
Railroad Wash Improvements	200,000
Riverfront Heritage Grant	990,600
Airport Improvements	33,920
Total Capital Projects	$37,174,810