



To: Honorable Madame Mayor Joens & Council

March 11, 2008

Via: Douglas Bartosh, City Manager

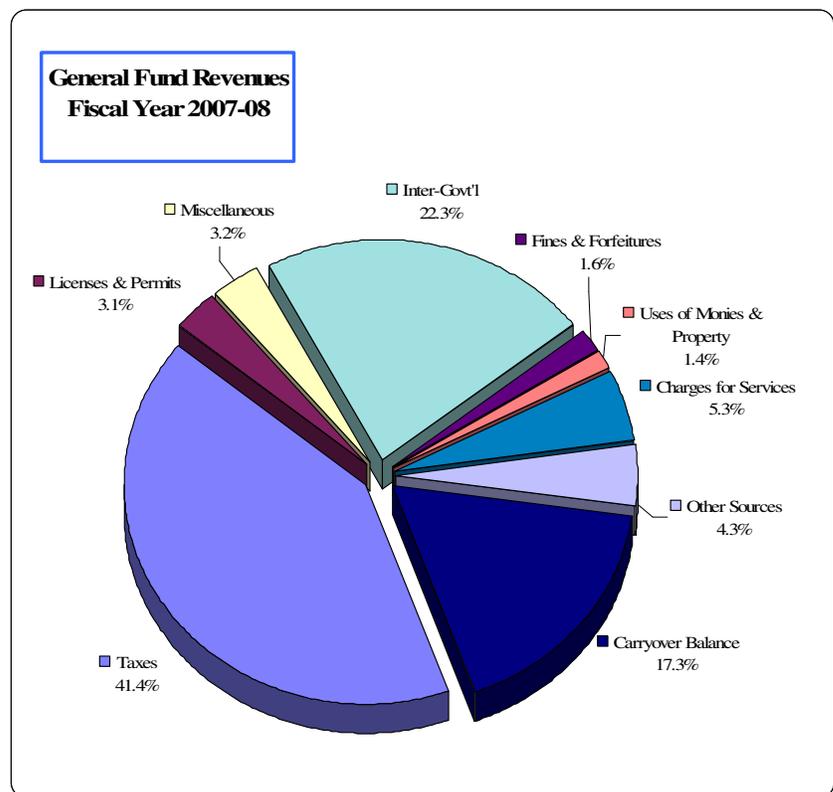
From: Kirsten Lennon, Accounting / Budget Manager
Rudy Rodriguez, Finance Director

Subject: Revenue & Expenditure Reports – Period ending December 31, 2007

The City of Cottonwood is waiting to see how Sales Tax figures will affect the overall budget for the City of Cottonwood. Since the City relies heavily on Sales Tax to fund many of its various on going projects as well as the daily operation and maintenance. The overall view of the Country is some what frightening. As the President of the United States signed into effect a \$160 billion dollar stimulus package to bolster the economy, everyone is wondering if the economy will turn around and when, or continue to decline due to the housing market and increasing costs in utilities, gasoline and overall necessity items such as groceries. These are very trying times.

As you know the City counts on local sales tax, state shared sales tax, state shared income tax, and motor vehicle license tax to fund its annual budget. We will be keeping our eyes open for the next few months on these revenues. These four major sources make up 76.4% of the total operating revenue¹ for the General Fund. Later

in this document, we will depict the largest of the sources, the local sales tax. This source as reflected is slightly over 49% of the General Fund's operating revenue.



Our state shared revenues, both the sales tax and income tax, continue to be under attack by our legislature. They are always trying to reduce, reallocate, modify, or do away with some of the state shared revenues. This year, however, it is apparent that they just want to keep it to reduce their deficit, with little regard to what it will do to local economies.

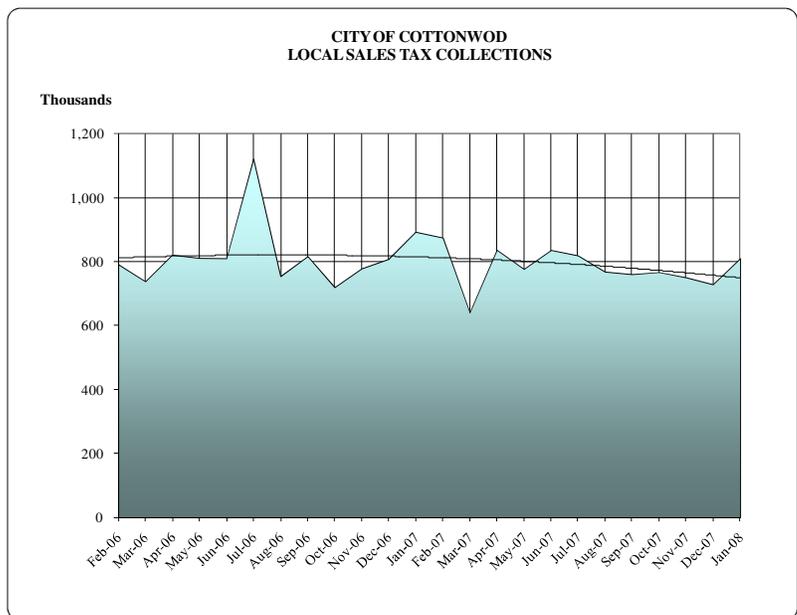
¹ Operating revenues excludes carryover balances, donations, and other financing sources.

GENERAL FUND

Revenues

The general fund revenues, as a whole, reflect 48.15% received or accrued at this time. This is 2% below where we should be at this time of year compared to budget². Compared to last fiscal year's actual collection, we are 8.28% below. Since we anticipated a 5% increase we are actually looking at a negative 13.28% trend by year-end.

This downward trend on the graph is causing some concern being that this revenue is our largest single revenue source. Unlike other years where double digit increases were common, we are



currently experiencing double digit decreases to Budget. The chart below shows a comparison over the past 12 months and the drastic changes we are currently experiencing.

Despite this slowing, local sales tax remains our largest and most important revenue at around 49% of the total General Fund operating budget. Though hard to predict at this time, we are estimating to finish out the year around \$5.5M. This is about \$1.18M below estimates for the General Fund.

The State Shared Sales Tax revenues are down by about 1% over last year and almost even with estimates, though losses are growing ever so slightly. This is one of the state shared revenues that are estimated by the State. It is anticipated that it will come in below the \$1,082,835 budgeted amount for the fiscal year. State Shared Sales Tax accounts for 8% of the General Fund operating revenues.

State Shared Income Tax revenues are right on target at 50% of the year. This is yet another of the state shared revenues that are estimated by the State, and are distributed based on collections from two years ago. These revenues usually come in as proposed by the state.

Motor vehicle taxes at this time are at 41.9% of the year and are looking like they will be around 2% below the \$697,100 in revenue budgeted for the fiscal year. The City of Cottonwood continues to repay \$2,436.06 monthly to the County due to calculation errors on their part some years ago.

Interest Income in the General Fund was budgeted very conservatively at \$240,000 for FY 2007-08, and is currently over 58.3% of the year as interest rates have stabilized. As with all things, there is a bit of concern for this source as interest rates have begun to go down. Current interest rates dropped below 5% in November and continued a downward trend in December to end at 4.76%.

² Budget is divided equally throughout the year.

The Lease Purchase Revenue is at 101.2% because this was a lease purchase investment with Suntrust to be spent on the Mobile Data Units. The expenditure for the items budgeted to be paid by this lease purchase are listed in the Police Departments budget and have not been expensed yet.

Inclusive the Fire Department has billed \$116,800 for wildfire support services. As you may recall, the Cottonwood Fire Department was very sympathetic toward their Californian counterparts, by sending our support vehicles and staffing to the many recent wild land fires. Currently we have received only \$3,300. The remaining \$113,500 is anticipated to be received in the near future. These funds were not originally budgeted so they will help with our revenue shortfall.

Expenditures

Most all departments are below the 50% mark for the year and although there are some that have specific areas that could potentially become issues if not kept in check. These departments are as follows.

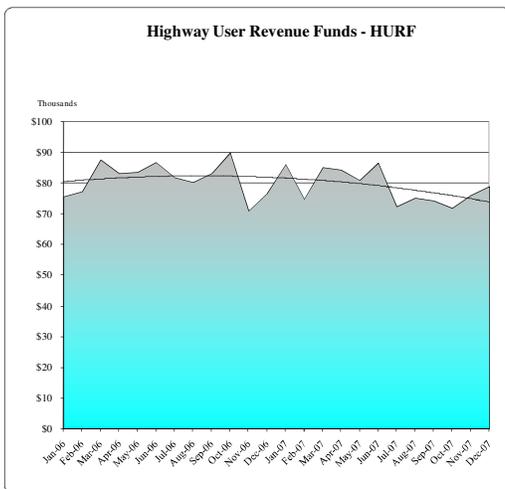


Pool at 34.2% over budget with temporary staffing and benefits, pool supplies, and utilities being a big part of the overage. Salaries are 26.3% over budget or \$29,746 on a \$39,000 budget. The pool supplies allocation is completely used up, and the utilities budget is at 88%. Expenditures will slow for this department during this time of year and resume when the weather begins to warm.

Other Financing Sources (Uses)

Transfers out for other departments are on schedule at 50%. These Transfers will be reviewed closely to ensure that any excess funding reverts back to the General Fund.

SPECIAL REVENUE FUNDS
Highway User Revenue Fund (HURF)³



Revenues

HURF is currently at about 38.7% of its budgeted revenues, which is a short fall of about 11% for the year. Fuel Tax Revenues which started the fiscal year 11.6% below estimates are starting to level out and are only 7.09% below for the fiscal year.

Expenditures

The Street Department expenditures are currently at 54.71% which is a little over budget. This department has not started any of its major projects that were budgeted for FY 2008 but has expended almost its entire budget for pavement preservation. As the remaining projects get moving, they will place a greater stress on the HURF. One item that will help minimize this stress is that this department no longer has any debt service commitments.

³ The HURF also funds any shortfalls of the Cottonwood Area Transit System.

Cottonwood Area Transit System (C.A.T.S.)

C.A.T.S. is doing well so far with the many agreements that have been approved in the past. C.A.T.S. has, however, not done its capital bus purchases for this year. Currently there are no major issues with this department.

Library

This department continues to do relatively well with revenues at 50.77%. Currently, General Fund operating transfers in are funding \$333,220 of the Library's operation. Yavapai County sent their first disbursement of funds in December.

Operating expenditures are at 47.3% and in good shape overall coming in below the revenues received. Some areas of concern are the temporary employee line which has used 128.2% of the budgeted amount and subscription and dues which has used ten fold the budget. The office supplies, Equipment Maintenance and Postage are also running over the budgeted amount. We will research these areas to see if anything needs to be adjusted.

Airport

The revenues for the Airport are doing better than expected since the City took over the fuel supply and restructured the fuel override allocation.⁴ The City has also taken over the tie downs; both covered and open in order to improve the collection. Traditionally all remaining T-hangar and Land Lease billings are reviewed and invoiced in February then receipted shortly thereafter.

Expenditures for this fund are currently at 95.76% due to the addition of fuel expense and the overall increase in maintenance that the City has taken over. This will also be rising even higher as the City starts allocating some of the indirect costs from the general fund to this department. The Airport continues to make transfers to the General Fund as repayment for the construction of the T-hangars back in FY 2000-01. These transfers to the General Fund will expire in 2013.

Grants

This fund is on a reimbursement basis for the fiscal year. This fund covers the Riverfront Park, and Airport Improvements. Many of the budgeted Airport projects have just begun. The General Fund will also be receiving \$520,000 used to complete the Riverfront Park Improvements that were funded by the General Fund's Capital Accumulation Fund and reimbursable from a GADA loan obtained in November 2007.

CAPITAL PROJECTS

Capital Projects

This fund reflects the Library Expansion Project and is currently starting to show some of the expenses for Riverfront Park Improvements, and the Recreation Center Project. The income related to this project is interest income from a \$1.3M investment dedicated to Library Expansion and monies from a recent GADA Loan. The current deficit is covered by the General Fund through its Capital Accumulation Fund (CAF). Just as the Riverfront Park, any funds used from the CAF will be reimbursed.

⁴ The fuel allocation was modified through an arrangement between the Fixed Base Operator (FBO) AEROBEAR and the City of Cottonwood, beginning June 2007. Originally the \$1 fuel override was split 2.5 City/97.5 AEROBEAR and was modified to 50/50.

ENTERPRISE FUNDS

Sewer

Overall revenues seem to be around 67.96% of the budgeted amount which is due to a large increase in interest income received on some of the investments. This fund seems to be close to target as far as revenue is concerned

Expenses for Operations & Maintenance are at 38.82% of the budget. Major concerns would be office supplies which are currently 33.79% over the total amount budgeted for the year, as well as Legal advertising at 127.61% and contractual services at 173.37%, which are all significantly over the yearly budget. Administration is currently at 58.12% with bad debt expense showing at 173.34% of budget. Sewer Construction has only used 3.48%.

Water

The water fund revenues are at 55.19% with all revenues doing well. As a reminder, \$265,120 of these revenues is for reserve funds, such as Resource Development, Water Advisory, Adjudication, and Water Conservation.

M&O expenditures are at 29.18% for the year which is 15.12% under revenue received. The capital outlay portion of the water budget is currently at 26.79%.

DEBT SERVICE FUNDS

Debt Service

This fund continues to be in good shape as in the past. There is not much to report in this fund. Sales taxes and interest income provide most of the revenues for this fund and all expenditures are principal and interest on loans and bond issues. Only Library debt is remaining at December 31, 2007. The City has since obtained a GADA Loan for \$20M, to be paid from the General Fund.

BRIEF OVERVIEW

The City of Cottonwood is currently facing a difficult economic situation, brought on by many external pressures. The national mortgage dilemma, high costs of fuel, the overall slowing in the local economy are all taking its toll on the City's ability to maintain its revenue base. All along the City continues to face the eventual loss of a major dealership in the near future. Department heads have already been cautioned to begin looking into cost containment measures within their departments.

There will be continued discussions about the local economy as it worsens or improves. The City of Cottonwood staff has always been and continues to be committed to being fiscally responsible while providing excellent quality services to the people of our community.

Should you have any questions, please do not hesitate to call on me.