

MINUTES OF THE BUDGET WORK SESSION OF THE CITY COUNCIL OF THE CITY OF COTTONWOOD, ARIZONA, HELD MAY 25 2010, AT 6:00 P.M., AT THE CITY COUNCIL CHAMBERS BUILDING, 826 NORTH MAIN STREET, COTTONWOOD, ARIZONA.

CALL TO ORDER AND ROLL CALL

Mayor Joens called the work session to order at 6:00 p.m.

COUNCIL MEMBERS PRESENT

Diane Joens, Mayor
Karen Pfeifer, Vice Mayor
Tim Elinski, Council Member
Duane Kirby, Council Member
Linda Norman, Council Member
Terence Pratt, Council Member
Darold Smith, Council Member

STAFF MEMBERS PRESENT

Doug Bartosh, City Manager	Dan Lueder, Development Services General Manager
Steve Horton, City Attorney	Richard Faust, Community Services General Manager
Morgan Scott, Staff Engineer	Rudy Rodriguez, Administrative Svs. General Manager
John O'Neill, Library Director	George Gehlert, Community Development Director
Carol Brown, Budget Analyst	Jody Fanning, Police Chief
Tim Costello, City Engineer	Casey Rooney, Economic Development Director
Richard Smith, Deputy Clerk	Kyla Allen, Executive Assistant to the City Manager

OVERVIEW OF THE CITY'S 2010-11 FISCAL YEAR BUDGET

Mr. Rodriguez stated his presentation and proposed budget would be posted shortly on the city's website. There was capital in this budget but the major capital lines had been omitted except for possible utilities. The budget was not expected to grow very much larger, unless there was a potential for a lease purchase or bonds that might be put in. By June 3 there should be more updates, including accomplishments and goals, so some of the capital lines would start going in.

Department heads were asked to give a list of potential grants they might have so they could be included. Whether we got them or not, we had to have budget authority to support them. We would discuss major revenue sources, and funding outside agencies for which we'd like to make some changes for the coming year in the agreements that we had with them, but not the monetary amounts. We discussed some of the financial needs we had isolated. We would discuss reserve funds and a couple of items from the State of Arizona and potential things on the horizon.

The budget presented today was about \$103 million. Last year's final budget was \$132 million. A lot of that had to do with the completion of the recreation center which would be completed before the end of this fiscal year. Last year we had a lot more reserves and projects were done that would not be done this coming year such as the court remodel, the acquisition of the Foxworth building, our Water/Utility building, the pool reconstruction, and some major street projects.

Last year's revised budget was reduced to \$69 million after the revision when we took out all of the reserves. In the State of Arizona we had to budget all of our carry-forwards and the reserves in case we needed to use them. That was why our budgets were so large because we were fortunate to have reasonable reserves.

In the budget before the Council there were no new staffing or reclassification requests. The two major programs going on were the first full year for the recreation center and the S.A.F.E.R. grant which included 12 new firefighters. We were looking to possibly do some bonding for HURF at \$3.7 million to help fund the 12th Street project from Fir Street to Highway 89A and the other extension of Mingus Avenue from Willard Street to Highway 89A. Those would be funded from reserves and eventually we would float some kind of financing package to reimburse that fund. It had been tapped into heavily this year and would be again this coming year. We still had pending about \$37 million worth of 2004/2006 MPC bonds. That would refund those bonds and cut our ties to Clarkdale and set the money aside to pay off the bonds in 2016.

There was no cost of living adjustment (COLA) in the budget because times were tough. We continued our strategic position freeze. Allocations had been taken out of the budget but the positions were still there. The reason behind that was staff did not want to come back to the Council to request a position in the future. We would come to the Council if we decided to go ahead and hire on, but only if revenues allowed. We wanted to keep the positions because they were needed but we were not funding them. If we had the revenues we'd like to be able to move quickly and rehire.

This year we talked to our employees and asked them to give their priorities as to what they would like to see if we had to do any cuts. One thing they put up was they didn't want to lose their jobs. Rather, they would be willing not take a merit increase or COLA. Another item was, if we had to, to raise health insurance. The merit program was not funded in the budget, but \$450,000 was set aside in it for a reserve, in case revenues held up. If they did, this would be re-visited in December, and if possible, we could do a retro-pay for all employees back to July 1. One thing of concern was shifting a lot of our health insurance costs to employees. That was one of the things discussed with employees and they agreed that would be a good move. We had not done that. The current budget had no shift in health insurance costs. Dependents were still partially covered by the city and employees were fully covered. He would like to reserve the caveat to come back and adjust this, just in case there were any issues during the course of the year.

Things that were hitting us were increases in retirement contributions for both the state

and public safety retirement programs. A little savings would be realized from a small drop in our Workman's Compensation factor. We were maintaining current reserve policies and added a couple of others. Money was set aside for the recreation center and the merit program.

Some of the under \$35,000 capital items were in the budget, but others were not, pending the outcome of discussions this week.

We were facing challenges at all levels of government. Locally we were estimating sales taxes to be down 6 percent. Health insurance premiums increased 7 percent, but well below the national average. Needs for capital and staffing continued to grow and we continued to get more requests for more services. The city continued to increase its population. Proper employee compensation was still lacking.

Grant opportunities were listed for all that could be applied for. We were soliciting \$29,000 from the Governor's Office of Highway Safety for a DUI command vehicle, and hoped to get \$2,000 from the Yavapai County Community Foundation for the police K9 program, \$40,000 from PANT for taskforces, and \$70,000 for our School Resource Officer programs. We expected about \$51,000 from Homeland Security grants and \$416,100 for S.A.F.E.R. grants for the new firefighters.

We had \$1.4 million in federal grants for transit. General fund sales taxes funded about \$400,000. There would be a review of capital projects that would probably not be good to do now because of the strain it would put on HURF and our General Fund. It was not felt these were crucial. We were not looking to make service cuts. The transit program was subject to the same budgetary constraints as all other departments.

Mayor Joens asked since LTAF funds had been cut would that be made up out of the General Fund.

Mr. Rodriguez stated it would have to be out of General Fund or HURF. The Council previously decided to pull all the sales tax back to the General Fund and have it transferred out to departments as they needed it. It would have to come from sales tax since HURF was not strong enough to handle it.

Mayor Joens asked if the federal grant was for sure.

Mr. Rodriguez stated no, but some of it would come through.

Mayor Joens asked what would happen if we didn't get the \$1.4 million.

Mr. Rodriguez stated we would get some sort of funding. We would have discussions to scale back operations. We would scale back the budget and try to keep as much of the operations as possible and all of our routes intact as best we could.

Council Member Norman asked if there were restrictions on what that funding could be used for.

Mr. Rodriguez stated, yes. It could only be used for transit with a portion used only for operations, a portion to be used only for administration, and a portion used only for capital projects.

Council Member Elinski asked if there was concern about accepting the grant because there were matching funds we needed to come up with.

Mr. Rodriguez stated no, it was just the magnitude of the budget itself and if we would have the resources to fund all that capital and all the things that were on that particular budget. We may not have it, so we might have to scale it down to fit what we could afford.

Mayor Joens asked if it was capital for purchasing busses and such things.

Mr. Rodriguez stated a big portion of it was capital; about \$1 million.

Council Member Elinski asked if we needed to have those figures in the budget so the Council could approve it.

Mr. Rodriguez stated, certainly. Because we were delaying merging with NAIPTA, this was what was currently on the books. We still needed to find out how much we could actually afford and possibly scale it down. They may have a grant of that size, but if we didn't have the money we would have to forgo some of that federal funding to fit what we could afford.

Mayor Joens asked what would happen if either Clarkdale or the County did not participate.

Mr. Rodriguez stated it would come before the Council. The biggest concern was to keep as many of the routes intact as possible. One issue with NAIPTA was if anyone walked away, those routes would be cut. We had a different philosophy which was to cut somewhere else, like capital or administration. We would try to keep our routes in place. That brought in our money and would be cut last. If they didn't want to help us out, we would do the best we could to maintain some of those routes. The bus system brought people into town to do shopping, doctor visits, etc., and they left us some revenue indirectly.

Council Member Kirby stated if we didn't provide the service maybe there would be enough of an outcry that people who represented them would have to come in. Otherwise, if there was no pressure on the County or on Clarkdale to participate, they would not have any reason to participate. They would just pull off their money and we would go on serving their people.

Mr. Rodriguez stated that was an option. If they didn't help fund it we could always come back to the Council with options to cut off the service to the County or Clarkdale, or reduce the services. Our concern was making sure the City of Cottonwood stayed intact.

He continued stating State Shared Revenues had continued to decline over the last several years. They were down 24 percent since 2007 which represented more than \$200,000. Interest rates had dropped sharply these two years. Compounded by the money we had pulled out of our reserves to finish the recreation center, the pool, the court, and the Foxworth building, it hurt our interest earnings.

Mayor Joens asked to be reminded why reserves were used since she thought we had bonded for the recreation center.

Mr. Rodriguez stated we did. What he meant by reserves was we got them in November 2007. We didn't start using them for nearly a year and he had put it in an investment account. If we didn't use it, he couldn't use it as revenue again. He set it as a reserve for the following year. That was why he was talking about reserves or fund account carry-over.

The local sales tax decrease seemed to be trending better. We were no longer taking double digit monthly decreases. Now, they were single digit decreases and getting smaller. It was a sign spending was starting to increase. The benefit from the 2008 increase in sales tax could not be overestimated. We were one of the few cities that still had most of its staff and still had all its services intact. The other part of this formula was the aggressive nature department heads took trying to keep as much full staffing as possible by cutting back a lot in their budgets. In this budget there would be equipment maintenance & repairs and operational maintenance & repairs that spiked up because things were starting to get into disrepair. We wanted to prop it up while we could and get a lot of our equipment up and running as it should be and not let it fall into poor condition.

On page 35 of the Budget Book there was a depiction of what our fund balances had done over the past ten years. When we finished our audit in 2009 our fund balance increased by nearly \$1 million. This was because we did drastic cuts. We froze positions and contractual services and shifted a lot of things to survive. We were expecting it to be \$6.5 million this year. This would help us avoid reductions in force, shifts in healthcare costs, and be able to have some capital improvement money available. The city was doing relatively well, but had taken hits because we did some things to keep the city afloat. These were conservative estimates and we could only keep it up for so long. We were looking at tapping into reserves to the tune of about \$1.7 million in order to survive, leaving about \$4.5 million for the next fiscal year.

The three categories we looked at when funding outside agencies were: 1) Core Services which the city would have to provide if the agency didn't; 2) Value Added Benefit Services which added vitally to the city and its citizens; and 3) Program Funding which funded specific programs. There was also the Building Community Grant where the city set aside \$15,000 for 501(c)(3) firms to go through an application process for it. Currently no funds were budgeted for this. If we hit our revenue estimates in 2011 we would come before the Council and request funding for this in 2012.

Mayor Joens asked if this would be the third year that this had not been funded.

Mr. Rodriguez stated it would. The outside agencies the city traditionally funded were the Old Town Association, Senior Center, American Legion, Humane Society, and Catholic Charities. They were funded through General Fund except Catholic Charities which was funded by the Utilities Department. There were conditions for such funding. Quarterly reports were required to be submitted promptly or they would suffer the loss of that quarter's funding. All agreements would have arrangements to have funding reduced if our revenue sources were not adequate enough to keep them on line. An issue we had in the past was doing staff cutbacks while still continuing to fund these outside agencies.

Council Member Smith asked if all these were line items, and Mr. Rodriguez stated they were.

Mr. Rodriguez continued, stating one of the things that was isolated as being needed for the upcoming year was the refunding of the MPC bonds which was to have happened this current fiscal year. Because we hadn't raised rates, there wasn't much we could do about going out and funding when we couldn't take care of the issue we had in play. It would not happen this fiscal year, so it had been eliminated and been shifted into next fiscal year and amounted to about \$34 million. We would ask WIFA to join with us on this project. The money would go into an escrow account to pay the debt service until such time as we could refund them, which would take place about November 2016. Funds would be set aside, hopefully, in an interest bearing account where they would earn enough interest to pay the interest on those loans. It would take it off of our books and undo the last thread we had between Cottonwood and Clarkdale.

Council Member Kirby asked if Clarkdale got a WIFA loan to take care of their portion, would they pay that off to us and we would get it out of our hair.

Mr. Rodriguez stated yes, their funding would have to come into our escrow account to take care of theirs. Once it went into escrow, it would be out of our books, out of our hands, and basically belonged to the escrow agent who would go ahead and take care of it until 2016 when they would pay it off. There was a caveat. If by any chance we couldn't get an investment that would make sufficient interest to cover it, we might have to pay a portion into it. Our financial advisors were very comfortable the interest rate we had on these could probably be covered by another investment instrument to cover that cost through 2016. The Town of Clarkdale was already paying the interest for their \$6.33 million portion of the MPC bonds.

Mayor Joens stated the asset and liability would then be theirs. Now the asset was theirs, but the liability was ours.

Mr. Rodriguez stated that was correct. We were looking to fund about \$36 million for water infrastructure with \$27-\$28 million for the water companies. In the water capital plan there was another \$3 million for improvements that needed to be done to the system. An additional \$6 million was for reimbursements from the Council to replenish the water

utility reserves that had been hit heavily to make the acquisitions of the Foxworth building, the two water companies that were purchased this year, and some system-wide well improvements that were needed over the next few years. The system-wide well improvements may not happen over the course of fiscal year 2011. We were just going to have the money available to start implementing some of those well improvements.

Council Member Smith asked if the \$6 million would come out of the General Fund.

Mr. Rodriguez stated, no. It was part of the \$36 million.

Mayor Joens stated we borrowed from ourselves, essentially, to make those purchases.

Mr. Rodriguez stated that was correct. The Foxworth building and the two water companies, we had actually taken out of the water utility reserves to pay for them. That was why he had come before the Council in the past about the Foxworth building, which he would bring up again because there were some changes to it when we acquired it and made remodels. Spring Creek had already come before the Council. Quail Canyon needed to come before the Council to get a reimbursement resolution on that. We started with \$10 million and tapped into it quite heavily to get these improvements done, but we needed to put that money back in because we still needed a lot more work on the systems. We wanted to replenish those funds and maintain a reasonable reserve for that particular facility.

The other item for street construction had already had money spent on it. We were looking to construct and get them squared away this coming fiscal year for \$3.7 million. We would like to go ahead and fund them. The whole idea was we'd still have a little over \$1 million in reserves in this fund and we'd like to go ahead and keep a lot of that intact. We'd go ahead and foot the bill on it and go ahead and look for funding so we could maintain the reserves that we had so we could continue to go out and do other projects. If not, we would go ahead and pretty much kill the HURF program and just do nothing but pot hole patching for the next two years until the economy got better. We were trying to avoid that by going ahead and financing these two big projects and pay it out over the course of several years and not extinguish our total amount of fund balances we had available to the HURF fund.

Another item on there was a fire truck for about \$500,000 which would be lease-purchased and paid by the excess 0.2 percent sales tax. In November 1998 voters authorized us to shift any excess sales tax over to the General Fund for capital projects which we had. It had funded most of our police fleet, most of the MVTs, and some brush trucks for the fire department. We were again going to try and tap into it. We agreed to take on a S.A.F.E.R. grant, so now the reserve truck, which has already aged, was being used day-in and day-out as a regular front-line vehicle and it had taken a beating. We'd like to go ahead and replace it with a truck so we could put that old truck back in reserve status. It would show on this year's budget and would be rolled over to the following one. They wanted to make sure it was in the budget and the Council knew about it and there was a commitment from the Council, so they could go ahead and build the vehicle, get it

down here. It would rollover into the following fiscal year and be expensed next year. He wanted to touch base on our reserve status. This was very important. We always tried to go ahead and maintain our reserves. He always talked about the General Fund reserves more so than the other departments. The General Fund was the core fund. If any fund could not support itself, including utilities, they would come to the General fund for support. The 60-day reserve coverage was down a bit at nearly \$2 million, down \$200,000 from the current fiscal year. Obviously, our revenue stream had slowly gone down, so that reserve had gone down a bit too. The Capital Accumulation Fund was fully funded at \$1 million. We were not putting any more money into it. We got direction from the Council a couple of years ago they didn't want it to accumulate any more than \$1 million. Now it was earning interest and all interest was being shifted to maintenance and operations for the city.

Mayor Joens asked if we were doing really well, would we be able to go in and say we wanted to save \$4 million in that account, or not.

Mr. Rodriguez stated we could change it. We used to use a formula of setting aside a certain percentage of normal operating revenues. We used to set aside and add to this fund each year. It had not been used for the last three years. Uses of this fund included the Senior Center remodel program. We gave \$300,000 to complete that project. We wanted to maintain \$100,000 in undesignated reserves. That was fully funded for the upcoming year. If the Council wanted to trim it down for certain projects, it could be done. We still had two funds. The one percent sales tax general fund capital that was from the one percent sales tax that sunsetted in 2007, which the Council extended. The 0.2 percent sales tax for public safety capital fund had to be for a capital item. Years ago the Council authorized that particular money, the excess 0.2 percent sales tax that was collected for the library debt service, to be designated for public safety and it had served us well. It could only be used for capital projects. He recommended it stay there because it had served us well and public safety was always in need of replacement of vehicles or equipment. We still had about \$236,000 in that reserve. This year \$600,000 was set aside for the recreation center which disappeared when we did not get our revenues. We were very fortunate to have a very solid beginning fund balance. Reserves of \$450,000 had been set aside for an employee merit program. If revenues came in as predicted, he would come before the Council in December to ask for a thumb up or thumb down on the employee merit program. It would be retroactive back to July 1. Once that was done, any other reserves would be available for recreation center maintenance and operations.

Council Member Elinski asked how many employees the city had and Mr. Rodriguez stated about 160-170.

Mayor Joens stated the most difficult thing was we had put longevity pay into the budget and we couldn't do it. It had been really disappointing to the employees.

Mr. Rodriguez stated the City of Cottonwood had been very strong on trying to keep jobs, and trying to encourage capital spending by the city to keep as many local jobs as possible.

His concern was making sure we all had jobs, not necessarily that we try to inch up a little bit of a salary increase for everybody at the risk of potentially going out and having to take a couple of steps backwards.

Mr. Bartosh stated that once this meeting was satisfied with the general overview, this information would be shared at an all-employee meeting so the employees would know exactly what was being planned.

ADJOURNMENT

Council Member Smith moved to adjourn. Council Member Norman seconded the motion, which carried unanimously. The budget work session adjourned at 8:26 p.m.

Diane Joens, Mayor

Richard Smith, Deputy Clerk

CERTIFICATION OF MINUTES

I hereby certify that the attached is a true and correct copy of the minutes of a budget work session of the City Council of the City of Cottonwood held on May 25, 2010. I further certify that the meeting was duly called, and that a quorum was present.

Richard Smith, Deputy Clerk

Date