

MINUTES OF THE BUDGET WORK SESSION OF THE CITY COUNCIL OF THE CITY OF COTTONWOOD, ARIZONA, HELD JUNE 6, 2011, AT 2:00 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 2:00 p.m.

COUNCIL MEMBERS PRESENT

Diane Joens, Mayor
Karen Pfeifer, Vice Mayor
Jesse Dowling, Council Member
Tim Elinski, Council Member
Ruben Jauregui, Council Member
Linda Norman, Council Member

COUNCIL MEMBERS ABSENT

Terence Pratt, Council Member

STAFF MEMBERS PRESENT

Doug Bartosh, City Manager
Marianne Jiménez, City Clerk
Steve Horton, City Attorney
Dan Lueder, Development Services General Manager
Rudy Rodriguez, Administrative Services General Manager
Kyla Allen, Executive Assistant to the City Manager

OVERVIEW OF THE CITY'S 2012 FISCAL YEAR BUDGET

Mr. Rodriguez stated there had been some hard times these last few years and this coming year will probably be no different from the others with very few exceptions. Right now we were looking at a \$111,000,000 budget. We have statutory regulations that tell us what our maximum limits are, and once we adopt our tentative budget that basically puts a ceiling on how much we can spend. We can't go over that amount which is why we budget everything we can such as grants whether we receive them or not. We budget any type of financing options that we think we might have such as lease purchase bonding or revenue bonds, and all of our reserves in case we have an emergency. When we do revisions this late in the year we take out all the reserves we know we're not going to use in the next few days, hence this is why the budget goes from \$100 million to 60 or 70 million.

Mr. Rodriguez began with the budget summary presenting a PowerPoint slide that outlined the requests for reclassifications (Accounting/Budget Manager, Utility Administrative Manager, Human Resource Manager, IT Technician, Recreation Manager, Operations Manager, Building & Grounds Maintenance Manager, Communications Supervisor, and Evidence Technician) and new staffing (Assistant Fire Chief, Recreation Center Custodial Maintenance Worker, and Public Works & Utilities Maintenance Specialist). He noted there was no additional staffing, however, the Public Works & Utility Maintenance Specialist is in

discussion and will end up in our budget unless the Council wants it out. There were a number of reclassifications requested and one that is missing was for the City Clerk's office for the Deputy Clerk that did not get put in the proposed budget document. However, because we've got money already allocated for a compensation study we would rather go ahead and let the compensation come through and then have the Council and Administration look at it and put it all together and do one blanket adjustment.

Mayor Joens asked when he thought we might do this compensation study.

Mr. Rodriguez replied it would not be this upcoming budget year—it would be 2013. There are two items on here that have been pressing the City Council for a number of years. One is a compensation study and another one is a growth study. We have them both budgeted; \$150,000 for the growth study and \$30,000 for the compensation study. We've delayed them because we haven't seen any improvement in Cottonwood. This year we estimate about a six percent loss in our sales tax. What we want to do fiscal year 2012 is prepare ourselves for the economy turning around and do the growth study and the compensation study during the course of the year and then look at possibly implementing it for 2013.

Council Member Elinski asked if the reclassifications listed were from department heads for their wish list of reclassifications.

Mr. Rodriguez answered there are two wish lists. The only one that is being worked on is the Public Works Maintenance Specialist which is not actually another position. We are going to delete one position and replace it with this one.

Mr. Lueder explained the reclassification for the Public Works & Utility Maintenance Specialist and how it would be more efficient.

Mr. Rodriguez continued stating as far as staffing is concerned there is no cost of living adjustment for this year. We continue to have a number of frozen positions and are looking to eliminate some of these positions. A lot of staff is currently taking up the slack from those 11 positions that are frozen. In the budget you'll find two things that we would like Council to spend a little bit of time discussing. One of them is a onetime 2.5 percent discretionary pay to all employees that would be calculated off their base salary but it would not be added to their base. If the Council is fine with it we would like to pay it out at the end of this month so it would go into this fiscal year, not next fiscal year. It is also based on their hire date, meaning if someone got hired in June of this year they will only get half of it. If you were here the entire year you will get the full 2.5 percent.

Mayor Joens stated the one thing about a discretionary pay is that it helps out by the fact that it isn't a continuing expense on top of next year's continuing expense.

Mr. Rodriguez stated some of the reasoning why we are pushing some sort of compensation for employees was our health insurance premium increased by 7 percent overall, the state has made some changes to the ASRS the contribution which is no longer fifty-fifty. The

employee now has to take on an additional three percent and then on top of that the three percent savings that we were supposedly going to have as a municipality we have to give it to the state for their general fund.

Mr. Rodriguez continued with the budget and reviewed the following:

The city's Workman's Comp e-mod increased from .98 to 1.0 which is going to be a three percent increase in our Workman's Comp. There was a decrease in the Public Safety Personnel Retirement System (PSPRS) with the Fire Department that went down 2.2 percent; however the Police department went up 1.26 percent.

The City of Cottonwood has agreed to take over the Thunder Valley Rally with some support from the Yavapai-Apache Nation. Initially it won't be a big as the Thunder Valley Rally, however we are looking to put in some sizeable resources. We do believe we can recoup a lot of these costs from this event. The Brian Mickelsen Half Marathon will be converted to a full marathon; we will still have the half marathon but we are going to add a full marathon. We do have some allocations towards the Arizona Centennial Celebration to make sure that we have some special events for the celebration. We also allocated some money for the Emergency Notification System (reverse 911).

NAIPTA this year requested \$376,000 and our funding level currently is about \$220,000. We wanted to show the track record we had when the city had it and then when NAIPTA took over. It's increased a bit over the years 2008, 2009, and 2010. In 2011 there was a split this current year when we allowed NAIPTA to take over the CAT system as of January 1. Right now we don't have the resources to fund \$375,000 and we have asked NAIPTA to come up with a plan to reduce their costs as we would if they were a part of our system. On top of the \$237,000 that we anticipate to spend we've also given them \$215,000 so they have a fund balance set up to cover their costs while they wait for the state to reimburse them for their expenses. There is also the issue that HURF can no longer sustain the CAT. This \$219,000 dollars is now coming out of the General Fund and not out of HURF as it had in the past.

All of our current reserves are fully funded and they are being maintained at \$1,000,000. We have \$35,000 for capital outlay, however we're looking to keep from spending a lot of it until after the first of the calendar year until we get a handle on what the state is going to do to municipalities throughout the state.

The local, state and national economies continue to struggle and we're budgeting for a breakeven for local sales tax. We have not had to budget a breakeven since 2007. We still have issues with capital and staffing needs throughout the organization, and proper compensation is still lacking for the city compared to other organizations. A lot of it has to do with the economy and we are running on a shoestring.

Council Member Dowling stated compared to other cities we are doing good for as bad as the situation is.

There was further discussion by the Council about staff and how they have persevered through these tight times.

Mr. Rodriguez continued on with major revenues. State shared sales tax, unlike our local sales tax, are starting to rebound. Our hotel and occupancy tax (bed tax) has been sporadic. Local government investment pool—we invested 6 percent on our recreation center and we received a good return and were able to do the Brian Mickelsen Parkway and renovated our pool with a million dollars. Our Highway User Revenue Fund (HURF)—this fund is continually getting raided by the state for DPS and for the motor vehicle division. Auto sales have leveled off and are stabilizing again. Local sales tax tracking looks a lot better than it has in the past. These are the major revenue sources, but we have a lot smaller funds that we collect like business licenses, franchise fees, and utility taxes.

Mr. Rodriguez reviewed the funding of the following outside agencies that provide core services that if they were not around the city would probably have to fund:

The Veterans Van—at this point in time we still have \$2,500 that we might want to move around somewhere else as we still don't have proof of their 501(c)(3).

The Old Town Association—if it wasn't for a lot of work they have done over the years we wouldn't have a nice set of buildings and we wouldn't have all the events or it would put a big load on Parks and Recreation to come up with events to make Old Town so successful.

The Senior Center—many cities fund their senior centers a hundred percent. We have an organization that runs it and we contribute \$45,000 a year for them to run the business.

The Humane Society—we contribute \$50,000 a year to them so that they can run their operations there. We will continue to fund them next year.

Catholic Charities—we fund them \$15,000 to assist with water bills. They have a formula that was developed years ago when we bought out the water companies. We raised it from \$10,000 to \$15,000 last year to make sure we had plenty of resources.

Mr. Rodriguez stated at this point in time there is no money budgeted for the city's Building Better Community Grant.

Mayor Joens stated Elaine Bremner plans to submit a letter about additional funding, so there maybe a letter coming to Council about that. She questioned if we did want to increase it what would that involve.

Mr. Rodriguez stated that would have to be a consensus from the Council. We're still struggling and it would be short of tapping into our reserves, but there is only so many dollars we have to dole out.

Mr. Rodriguez continued on with Water and Sewer Rates. We're going to have to look at rate changes. We were downgraded by Moody's and our coverage is currently lacking. Our covenants are promises we made to our bond holders that we will do certain things and we haven't been able to keep our covenants. We helped the community out by not raising rates and that did not help us. We probably will bring two rate increases; one for water and one for sewer.

Discussion ensued about the Council reviewing rates every year for water and sewer.

Mr. Rodriguez moved on to financing needs. The first one is \$670,000 for a lease purchase of a fire truck we are already committed to. Last year we set aside \$500,000, even though we weren't going to use it because it takes 12 to 18 months to get a fire truck built out. We'll be getting a couple of new police units.

Discussion ensued regarding the police units and if we were going to continue with the Tahoes for new vehicles or if we were going to smaller cars.

Chief Fanning stated they were waiting for Chevrolet to come out with a new version of one that is already painted black and white. They are going to try to stick with the Tahoes but they do cost more.

Mr. Rodriguez continued with the financing needs of \$4,500,000 through possible MPC bonding for the 12th Street reconstruction project as well as Mingus Avenue street improvements. We are looking at possibly using capital funds to begin the projects and the intent is to get some financing mechanism in the future and reimburse our capital funds. We are looking at \$4,500,000 worth to be backed by HURF funds and then later sales tax as our economy starts to improve.

Wastewater-- we are looking at \$4,000,000 through either WIFA or a revenue bond in order to continue improvements for wastewater. This is just additional improvements we need in the system.

Water--we are looking at \$37,000,000 for refinancing 2004 & 2006 MPC revenue bonds. The chances of refinancing this with the Moody's downgrade are probably slim to none, but there are a couple things that our finance advisor and he have been talking about that may help us in some way. These are anticipated borrowings, so if they don't come through we'll reduce the budget.

Reserve Funds Status--it is a rule of thumb that we maintain 60 days coverage of last year's expenditures which is about 16.6 percent of the year's expenditures. We are still funding the Capital Accumulation Fund up to a \$1,000,000. Every year we're supposed to put some money in to equal to 2.67 percent. We are not funding it anymore, we are just keeping it at \$1,000,000 and the interest we're putting into the General fund in operations. The Council wanted to make sure they had \$100,000 in undesignated reserves for the Council to use any which way they would like to, within legal limits. This is one of those numbers that if the

economy doesn't go well this number will disappear. The one percent General Fund sales tax for capital we've budgeted \$777,000. The .2 percent sales tax set aside for the public safety capital fund has been budgeted for \$279,095. We also have \$390,000 reserved for the employee merit program.

Mayor Joens questioned if will we ever in the future consider getting the children's playground equipment for the leisure pool that we left out because we couldn't afford it.

Mr. Rodriguez replied they didn't expect the recession to go on as long as it has, but it would be considered in the future when the economy is better.

This concluded the review of the city's 2012 fiscal year budget.

DEPARTMENTS

City Council--Mr. Rodriguez reviewed the Council's accomplishments for the current fiscal year. He stated the Council's budget has gone from \$628,000 to \$5,500,000. If you look at the reserves for fund balance, \$4,600,000, on page 56 it covers the breakdown of this amount and includes your carry over accumulation, capital accumulation fund, undesignated reserve, 1 percent sales tax, and .2 percent sales tax, which was the bulk of the Council's budget. The amount of \$150,000 for the growth study and analysis has been set aside. Capital outlay items were \$80,000 for the library parking lot, \$50,000 for trust land annexation, and \$200,000 for property cleanup.

Administration--Ms. Allen reviewed the Administration's department's accomplishments for the current fiscal year and the goals and proposed budget for fiscal year 2011-12.

City Clerk--Ms. Jiménez reviewed the City Clerk department's accomplishments for the current fiscal year and the goals and proposed budget for fiscal year 2011-12. She stated she was requesting to reclassify the Deputy Clerk's position which the salary was below what the median salary was for the same position in other cities and towns of similar size. Currently, the Deputy Clerk made \$2,000 less than the Administrative Assistant position at City Hall and the position required a higher level of skills.

Mr. Bartosh stated he thought there were things we could look at through this next year if there was a real obvious need and justification.

Vice Mayor Pfeifer stated we had done reclassifications in other departments in the last year.

Mr. Bartosh stated the problem was we don't have a real good gauge for any of our employees right now.

Legal—Mr. Horton reviewed the Legal department's accomplishments for the current fiscal year and the goals and proposed budget for fiscal year 2011-12.

Finance & Personnel—Mr. Rodriguez reviewed the Finance and Personnel department's accomplishments for the current fiscal year and the goals and proposed budget for fiscal year 2011-12.

Natural Resources—Mr. Rodriguez reviewed the Natural Resources Department's accomplishments for the current fiscal year and the goals and proposed budget for fiscal year 2011-12. There was a sizeable increase in this budget due to bringing on a Natural Resources Director. Mr. Hardy would continue to represent the city on the adjudication.

The Council discussed the salary that had been budgeted for the Natural Resources Director, and Mayor Joens reviewed the water issues the Director would be involved with and the reason the salary had been set at a higher level to attract a qualified individual.

Information Technology—Mr. Rodriguez reviewed the Information Technology department's goals and proposed budget. The department consisted of one person, Brent Kenny the Information Technology Technician. This was one of the positions that a reclassification had been requested and it was one of those things that they would much rather have the compensation study go through it and Brent understood they wanted to wait on it too. One of the things he was working on was setting up the microwave project to eliminate T-1 and voice over IP at the Utilities and Finance Departments.

Mayor Joens stated this stuff was really interesting and exciting and requested an update and overview regarding these items which Doug could perhaps do in his management report.

Purchasing—Mr. Rodriguez stated this was a new department and they had Lisa Elliott on board and Robert Coombs who was working closely with Lisa to get the department up and running. He then reviewed the goals and proposed budget for the Purchasing Department.

Non-Departmental—Mr. Rodriguez stated this was a catchall and contained leases and debt payments. The department did not have any personnel, but handled all the budgetary transfers between the general fund and any other fund.

Debt Service—Mr. Rodriguez stated the Debt Service fund made debt service payments and bond and long-term debt payments, which he reviewed.

Fiduciary Funds—Mr. Rodriguez stated this consisted of two items, the Alternative Pension and Benefits Plan that belonged to the Fire Department which was a volunteer pension plan, and the Employee Benefit Trust that was originally designed to handle medical insurance. The city moved away from being self-insured to joining the Verde Valley Employee Benefit Pool. This money could not be used for anything except specific employee benefits and this account was down to \$170,000. The only thing that comes through here is our short-term disability.

Mr. Rodriguez completed the budget overview by stating if there are any questions the Council had before the next meeting they could e-mail, call, send a note, or drop us a line and we will be more than happy to get you the information you need.

ADJOURNMENT

Vice Mayor Pfeifer moved to adjourn. The motion was seconded by Council Member Norman and carried unanimously.

The budget work session adjourned at 5:49 p.m.

Diane Joens, Mayor

ATTEST:

Marianne Jiménez, City 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 June 6, 2011. I further certify that the meeting was duly called, and that a quorum was present.

Marianne Jiménez, City Clerk

Date