

November 03, 2004

The Honorable Mayor and City Council

RE: Transmittal - Fiscal Year 2004-05 Budget

It is my pleasure to present to you the 2004-05 Annual Budget for Mayor and City Council adoption. There have been several budget work sessions with department heads to review, in detail, their programs and project planned expenditures. This year's total expenditures budget is \$52,477,285. This is an overall increase of \$37,468,625 from the previous fiscal year of \$15,008,660. The total commitments and fund balances is \$69,002,735. This increase is largely attributed to the many projects being proposed for the new fiscal year.

The largest single increase is the possible acquisition, operation and debt service related to the purchase of three local water distribution facilities. This project is a rollover from last fiscal year, since it did not come to fruition as originally anticipated. This year's budget also includes several additional 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. A general discussion about the funds follows; however, in-depth information is in the Key Issues section of this document. There will be an increase in the water rate structure when the water companies are acquired due to debt service requirements and necessary upgrades and improvements to the system. No other tax or user fee increases are anticipated or budgeted this year.

The General Fund's operational budget is \$8,954,750. This is a \$1,177,240 increase over the previous fiscal year of \$7,777,510. This net increase includes an additional \$854,820 in additional personnel & related benefits. A 2% Cost Of Living Adjustment (COLA) is included in this year's budget to help offset the rising costs of health insurance and retirement contributions. Additional staffing includes two firefighters, and two police officers to be hired at various intervals throughout the year. Other increases in the budget included a 4.68% increase in our workers compensation costs as well as an increase in the city's experience modifier (e-mod) from 1.31 to 1.37. Still an other personnel related significant increase was a 15% hike in employee health insurance premiums for employees and their dependents. This alone cost the City an additional \$122,897 compared to last fiscal year. The balance of the increase in the General Fund is due to normal operating and capital equipment acquisition costs. A listing of the programmed capital outlay and projects is on paged 267-69.

A substantial decrease in the General Fund is in the Finance Department. This decrease is due mainly to the completion of the remodel of the Old Police Department building which now houses the finance offices.

The total budget for the Special Revenue Funds is \$4,582,600. This fund's expenditures increased by \$2,026,830 over last year's funding of \$2,555,770. This increase is primarily due to the "rollover" of some major projects that began or were programmed to begin in fiscal year 2003-04 and need to be completed or will be initiating for 2004-05. Such things as the ISTEAs Phases II & III (\$354,710, \$464,020 respectively) and the Mingus Street extension (\$187,000) are such rollover projects. The Highway User Revenue Fund (HURF) reflects the elimination of virtually all its Fund Balance in the Special Revenue Funds. Approximately \$159,470 of Fund Balance will be utilized as the City strives to complete these projects.

The Debt Service Fund is budgeted for \$3,836,785. Last year's budget was \$2,446,340. The increase of \$1,390,445 is designated for capital improvements to the wastewater collection system as the City moves forward with extension of lines along State Route 260, the expansion of the Public Library facility and additional debt service as the City moves closer to acquiring three local water companies.

The City budgeted \$30,286,580 in the Capital Projects Fund this year to fund five major projects. The largest of these projects is the acquisition of three water companies and their upgrade. This acquisition and upgrade is anticipated to cost \$27,863,500. Other projects include Library expansion for \$1,198,560, the Riverfront Park - Heritage Grant Improvement Project for \$990,600, the Railroad Wash Flood Control Improvement Project for about \$200,000, and Airport Improvements for \$33,920.

The Enterprise Fund budget has increased from last fiscal year's \$1,328,460 to \$5,829,710 for fiscal year 2004-05. The \$4,501,250 increase is attributed to the planned construction of the SR260 Sewer Line Extension Project and the anticipated maintenance and operations expenses for the City water company when acquired. \$2,575,500 of the \$2,641,800 in capital outlay allocation is needed to complete the extension of the State Route 260 sewer line. This funding will come from the Sewer Debt Service reserves as a capital construction transfer in.

The Internal Service Fund and Fiduciary Fund aggregate total is down by \$25,500. The decrease in the Internal Services fund is due to assessments paid by the City's Employee Benefits Trust to the Verde Valley Employee Benefits Pool as part of an arrangement to assist the General Fund. The City health insurance is now totally handled through the Verde Valley Employee Benefits Pool. The Fiduciary Fund remains stable for this year with slight losses anticipated on investments.

Material changes are expected in the fund balances of several funds as anticipated projects get underway. General Fund use of fund balance is anticipated at \$721,540 as it makes transfers to various other funds. HURF continues to use its fund balance to complete several major projects. Debt service is expected to transfer only an estimated \$3,770,690 of which \$2,572,130 will go to the Sewer Construction Fund to cover the construction of the SR260 sewer line program and \$1,198,560 to the Library Expansion Fund for the expansion of the existing facility. The Capital Project Fund will use some of its reserves along with a General Fund transfer to complete some of its projects, including the Riverfront Park Improvements. Finally the Fiduciary Fund will see a slight decline in their fund balance as explained in the previous paragraph.

General Commentary

The preparation of the budget posed a special challenge to all department heads this year. Continued difficult economic conditions and rising costs of insurance, including health, workers compensation, and general liability continue to tighten its grip on already strained budgets. This is coupled with the City's dedication to the citizens' demand for quality services as one of its highest priorities. Long range financial planning played an integral part in the budget development. Revenue and expenditure projections were prepared for a five-year period. Traditionally each department submits 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 service.*" This plan included projections of the base budget for each department allowing for inflationary price increases for the next five years. In addition to the projected increases in commodities and utilities, base salaries and associated benefits were projected to increase at an annual rate of 4 percent for the period.

Revenue projections were based on several different factors, including a detailed analysis of the past five years and economic factors provided by the State. Special attention was given to our local city sales tax since it is our single largest revenue source. The City has experienced an average annual growth of 4.7% for the past five years, ending June 30, 2004. Fiscal year 2003-04 show a great recovery with an 11% increase over 02-03 which was the first real loss in over ten years for the local sales tax. For fiscal year 2004-05, a modest 6.0% increase is anticipated for city sales tax over FY 2003-04. All indications are that the economy has turned the corner; however, the City continues to be conservative in its revenue projections.

Residential and commercial construction valuations are 12.8% off its peak in 1998. Prior to 1991, the construction category represented less than 2.0% of our sales tax base compared to the 8+% representation in recent years. Wholesale and retail trade has increased an average of 7.5% per year, for the same period. Retail sales tax collection compared to total sales tax has slowly been eroding from 68.1% in FY 1995-96 to 63.4% in FY 2003-04. Combined, these three components represent 73.5% of our sales tax base.

Retail sales tax revenues are projected to increase by 6.6% for fiscal year ending June 30, 2005. Construction sales tax receipts are projected to remain stable, in comparison to the five-year average of 1.0% increase. In developing the fiscal year 2004-05 budget, total sales tax revenues are conservatively projected to increase 6.0%.

KEY ISSUES - FISCAL YEAR 2004-05

General Fund

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 costs, 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, we see the need for service to the growth areas. Law enforcement, as well as fire suppression has 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 Firefighters 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 recommended 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

Special Revenue Funds

The Street Department has several ambitious projects allocated within its budget that has rolled over from last fiscal year. The most notable are the Old Town Improvements (ISTEA Phase II & III) anticipated to cost approximately \$354,710 and \$464,020, respectively. Another project is the Mingus Street Extension, which, in conjunction with Yavapai County is responsible for \$1,000,000 of the total cost of the construction. This year is Cottonwood’s final contribution of \$187,000. The Highway User Revenue Fund (HURF) builds up its fund balance, and then uses it in some of its larger projects. This fund balance consumption shows in the large fund balance changes reflected on page 140. In fiscal year 2004-05, the General Fund is not anticipating any transfers of funds to the HURF.

The Cottonwood Area Transit System (CATS) shows the continued expansion of the bus stop facilities started back in FY 2002-03. This expansion includes the bus stop benches and shading. Also included in the budget is the continued expansion of the transit system, which currently includes fixed routes as well as the demand service. The fleet is now totally diesel with four buses running with two backups and is anticipated to add yet two more diesel buses this year and increase the frequency of the routes.

The Library continues to be heavily supported by the General Fund with about \$502,740 in operational transfers in. A major expansion of the Library facility is allocated for this year, and is included in the Capital Improvements Fund. All related information is in that section of the document, pages 160-65.

The Cemetery for the first time reflects .3 FTE to more accurately reflect the amount of time the Maintenance employees spend on that job. The General Fund continues to support the Cemetery operations with a transfer in of \$23,070.

The Airport Authority continues to do well as additional land leases came on-line last year. This department now makes sufficient revenues to cover its normal day-to-day operations including the reimbursement to the General Fund for the construction of its Airport T-Hangars. It is not anticipated that the General Fund will need to transfer any funds to this department this fiscal year. There are some transfers out, however, to the General Fund (\$23,490) for reimbursement for T-Hangar construction and the Airport Improvements Fund (\$980) to assist in providing matching funds for Airport Improvement Grants.

This will be the fourth year in a row that the Community Development Block Grant (CDBG) fund has received funding for projects. This year is looking at multiple projects totaling \$881,810. This year's projects are as listed below:

Description	Amount of Funding
CDBG - Manufactured Housing	\$67,330
Senior Citizen's Center	193,880
Transitional Housing	111,500
Old Town Mission	29,080
Housing Rehabilitation	164,340
Housing Rehabilitation—HOME Grant	300,000
Contract – Administration	15,680
Total CDBG Funding	<u>\$881,810</u>

Debt Service Funds

This year Debt Service Funds reflect a sizable increase of \$1,390,445 from last year's \$2,446,340 in principal and interest. Included is the actual debt service for \$1,359,188 to cover the anticipated debt service amounts on the acquisition of the four local water companies that the City is currently contemplating. This fund also includes \$3,770,690 is a transfers out, of which \$2,572,130 is to the Sewer Construction Fund for the continued extension of collection lines on State Route 260, which began last fiscal year and \$1,198,560 to the Library for the expansion of the existing facility.

Capital Projects Funds

There are five projects programmed for FY 2004-05 in the Capital Project Fund. They are the Airport Improvements, the Railroad Wash Flood Control Improvements, the local Water Companies Acquisition, the Riverfront Park Heritage Grant Project and the Library Facility Expansion. An allocation of \$33,920 is allocated to the appraisal process which will eventually culminate in some land acquisition.

The Railroad Wash Improvements are winding down with only \$200,000 budgeted for this fiscal year. This \$1.3+M project will redirect the natural flow of the Railroad Wash to areas, which will cause the least damage if flooding should occur.

The local water companies' acquisition is also programmed for this year with \$27,863,500 in bond proceeds needed to acquire and begin immediate upgrades to all four systems. These immediate upgrades are in the form of more fire hydrants for fire protection, and linking of the systems to insure adequate flow throughout the entire coverage area, as well as arsenic removal which must be in place January, 2006.

The Riverfront Park - Heritage Fund Grant for major park improvements such as additional ball fields, more parking, extra lighting and the overall development of the Riverfront Park Area continues into this year. The State's Heritage Fund Grant is anticipated to fund 50% of the project of \$550,197. The City's commitment to the project is only \$150,000, which will transfer over as work progresses. The remaining amount is to be funded through current commitments of materials and labor from generous local businesses, Yavapai County and Arizona Public Service (APS).

The Library Facility Expansion is the final of the Capital Projects in the budget with an allocation of \$1,198,560 to expand the building to accommodate more resources and patrons. The funding for the construction is to come by way of a transfer from the Debt Service Fund restricted specifically for this purpose. These funds too will be transferred as the project progresses.

Sewer Fund

The Sewer Fund has begun to provide reclaimed water to the Cottonwood Ranch subdivision for their community areas. It also continues the release of effluent into Del Monte Wash to establish a riparian area along the wash. This year's major push, again is the State Route 260 construction of line extensions. This project will provide service to some of the areas in the State Route 260 commercial corridor.

BUDGET POLICIES - FISCAL YEAR 2004-05

This budget continues the prior years' fund balance restriction 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 restricted by the City Council.

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 slightly by \$30,380 from last year's \$856,050, due mainly to an authorized Council contribution of \$100,000 to the Senior Center Construction headed by the County. \$343,800 is available in additional capital reserves, which come from the excess .2% Library Debt Service sales tax. 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 project and the Public Safety Building GADA loan debt service payments. These policies, along with development of five-year budget projections, will insure the financial stability of the City into the future.

BUDGET DEVELOPMENT

The mission statement of the City of Cottonwood is "*TO SERVE*" the citizens in a fiscally responsive and professional manner. In developing the fiscal year 2004-05 budget, our mission, along with the budget policies of the City Council, served as the underlying premise.

Long range financial planning played an integral part in the budget development. Revenues and expenditures were prepared for a five-year period for all funds. These projections are included within the budget. The result of this five-year analysis demonstrated that revenues would not be keeping up with operational expenditures for the next five years. This is mainly due to the sluggish economy and the state's future financial picture. Any Capital acquisition would require some financing alternatives (see page 21-25). All other funds will continue to operate within their respected revenues.

LONG RANGE PROGRAMMATIC AND FINANCIAL PLANNING

Included within the budget is a section establishing long-range organizational programmatic goals and the five-year capital improvement plan. The organizational goals identified are presented programmatically, including a statement of operational fiscal impact to the City. Goals identified for fiscal year 2004-05, have been integrated into the work plans of the appropriate department responsible for implementation.

The five-year capital plan is an integration of these current and long-range organization goals. Each major project is explained within this section of the budget.

CAPITAL ACQUISITION PLAN

Included in the budget is \$37,174,810 in equipment acquisitions and construction projects. These items are detailed in each department's budget and summarized in the appendix of this budget. A summary by function is provided for review and does not necessarily reflect the full cost of ongoing projects. Only those amounts to be expended for fiscal year 2004-05 are budgeted.

The following 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 beginning on page 267 of the budget document.

Equipment	
Function	Estimated Cost
General Government	\$20,650
Public Safety	186,770
Culture & Recreation	133,100
Transit	123,300
Streets	1,300
Health & Sanitation	66,300
Total Equipment	\$531,420

Capital Projects	
Project Description	Estimated Cost
Cemetery	\$20,000
Water Companies Acquisition	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

MISSION STATEMENT

"TO SERVE THE CITIZENS OF COTTONWOOD"

*To provide for the needs of the citizens of Cottonwood.
Operate in an efficient and professional manner.*

*Serve the community promoting the quality of life.
Ensure the safety of the citizens through public safety efforts and programs.
Respect the need of the citizens by promoting staff accessibility.
Value the tax dollar and maintain sound fiscal policies.
Endeavor to hire the best people and help them develop their abilities.*

ACKNOWLEDGMENTS

The preparation of this municipal budget document is attributed to the countless hours spent by the Finance Department. Special thanks to the finance staff for the time spent in providing the financial information needed during the budget process, and to Mr. Jesus Rodriguez, Finance Director for the compiling of this informative document. In addition, thanks to the rest of the department heads that assisted in the development of the fiscal year 2004-05 Annual Budget.

The City of Cottonwood continues to be in a fiscally sound position due to the efforts of the City Council and Staff. I appreciate this opportunity as the City Manager to continue this financial condition through the preparation of this budget document.

Sincerely,

Brian Mickelsen
City Manager

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EXECUTIVE SUMMARY

City Profile

The City of Cottonwood is situated in central Arizona bordering the Verde River to its north and is the retail and services center for the scenic Verde Valley. The community was established in 1879 and incorporated in 1960, as the Town of Cottonwood.

In 1874, soldiers from nearby Camp Verde were based in an adobe structure where the City of Cottonwood currently stands. The first real settlers were ranchers utilizing the fertile grasslands along the Verde River to feed their herds. The name of the City was derived from a circle of 16 cottonwood trees located near the Verde River where these settlers began to develop the community. In 1987, the voters approved a name change from Town to City.

Cottonwood, located in Yavapai County is approximately 100 miles north of Phoenix and 50 miles south of Flagstaff, near the geographic center of the entire state of Arizona and the picturesque Verde Valley. The City is at an elevation of 3,320 feet above sea level with a total geographic area of 10.25 square miles.

The 2000 census set the City's population at 9,179, depicting a 55% increase over the 1990 census. July 1, 2002 Department of Economic Security estimates the population at 10,020. The main industries are tourism, government services, retail and education.

Date of Incorporation - 1960

Form of Government - Council-Manager

Demographics/Economics

<u>Area - Square Miles</u>	<u>2002 Property Tax Assessed</u>	
		<u>Valuation</u>
2004 – 15.50 Square Miles	Primary	\$ 78,592,832
	Secondary	\$ 83,257,333

Paved Streets

38 Miles

Cottonwood Labor Force Data

	<u>2001</u>	<u>2002</u>	<u>2003</u>
Civilian Labor Force	3,516	3,719	4,064
Employed	3,382	3,552	3,890
Unemployed	134	167	174
Unemployment Rate	3.8%	4.5%	4.3%

Source: Arizona Department of Economic Security

<u>Year</u>	<u>Population (1)</u>	<u>Public School Enrollment (2)</u>	<u>Unemployment Rate (3)</u>
2003	10,020	2,642	4.3% est.
2002	9770	2,559	4.5%
2001	9,405	2,510	3.8%
2000	8,845	2,432	3.6%
1999	7,775	2,248	4.4%
1998	7,300	2,419	4.3%
1997	6,770	2,282	4.7%
1996	6,675	2,247	4.6%
1995	6,581	2,152	4.9%
1994	6,255	2,092	5.9%

Sources:

(1) AZ Dept. of Economic Security and U.S. Census

(2) School census - Cottonwood School Districts

(3) AZ Dept. of Economic Security

<u>Gross Taxable Sales</u>		<u>Building Permits</u>		
<u>Year</u>	<u>Value</u>	<u>Year</u>	<u>Number</u>	<u>Value</u>
2004	\$311,644,070	2004	485	\$46,687,964
2003	286,236,364	2003	418	23,867,359
2002	300,179,591	2002	750	34,611,071
2001	275,164,224	2001	714	37,668,159
2000	263,881,988	2000	756	34,946,008
1999	253,769,494	1999	872	44,756,816
1998	230,038,818	1998	867	53,526,444
1997	218,544,546	1997	841	26,620,134
1996	198,347,864	1996	385	14,184,656
1995	171,907,864	1995	515	13,396,024

Source: Planning, Zoning and Building Departments

<u>Major Employers</u>	<u># Of Employees</u>
Verde Valley Medical Center	580
Cottonwood/Oak Creek Schools (Cottonwood only)	152
Wal-Mart - Retail	335
Mingus Union High School	137
City of Cottonwood	119
Fry's - Retail	94
Safeway - Retail	103
Rio Verde Health Care - Medical	45
Bashas - Retail	65
Arizona Public Service	52
Phelps & Sons, Inc.	160
Griffith Enterprises - Manufacturing	57

<u>Education</u>	
Elementary Schools	1
High School	1
Exceptional Children Program	1
Community College	1
Students:	
Grades K-8	1403
Grades 9-12	1239
Total Students	2,559

Source: Cottonwood/Oak Creek and Mingus School Districts

2003-04 Service Statistics

<u>Fire Protection</u>		<u>Police Protection</u>	
Stations	1	Employees (Full-time)	44
Employees (Full-time)	13	Sworn	30
Fire Calls	170	Non-Sworn	14
Emergency Calls	1,299	Part I Crimes	892
Other Calls	111	Part II Crimes	3,951
Fire Inspections (various kinds)	649	Traffic Warnings	603
		Traffic Citations	2,931
		Communications Dispatched	16,869
 <u>Public Works</u>		 <u>Library</u>	
Engineering Reviews (ea. proj)	182	Items in Collections	76,733
Subdivisions (lots)	163	Total Items Circulated	269,950
Right of Way Permits (ea)	100	Circulation Transactions Per Day	189
Flood Plain Inquires	225		
Streets Inspected (LF)	3,830		
 <u>Recreation Programs</u>		 <u>Municipal Parks</u>	
Participation:		Developed Parks	5
Adult Sports	33,000	Developed Acres	42
Special Events	19,000	Undeveloped Acres	79
Recreational Swimming	18,500	Swimming Pools	1
Instructional Classes	19,000	Tennis Center	1
Youth Sports	10,000	Lighted Ballfields	5
 <u>Sewer</u>		 <u>Transit System</u>	
Sewer Line Inspected (LF)	8,000	Annual Ridership	36,115
Miles of Line	35	Miles Traveled	94,630
Average Daily Treatment	909,589	Cottonwood Ridership	21,205
Plant Capacity	1.5mgd	Disabled Ridership	3,675

<u>Month</u>	<u>Weather</u>		<u>Average Total Precipitation (inches)</u>
	<u>Average Temperature (F)</u>		
	<u>Daily Maximum</u>	<u>Daily Minimum</u>	
January	58.2	28.4	0.85
February	63.2	31.8	0.77
March	68.4	35.5	0.87
April	76.6	42.4	0.57
May	85.1	49.4	0.35
June	94.6	57.7	0.58
July	98.4	66.0	2.02
August	95.4	64.1	2.43
September	91.6	57.5	1.12
October	82.3	46.7	0.80
November	68.6	36.0	0.74
December	59.0	29.0	1.11
Annual Average	78.8	45.4	12.21

Governmental Organization and Services Provided

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. An organizational chart is shown on page 36

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 municipal 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's operating revenues.
-  Continue a capital projects 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.

-  Shift the budget presentation from a focus on dollars to a focus on issues to prioritize funding based on 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 years' experience. The departments' 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 departments' requests, a tentative budget is presented to the City Council by the City Manager in May.

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 §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 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's function and mission.
-  Establish performance indicators departmentally.
-  Identify service accomplishments in relation to established goals for the previous year.
-  Establish goals for their departments for the new fiscal year.

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.

Budget Calendar for FY 2004-05

	Distribute Budget Worksheets / Diskettes / Information	March 02,2004
	Distribute Goals / Performance Measures / Org Chart Forms	March 09, 2004
	Budget Worksheets / Diskettes Due to Finance	March 12, 2004
	Goals / Performance Measures / Org Chart due to Finance	March 19, 2004
	1 st Round Budget Meetings (Dept Heads / Finance)	March 22 - 26, 2004
	Budget Meetings (Dept Heads / Finance / City Manager)	April 02 – April 09, 2004 April 12 – 16, 2004
	Present Draft Budget to City Council	Early May 2004
	Budget Work Sessions with City Council	May / June, 2004
	Adopt Tentative Budgets, set Expenditure Limitation	July 06, 2004
	Adopt Final Budget	August 03, 2004

Process For Changing the Budget

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 total 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, requests for new positions, reclassification of existing positions, capital projects exceeding \$500, 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.

Governmental Funds

General Fund - The General Fund serves as the chief 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 major capital projects) that are legally restricted to expenditures for specified purposes.

Debt Service Fund – Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

Capital Project Fund – Capital Project Funds are used to account 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 report any activity that provides goods and services to other funds, departments, or agencies of the primary government and its component units, or other governments, on a cost-reimbursement basis.

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.

Agency Fund - The Agency 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.

All Governmental 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 Fiduciary Funds are accounted for using the accrual basis of accounting. This method of accounting recognizes 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, and Capital Projects 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 and Fiduciary Funds (Enterprise, Internal Service, Pension, and Agency Funds), on the other hand, are budgeted on a full accrual basis. Not only are expenditures recognized when a commitment is made (ie: through 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).

The Comprehensive Annual Financial Report (CAFR) shows the status of the City's finances on the basis of "*generally accepted accounting principles*" (GAAP). In most cases this conforms to the way the City prepares its budget. Two exceptions are

1. The treatment of depreciation expense (these are not shown in the budget, although the full purchase price of equipment and capital improvements is, while purchases of capital improvements are depreciated in the CAFR for enterprise funds), and
2. Compensated absences (accrued but unused sick and vacation leave) are treated slightly differently in the budget and in the CAFR.

Compensated absences and depreciation are not budgeted.

The Comprehensive Annual Financial Report shows fund expenditures and revenues on both a GAAP basis and budget basis for comparison purposes.

STRATEGIC PLANNING

City Accomplishments for Fiscal Year 2003-04

The following depicts the continued commitment of the City of Cottonwood to make the community a better place to live. Fiscal year 2003-04 goals obtained are summarized within this list of accomplishments:

Physical Development

-  Successful completion of a \$1.4 M wash replacement project on Railroad Wash. The project built a substantial new channel through the center of the city that will contain the 100-year storm.
-  Construction of the Mingus Extension project, a vital new transportation corridor, was started. Cottonwood's first traffic signal was installed at the intersection of Mingus and Main.
-  Completed construction and major interior renovation project at the new Finance/Human Resources Building (Formerly the Old Police Dept.)
-  Completed Roller Hockey Court Surface Renovation Project.
-  Prepared site area for VFW War Memorial Monument at Riverfront Park.
-  Located conduit sweeps behind City Hall for computer fiber optic line installation for new Finance/Human Resources building and repaired all concrete walkways areas after repairs were completed.
-  Completed City Hall construction and major interior remodel project.
-  Completed Library construction and major interior remodel project.
-  Successful completion of 400 feet of new 30" storm drain on Mingus Avenue west of 11th Street. The project cured a long-standing, neighborhood flooding problem on S. 11th Street.
-  Clearing and grubbing the line of the new airport security fence so that the available grant funds could stretch to provide a complete, high-security, perimeter fence
-  Reconfigured space allocation in the existing Library building to make the entire Audio/Visual collection accessible to patrons in one room.
-  Complete all runway projects with assistance of ADOT - Aeronautics Division.
-  Successfully recharged 800 acre-feet of reclaimed water via the Del Monte Wash Riparian project.
-  Completed a roof structure over the reclaimed water storage tank for Cottonwood Ranch to further improve the quality of reclaimed water delivered to the subdivision.

Community and Economic Development

-  In cooperation with the Community Development Department, conducted a community assessment as a follow up to the Focus Future II plan.
-  Submitted \$900,000 grant application for land acquisition at the Cottonwood Airport.
-  General Plan adoption – ratification election set for May 18, 2004.
-  Adoption of the Planned Area Development Ordinance.
-  Secured \$827,000 in CDBG and housing rehabilitation funds.
-  Contracted with local Engineering firm for initial stages of planning, engineering and design work for the beginning phase of construction for the Riverfront Park Sports Facilities Expansion project (2003 - Heritage Fund Project)

General

-  Continued to upgrade web site, and added to the outreach material available on the site.
-  Completed City Employee Manual updates for Compensatory Time, & Drug Testing.
-  Received the Distinguished Budget Presentation Award from the Government Finance Officers Association (GFOA) for the sixth consecutive year.
-  Submitted the City's Comprehensive Annual Financial Report to the Government Finance Officers Association's (GFOA) to compete for the Certificate of Achievement in Excellence in Financial Reporting for the 13th year, the new submission complies with the new GASB 34 reporting format.

Organizational Goals - Fiscal Year 2004-05

The following goals have been identified and included within the budget. These goals, established during budget planning sessions with the City Council, are integrated into departmental work plans for fiscal year 2004-05.

Physical Development

Project – Acquisition of Local Water Companies (reprogrammed)

This project is to complete the acquisition of four local water companies and incorporate them into one municipal water facility.

Fiscal/Programmatic Impact

Fiscally, this project will involve several funds, each with a budget of its own. The Capital Improvements Fund includes \$27,863,500 for the actual acquisition of the water companies from their current owners, and \$2,282,750 for programmed improvements. Since revenue bonds will be used to finance this venture, the Debt Service Fund has \$1,359,190 allocated to cover the bond payments. There is also \$675,000 and \$1,195,000 budgeted, in the Enterprise Fund, for the cost of immediate improvements to the system, and operational costs, respectively. All these costs will be paid through user fees. Programmatically, this project will allow the City to take over control and management of the local water resources. This includes seeking new resources as well as implementing conservation measures.

Project - SR 260 Annexation Area Sewer/Design & Construction (reprogrammed)

This project is to design the annexation collection system area of SR 260 as well as to build a collection system and lift station in SR 260 annexation area.

Fiscal/Programmatic Impact

\$2,575,500 is in this year's Sewer budget for this project, which includes \$2,100,000 for design and construction, \$106,000 for line extensions, \$300,000 for land acquisition associated with this project, and \$69,500 for consultants and other fees. This new system will increase operations and maintenance costs for the Wastewater Department. New customers and anticipated economic development will offset the capital, maintenance and operational costs.

Project - Street Improvements (on-going)

This program restarted last year after several years of non-funding and lack of time to complete projects. This program is for the continual repair and maintenance of streets throughout the community. This program does not do any major construction work on streets.

Fiscal/Programmatic Impact

Funding for this program is strictly General Fund and to the amount of \$110,000 for FY 2004-05. Council has requested that at least \$100,000 be funded from the General Fund annually to maintain streets, bridges and sidewalks throughout the community. The City's Street Maintenance Department will be responsible for the program.

Project - New City Cemetery (reprogrammed)

This project will continue to develop Phase I of the new City cemetery. The existing cemetery is at capacity. This project is expected to accommodate the opening of the new cemetery site without all the improvements.

Fiscal/Programmatic Impact

Current funding of \$20,000 is budgeted in the City Council's budget for 2004-05. This project goes from the planning phase to actual development of the site. Currently, the fiscal implications are being addressed.

Project - Old Town Improvements - TEA21 Phase II (reprogrammed)

This is the second phase of the streetscape project on Main Street in Old Town. The project starts at Pima St. and extends northerly to the Old Jail. This project consists of sidewalk, and streetscape improvements including rock walls, lighting, and street furnishings.

Fiscal/Programmatic Impact

The budgeted expenditure for this project is \$354,710. This project is partially funded with a \$283,770 federal grant and will be administered by the State of Arizona, Department of Transportation. The HURF Fund will absorb the balance of the cost. This project will have an insignificant increase in annual maintenance costs, as it will become part of the City's regular streets maintenance program. Programmatically, this project will continue to beautify the Old Town area of the City as it continues to draw more tourists.

Project - Old Town Improvements - TEA21 Phase III (reprogrammed)

This is the third phase of the streetscape project on Main Street in Old Town. The project starts at Pima St., however, extends southerly and westerly to Willard Street. The project includes sidewalk, and streetscape improvements including rock walls, lighting, street furnishings, and a street island at the Balboa St. intersection.

Fiscal/Programmatic Impact

The budgeted expenditure for this project is \$464,020. This project, too, is partially funded with a federal grant and will be administered by the State of Arizona, Department of Transportation. The HURF Fund will absorb the balance of the cost. This project will have an insignificant increase in annual maintenance costs, as it will become part of the City's regular streets

maintenance program. Programmatically, this project will conclude the beautification of the Old Town area of the City.

Project – Riverfront Park Ballfield Expansion – Heritage Grant (reprogrammed)

Construction of a new little league park facility will include three fields with lighting, concession stand, public restrooms, 2nd floor observation deck and all new field infrastructures. The construction also includes the building of a 4th softball field to complete the softball complex. Parking, too, will be included with sports lighting for the Skate Park and Roller Hockey facility.

Fiscal/Programmatic Impact

The cost to the City is \$150,000 in matching funds for this project, which is to be transferred over as work progresses throughout the year. Community involvement through donated labor and materials accounts for \$400,197, making up the 50% match required. The State Heritage Grant program will contribute an equal portion of \$550,197 to bring the total cost of the project to \$1,100,394. Ongoing maintenance is expected to be approximately \$50,000 annually due maintenance and operational costs and the addition of 1.5 FTE's for ground maintenance purposes.

Project – Library Expansion

The expansion of the current building is to accommodate the growing number of patrons that use the facility. The additional space will also provide more room for the increasing collection of books, and videos.

Fiscal/Programmatic Impact

The expansion will be funded through library reserves that have been sitting in one of the City's investment accounts. The programmed cost for this project is budgeted at \$1,198,560. The expansion will increase the library's budget substantially; the largest single increase will be to the staff for operating the larger facility.

Community and Economic Development

Project – Community Development Block Grant Funding (reprogrammed)

These two grants have several projects rolled into it. All of which are housing or rehabilitation related. The City worked long and diligently to obtain these type of grants.

Fiscal/Programmatic Impact

The total amount of the two CDBG grants is \$881,810. The projects that will receive assistance with the funding from the first grant are the Senior Citizen's Center (\$193,880), Transitional Housing (\$111,500), Old Town Mission (\$29,080), housing rehabilitation (\$164,340), and CDBG manufactured housing (\$67,330). Also part of the grant is the contract administration fees of \$15,680. The second CDBG Grant – HOME has \$300,000 allocated to further housing rehabilitations throughout the community. All these grants will improve the local living conditions of some the residents as well as help organizations continue to provide much needed services.

Project – Enhance the Geographic Information System (GIS) Mapping

Currently the City is assessing the need to enhance the current GIS system. Virtually every department has a representative at these discussions to determine the needs and benefits of the enhancements.

Fiscal/Programmatic Impact

At this time there is no fiscal impact for the current year. The outcome of these discussions will determine the amount of commitment the community will have to muster to improve the current GIS system. Determinations have not been made whether to contract the upgrade and the maintenance or hire an Information Technology individual do it.

Project – Additional 15 Passenger Vans

Our Cottonwood Area Transit System (CATS) will be adding two additional vans to their fleet to reduce the time between scheduled routes. The frequency of pick-up times is expected to be reduced from 1 hour to 30 minutes.

Fiscal/Programmatic Impact

93% of the cost is to be covered by the Arizona Department of Transportation via a grant, with only 7% being paid by the City. This improved frequency of pick-ups is expected to be very well received by the commuting public currently using the system. The effort is also expected to encourage the use of the local transit system as an option to using personal vehicles at a time of high fuel prices.

Public Safety

Project – Upgrading the Police Department’s Spillman Reporting System

This project continues the upgrades to the Spillman Reporting System and it links to the State’s Department of Public Safety’s database.

Fiscal/Programmatic Impact

Three grants totaling \$402,730 have already been awarded, with only \$129,000 remaining in improvements to the upgrade. This amount includes remaining hardware and software as well as training to assure that everything continues to go smoothly. Programmatically, this system will allow improved communications among the various law enforcement agencies within the area and the State.

Project – Public Safety Staffing

This project includes the hiring of additional Police and Fire personnel to expand our first responders staffing. Increases in calls and requests from the community have made this a priority with the City Council.

Fiscal/Programmatic Impact

There is a \$103,000 fiscal impact to this year’s budget, with it more than doubling in FY 2005-06. This on-going cost will further increase as the City brings on more public safety staff in the near future. The programmatic impact is to have more personnel resources available for law

enforcement and fire suppression. Proper manning of the existing facilities and lower response time is one of the goals of this program.

Of the \$531,420 of capital equipment programmed this fiscal year, there are several items that need to be mentioned. \$65,000 is budgeted for three replacement vehicles for the Police Department, \$67,000 of the Fire Department equipment budget includes a Fire Inspection Vehicle, and a Fire Act Grant for \$42,000 to obtain 24 Wild Fire Ensembles and 20 needed radios. There is also \$75,000 assigned from capital reserves for a Community Recreation Center feasibility study, and \$10,000 in General Fund contributions to complete the final phase of the Skate Park Bowl construction.

Organizational Goals for the Future - Fiscal Year 2004-09

The following long-range goals address issues facing the City in the future.

Physical Development

Project - Annual Chip Seal Program

This program includes annual seal coating and/or asphalt overlaying of selected streets as determined by the City Council. These projects are funded by the General Fund and are budgeted in the City Council's budget. There is a \$110,000 allocation programmed for this year with subsequent years being funded up to \$112,000.

Fiscal/Programmatic Impact

The City has began funding this program again last year. It is anticipated that this program will be back to its annual \$112,000 allocation by next year. Pavement maintenance extends the service life of streets and reduces the frequency of more costly reconstruction projects.

Project - City Cemetery

This project will continue to develop until its anticipated completion in 2008. It is quickly becoming a priority that the city provide a cemetery to the public with the existing cemetery at capacity.

Fiscal/Programmatic Impact

Current funding of \$20,000 is budgeted in the City Council's budget for 2004-05. This project goes from the planning phase to actual development of the site. Future funding through its completion is \$50,000 annually through 2008.

Project – 1-Ton 4WD Crew Cab Pickup Truck

This is a replacement of a Wastewater vehicle in FY 2004-05.

Fiscal/Programmatic Impact

The cost of this equipment is expected to be around \$36,000. The replacement of the old truck will reduce repair costs.

Project – 2-Ton Dump Trucks

This is a replacement of an 18 year old, Street Division, 6-wheel, dump truck.

Fiscal/Programmatic Impact

The cost of these vehicles is expected to be \$50,000 in 2005-06. The replacement of the old truck will reduce repair costs and increase reliability.

Project - Tractor/Mower

The Wastewater Treatment Facility will purchase a new tractor for mowing disposal fields. This new tractor will replace the 1984 John Deere that is currently incurring higher maintenance costs.

Fiscal/Programmatic Impact

Approximately \$30,000 will be needed for this acquisition and is expected to come to fruition in fiscal year 2005-06. Maintenance costs on this vehicle are expected to diminish dramatically and help offset the cost of the new unit. Programmatically, down time on this vehicle will make the landscape maintenance process more efficient.

Project – Combination Truck

The Wastewater Division will purchase a 6-wheel, combination jetter and vacuum truck. This equipment is needed to effectively clean the sewer system. It is also the first line of offense in clearing blockages in sewer lines. This will replace an existing jetter trailer.

Fiscal/Programmatic Impact

This equipment will have a price tag of approximately \$120,000 and is programmed for FY 2005-06. A large powerful machine will allow staff to clean the collection system and clear blockages quickly and effectively. Currently this type of equipment is hired out of Phoenix for \$200 per hour. This would save approximately \$30,000 per year.

Project – Aquatic Center - Water Slide & Deck Expansion

Aquatics Slide project will enhance recreation/leisure services to the youth of the community. This project would entail the construction of a small attachment pool designed into the current pool site plus the installation of additional concrete square footage outside for slide attachment and construction.

Fiscal/Programmatic Impact

Anticipated costs for this water slide are \$155,000 over two years, FY 2007-09. Fiscal impact would be .25 FTE to accommodate one additional lifeguard position at \$4,000 annually. Additional revenues of \$17,500 are expected by this project.

Project - Community Recreation Center

Architectural design costs for a new facility in 2005-06 are estimated at \$250,000. Construction of a 48,000 square foot facility to house an indoor lap pool, wading pool, hydrotherapy pool, mechanical room, dehumidification room, gymnasium, cardiovascular/weight room, combination dance/art studios/rooms, locker rooms, office space, and rock climbing wall will cost approximately \$5,500,000. This project is mentioned in the General Plan and Parks & Recreation Five Year Planning document.

Fiscal/Programmatic Impact

The City allocated \$75,000 for a feasibility study on this project due to the high cost to build, maintain, and operate. The Funding is anticipated to come from a special funding event plus contributions from Mingus Union High School for part of the indoor pool. Maintenance and operation costs are estimated to be \$180,000 to \$220,000 annually although it is anticipated that much of this cost could be offset through revenue fees. Programmatically, this project will provide many additional recreational opportunities to Cottonwood as well as the entire Verde Valley area.

Project -Civic Center Rehabilitation

This project is for the preservation and restoration of a valuable historical building. Both internal and external renovations are needed. Such restoration would allow for the facility to be a functional “Civic Center” for meetings, social gatherings and cultural needs of residents.

Fiscal/Programmatic Impact

The rehabilitation is expected to carry a price tag of approximately \$135,000 and is scheduled for FY 2007-09. This project anticipates financing through the State Historic Preservation Office (SHPO) since the building is on the Historical Registry in the form of a grant. The General Fund would need a 50% match in funds. Maintenance and operation expenditures should go down as the building is restored.

Project - Riverfront Park Little League Fields – Herridge Field Relocation

This project relocates lighting from the current Herridge Field facility to Riverfront Park. This conversion or relocation of field facility from 6th street would be at a total replacement cost to the city. Included would be all transference of sports lighting and the construction of new infield facilities/infrastructure including all watering and electrical.

Fiscal/Programmatic Impact

Relocation expenditures for this venture are estimated at \$125,000 in FY 2006-07, with no additional reoccurring costs, as the field is currently on the Parks scheduled maintenance program. This relocation would bring yet another recreational opportunity to Riverfront Park

Project – Elm / Viejo Park Expansion

The City obtained land donated by the Verde Valley Property Owners Association (VVPOA) in 2001 for the expressed purpose of expansion of facilities for a public park. The facility is to be a daylight use park only with amenities of children’s play apparatus, a small Ramada, landscaping, picnic tables, and grills.

Fiscal/Programmatic Impact

This park as well as other parks expansions are anticipated to cost \$75,000 in FY 2005-06. Maintenance and operational annual costs of \$6,000, for the facility, would be in the area of a part-time employee for grounds maintenance and weekly site services. Costs would also be increased in city waste services fees.

Project - Old Town Trailhead & Parking

This program is for the construction of a park trailhead area at the Old Town Jail Trail. Construction would include an asphalt parking lot, scenic rock terrace and boundary fence of similar construction, patio pavers for a landing area, picnic tables, benches etc.

Fiscal/Programmatic Impact

An estimated cost of \$50,000 is projected into FY 2006-07. The Parks Maintenance and Street Division would incur additional recurring costs for grounds and parking lot maintenance. Other trailheads are planned throughout the community for \$100,000 each in FY 2007-09.

Project – Airport Improvements

This project is on going and is structured to support pavement preservation programs and keep airport facilities in top shape.

Fiscal/Programmatic Impact

This program is expected to cost \$1,536,920 over the next five years. Though these improvements will not cause any additional need for staffing, it will keep the runways and buildings in good shape. 95.5% of the funding for such projects comes from the Federal Aviation Administration and the Arizona Department of Transportation – Aviation Division. The remainder is matching funds from the Airport Fund.

Community and Economic Development

Project - Promotional and Marketing Programs

Continue promotional and marketing programs attracting visitors to Cottonwood through the Cottonwood/Verde Valley Chamber of Commerce. In 1986, the City enacted a two-percent bed tax to support the Chamber’s efforts. This project will be coordinated through the City Manager’s office.

Fiscal/Programmatic Impact

The programmatic impact of this program is to make the community more visible and attractive to visitors and travelers. This may take the form of advertising, pamphlets and more use of the city’s website.

Project - Verde Valley Regional Economic Development

Continue participation in the Verde Valley Regional Economic Development Committee, and the Verde Valley Transportation Planning Organization. This project will be coordinated through the City Manager's office.

Fiscal/Programmatic Impact

None

Project - General Plan

The General Plan was completed this fiscal year and approved by the voters. Recommendations as prioritized by the Planning and Zoning Commission will be initiated through their annual work plan. This effort will be coordinated by the Planning and Zoning Department.

Fiscal/Programmatic Impact

The General Plan will be implemented by the Planning and Zoning Department and serve as a model for the City’s continued growth. This process will not present any additional costs to the City.

Public Safety

Project – Fire Support & Utility Vehicles

The acquisition of Support vehicles will enable the Fire Department to provide an increased level of safety for our firefighters while also providing increased firefighting and rescue capabilities.

Fiscal/Programmatic Impact

Currently, the cost of this project over the next four years is \$232,500. Support vehicles are brush trucks and the like. Also included are vehicles for our Fire Chief, Fire Marshall, and the Fire Inspector. There is no change in any operational or maintenance costs.

Project – Fire Engine / Pumper

The acquisition of this engine will allow the Fire Department to more effectively and efficiently provide service to our citizens. This vehicle will replace a 17-year-old fire engine.

Fiscal/Programmatic Impact

The cost of the vehicle is estimated at approximately \$320,000. Currently it is scheduled for FY 2005-06. There is no expected increase in operational costs except for normal maintenance and repair. Programmatically, this project will meet Federal Safety Standards and insure a more reliable service response to our citizens.

Project – Fire Prevention Safety House

This project will provide a realistic training prop for Fire Prevention and Life Safety Training to the citizens of Cottonwood. Primary audience will be children, the elderly and other at risk groups.

Fiscal/Programmatic Impact

This Safety House is expected to cost \$35,000 in FY 2005-06. An additional \$2,000 in annual operating and maintenance cost would accompany this project. However, cost sharing with other area fire agencies should offset any additional cost. Through education, improvements in community fire & life safety will occur.

Project – Land Acquisition for Satellite Fire Stations

The need for land to situate additional fire stations is slowly becoming apparent with the rapid growth of the area. This project will address the needed satellite stations land requirements.

Fiscal/Programmatic Impact

Estimated cost to acquire land is \$60,000 and \$60,000 for FY 2005-06 and 2008-09, respectively. Programmatically, this will enable us to locate stations in strategic locations for maintaining and improving emergency response times

Project - Satellite Fire Station

The need for an additional fire station is slowly becoming apparent with the rapid growth of the area.

Fiscal/Programmatic Impact

This project addresses this need by FY 2005-06 and again in FY 2008-09. Estimated costs of \$500,000 in each of those years are anticipated. An increase in personnel, maintenance and operation costs is anticipated. The General Fund is expected to absorb any increase in costs due to this facility. Programmatically, this would provide additional fire suppression capabilities within the City.

Project - Replacement of Ladder Truck

The acquisition of a 100' ladder truck will enable the Fire Department to provide an increased level of safety for our firefighters while also providing increased firefighting and rescue capabilities. This is a replacement of the 1987 ladder apparatus and is an ISO requirement at this time.

Fiscal/Programmatic Impact

Currently, the cost of this \$650,000 piece of equipment is programmed for FY 2005-06. There is no change in any operational or maintenance costs.

Project - Vehicle Replacement Program – Police Department

This project provides for the systematic replacement of patrol and support vehicles. By keeping vehicles that are in top shape, the City reduces its operations and maintenance costs.

Fiscal/Programmatic Impact

Two or three patrol cars will be replaced for approximately \$60,000 annually. Also anticipated is the replacement of the Chief's vehicle in 2005-06 at a cost of \$30,000. To further protect these vehicles, the Department is anticipated to install covered parking for all their units. Though there is no change in any maintenance or operational costs, keeping the fleet fresh helps reduce costs.

Project – Evidence Module

This software is to efficiently track evidence from its discovery through its disposal. This item has become vitally important as part of necessary steps needed when prosecutors are trying to make a case.

Fiscal/Programmatic Impact

The programmed cost of this item is \$25,500 in FY 2005-06. It is estimated that the Software would reduce the time officers are using to fill out reports and looking for evidence in the Evidence Room.

Five-Year Capital Improvement Plan

A Capital Improvement Plan (CIP) is a multi-year plan that projects spending for anticipated capital projects. The City's CIP represents a five-year program totaling \$64,092,540. Since this figure is imposing and cannot realistically be funded from general revenues (pay-as-you-go financing), it will be necessary for many of the proposed improvements to be funded through other sources. Such funding sources may be the issuance of bonds, lease purchases and grants.

It is important to note that the CIP is intended to be a plan and a process, rather than a budget. Therefore, projects may be altered in succeeding years. Projects qualifying for the City's CIP shall have a total value of \$25,000 or greater.

Each project is detailed within the organizational goals for the City. Equipment items are not detailed in the organizational goals. These purchases are considered to be self-explanatory. A summary of the projects and equipment acquisitions planned, representing a five-year period, is presented below.

GENERAL FUND

Project	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09
Street Improvements	\$110,000	\$112,000	\$112,000	\$112,000	\$112,000
New Cemetery	20,000	50,000	50,000	50,000	0
Evidence Module	0	25,500	0	0	0
Staff Vehicles - Police	65,000	105,000	50,000	60,000	60,000
Fire Support/Utility Vehicles	0	150,000	0	0	0
Ladder Truck	0	625,000	0	0	0
Fire Engine Pumper	0	320,000	0	0	350,000
Satellite Fire Station	0	560,000	0	0	560,000
Fire Prevention Safety House	0	35,000	0	0	0
Support Vehicles - Fire	25,000	0	27,500	30,000	0
Purchase Park Acreage	0	0	0	100,000	100,000
Parks Improvements	0	100,000	50,000	0	0
Herridge Field Relocation	0	0	125,000	0	0
Urban Trails	0	0	50,000	100,000	100,000
Civic Center Rehab	0	18,000	0	45,000	90,000
Aquatic Center Slide & Deck	0	0	0	80,000	70,000
Exterior Pool & Tennis Court Renovations	0	0	30,000	0	90,000
Riverfront Awnings	0	0	25,000	0	0
Construction Maintenance Facility	0	0	0	0	560,000
Other Equipment	250,520	536,210	225,950	134,350	131,200
Total General Fund CIP	\$470,520	\$2,636,710	\$745,450	\$711,350	\$2,223,200

General Fund street improvements are to be paid through local funding. The pool improvements, including the water slide & deck, major parks improvements, and urban trail system, will include an equal amount of State Heritage Grant Funds and General Fund revenues. Substantial major projects will

require bonding mechanisms. Vehicles and equipment will be pooled with other funds to obtain necessary lease purchase financing.

SPECIAL REVENUE FUNDS

Project	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09
CDBG					
Manufactured Housing	\$67,330	\$0	\$0	\$0	\$0
Senior Citizens Center	200,000	0	0	0	0
Transitional Housing	115,000	0	0	0	0
Housing Rehabilitation	469,480	0	0	0	0
Old Town Mission	30,000	0	0	0	0
CDBG Total	881,810	0	0	0	0
Transit System – Mini Vans	120,000	110,000	0	0	0
Street Construction					
Old Town TEA21 Phase II	354,710	0	0	0	0
Old Town TEA21 Phase III	464,020	0	0	0	0
So. Willard Extension	0	420,000	400,000		
Total Street Construction	818,730	420,000	400,000	0	0
Street Maintenance					
6 Wheel Dump Trucks	0	50,000	0	0	0
Skip Loader	0	58,000	0	0	0
One Ton 4WD Crew Cab Pickup	36,000	0	0	0	0
Total Street Maintenance	36,000	108,000	0	0	0
Other Special Revenue Equipment	168,040	23,500	25,600	23,000	0
Total Special Revenue CIP	\$2,024,580	\$661,500	\$425,600	\$23,000	\$ 0

The equipment will require pooling with other funds for lease purchase financing. Transit bus replacements will be funded through the ADOT Transit Division with the City providing a 7% match from its Local Transportation Assistance Funds (LTAF). The S. Willard St. Extension will also be funded through HURF with contributions from the General Fund. The Old Town TEA21 Phase II & III Projects will also receive its funding from ADOT.

CAPITAL PROJECTS FUND

Project	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09
Purchase VV Fairgrounds	\$0	\$0	\$0	\$2,000,000	\$0
Double wide Basketball Gym	0	0	900,000	0	0
Railroad Wash Improvements	200,000	0	0	0	0
Community Recreation Ctr	75,000	250,000	3,000,000	2,500,000	0
Indoor Aquatics Center	0	0	0	0	2,500,000
Riverfront Heritage Grant	990,600	0	0	0	0
Library Expansion	1,198,560	0	0	0	0
Water Companies Acquisition	27,863,500	0	0	0	0
Airport Improvements	33,920	392,000	464,000	647,000	0
Total Capital Projects CIP	\$30,361,580	\$642,000	\$4,364,000	\$5,147,000	\$2,500,000

Funding for these projects has just begun to be identified. Some items such as the Railroad Wash Improvements have funding from the Yavapai County Flood Control District to complete the on-going project. The Library Expansion will be funded through .2% sales tax reserve monies specifically set aside for this venture. The water companies' acquisition will be funded through revenue bonds and finally the Riverfront Park Improvements will be funded through a 50/50 grant from the State Heritage Fund. It is anticipated the capital improvement fund reserves may assist in funding part of these projects.

ENTERPRISE FUND – WASTE & WASTEWATER

Project	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09
Mower Tractor	\$0	\$30,000	\$0	\$0	\$0
Combination Truck	0	120,000	0	0	0
Plant Expansion – SR260	2,575,500	0	0	0	0
Water System Improvements	1,744,535	1,776,346	1,809,745	1,160,046	1,216,432
1 Ton Crew Cab Truck	36,000	0	0	0	0
Other Equipment	30,300	20,200	4,800	0	0
Total Wastewater CIP	\$4,386,335	\$1,946,546	\$1,814,545	\$1,160,046	\$1,216,432

Equipment will be paid from local user fees or through pooling of equipment for lease purchase financing. The funding source for the land acquisition and major improvements will be through a bond issue or through reserves from the special 1% sewer debt service sales tax usable for sewer debt service extinguishment and/or sewer capital improvements.

SUMMARY OF FUNDS

Project	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09
General Fund	\$470,520	\$2,636,710	\$745,450	\$711,350	\$2,223,200
Special Revenues Fund	2,024,580	661,500	425,600	23,000	0
Capital Projects Fund	30,361,580	642,000	4,364,000	5,147,000	2,500,000
Enterprise Fund	4,386,335	1,946,546	1,814,545	1,160,046	1,216,432
Total CIP	\$37,243,015	\$5,886,756	\$7,349,595	\$7,041,396	\$5,939,632

Long Range Financial Projections

Long range financial planning played an integral part in the budget development. Revenue and expenditure projections were prepared for a five-year period. Each department submitted 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 service*”. This plan included projections of the base budget for each department allowing for inflationary price increases for the next five years. In addition to the projected increases in commodities and utilities, base salaries and associated benefits were projected to increase at an annual rate of four percent for the period.

Revenue projections were based on several different factors this year, including a detailed analysis of the past five years. This period was selected based on the broad experience of the economic cycles. Special attention was given to our local city sales tax and the economic situation at the Federal, State and Local levels. The City has experienced an overall average annual growth of 4.5% for the past five years, ending June 30, 2004. Fiscal year 2003-04 show a great recovery with an 11% increase over 02-03 which was the first real loss in over ten years for the local sales tax.

In developing the fiscal year 2004-05 budget, total local sales tax revenues are conservatively projected to increase 6.0%. Local city sales tax compared to total operating revenues has increased in importance from 40% in FY 1998-99 to an estimated 45.5% in FY 2004-05. Large fluctuations in the economy can dramatically affect this revenue source. All indications are that the economy has turned the corner; however, the City continues to be conservative in its revenue projections.

Residential and commercial construction revenues have decreased an average of 13.9% per year, since its peak in 1998. Prior to 1991, construction represented less than 2% of our sales tax base compared to the 8% representation in recent years. Wholesale and retail trade has increased an average of 4.1% per year, for the same period. Retail sales tax collection compared to total sales tax has slowly been eroding from 69.2% in FY 1994-95 to 63.7% in FY 2002-03. Combined, these three components represent 66.3% of our sales tax base.

Retail sales tax revenues are projected to increase by 6.6% for fiscal year ending June 30, 2005. Construction sales tax receipts are projected to remain stable, in comparison to the five-year average of 1.0% increase. Retail sales tax remains the mainstay of our sales tax base. In developing long-range revenue projections, sales tax revenues are projected to increase a conservative 4.0% for four of the five years through 2009. There, however is a 64% spike in fiscal year 2007-08 due to the retirement of the sewer debt service and the lifting of the restrictions on the 1% sewer debt service sales tax. This will make this source available for capital and general purposes.

State shared revenues constitute 28.0% of total operating revenues or \$2.2M for FY 2004-05. Economic recovery will drastically affect the City’s budget in the future. These revenue sources are continually being watched for any legislative action or economic change that could affect them.

Each fund’s revenues and expenditures are presented for a five-year period. The presentation illustrates revenues in comparison to base budget projections. This format demonstrates the ability of the City to continue to fund existing services and also exhibits future trends in revenues and expenditures.

GENERAL FUND

<u>Revenues</u>	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09
Taxes	\$4,073,990	\$4,251,204	\$4,397,422	\$6,963,287	\$7,172,185
Licenses and Permits	321,860	331,516	341,461	351,705	362,256
Intergovernmental Revenues	2,544,910	2,402,397	2,492,083	2,594,445	2,701,736
Charges for Services	971,350	687,373	704,102	720,305	736,921
Fines and Forfeitures	172,410	177,492	182,727	188,119	193,672
Use of Monies & Properties	56,500	72,512	58,544	74,597	60,671
Miscellaneous Revenues	68,700	38,700	39,600	40,527	41,482
Other Financing Sources	23,490	23,490	23,490	23,490	23,490
Total Revenues	\$8,233,210	\$7,984,684	\$8,239,429	\$10,956,475	\$11,292,413
<u>Expenditures</u>	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09
Administration	\$306,810	\$322,051	\$343,738	\$360,251	\$382,964
Personnel	142,210	151,478	158,920	166,326	174,710
City Council	246,300	342,608	345,873	349,302	352,903
Water Resource Project	16,250	17,000	17,789	18,619	19,493
Finance	235,960	248,944	262,891	277,902	294,090
Planning & Zoning	387,060	410,095	435,101	462,307	491,973
Building Inspection	150,990	159,892	169,543	180,029	191,447
Police	2,389,620	2,324,004	2,457,324	2,601,565	2,757,968
Animal Control	74,530	79,083	84,021	89,387	95,231
Communications	484,980	513,141	543,606	576,633	612,766
Fire	1,027,420	1,083,303	1,145,167	1,212,002	1,284,361
Municipal Court	214,900	216,251	227,262	238,693	265,590
Legal	145,500	152,775	160,414	168,434	176,856
Engineering	224,060	237,594	251,953	267,564	284,576
Parks & Recreation	390,350	411,817	434,790	459,413	485,846
Pool	89,580	93,768	98,159	102,763	107,592
Weight room	48,060	50,746	53,641	56,767	60,149
Building Maintenance	429,410	455,086	482,852	512,934	545,592
Custodial	131,400	137,970	144,869	152,112	159,718
Non-Departmental	312,600	337,290	364,121	393,289	425,012
Transfers Out	1,036,240	1,088,052	1,142,455	1,199,577	1,259,556
Total Expenditures	\$8,484,230	\$8,832,948	\$9,324,489	\$9,845,869	\$10,428,393
Gain/(Loss)	(\$251,020)	(\$848,264)	(\$1,085,060)	\$1,110,606	\$864,020

CONCLUSION

The result of this five-year analysis demonstrates that revenues will have difficulty keeping up with operating expenditures for the General Fund in the next five years. This situation is reflective of the City's inability to increase substantially the current revenue streams via rate increases or through diversifying the current revenues through additional fees or charges for services.

Other issues that are out of the City's control are employee benefit costs. Health insurance for employees and their dependents will increase 15% for fiscal year 2004-05 and are expected to continue in a similar double-digit trend for the next five years. Likewise, workman's compensation is also on the rise with well over a 7% increase this year, however, it is anticipated that increases for this item will slow as the City's experience modifier (E-mod) begins to decline as some substantially high claims begin to drop off in the next couple of years. Rising fuel prices also play a very large factor in the City's future. These rising costs affect our fleets, our utilities, and our ability to do our jobs efficiently. The above analysis reflects a conservative view of current City revenues sources and the Department Heads estimated costs to carry on current level of services into the projected period. These numbers will change drastically as staffs are made aware of the City's current and future economic situation. The City staff is committed to keeping within its budgets and still providing the best possible services to the community.

Our City, along with all other Arizona cities, is always vigilant of the State's economic situation and how it will affect us at the local level. There is also a very close watch on the local economy for signs of strengthening or weakening. Needless to say, unless additional revenue streams are approved, the City will be looking at some sort of financing mechanism for any capital equipment and projects rather than our current pay-as-you-go plan.

SPECIAL REVENUE FUND

<u>Revenues</u>	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09
Street Department	\$735,090	\$771,845	\$810,437	\$850,959	\$893,506
Transit System	424,070	440,292	467,771	497,679	530,302
Library	643,170	685,555	724,227	765,903	810,907
Airport	67,600	65,300	65,300	65,300	65,300
Grants	500,000	500,000	500,000	500,000	500,000
CDBG	881,810	0	0	0	0
Total Revenues	\$3,251,740	\$2,462,992	\$2,567,735	\$2,679,841	\$2,800,015
<u>Expenditures</u>	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09
Street Department	\$722,290	\$756,647	\$800,073	\$726,555	\$770,958
Transit System	420,240	440,292	467,771	497,679	530,302
Library	652,600	685,555	724,227	765,903	810,907
Airport	48,310	103,892	107,863	112,033	116,411
Grants	500,000	500,000	500,000	500,000	500,000
CDBG	881,810	0	0	0	0
Total Expenditures	\$3,225,250	\$2,486,386	\$2,599,934	\$2,602,170	\$2,728,578
Gain/(Loss)	\$26,490	(\$23,394)	(\$32,199)	\$77,671	\$71,437

CONCLUSION

Street Department

Revenues fluctuate over the years, as the ISTEA projects comes to fruition and the funds are drawn. Fund balances are traditionally built up for a number of years then consumed by a project or combination of projects. Intergovernmental revenue, primarily Highway User Revenue Funds (HURF) was positively influenced by a good 2000 census.

Transit System

Revenues are primarily from Arizona Department of Transportation (ADOT) – Transit Division grants that reimburse 50% of operational costs and 80% of administrative costs to run the program. Additional funds come from intergovernmental agreements with the Town of Clarkdale, Yavapai County, Northern Arizona Council of Governments (NACOG), Department of Economic Security (DES), and some local area assisted living facilities. Any expenditure over revenues is absorbed by HURF funding not used by the Street Department.

Other Departments

The remaining departmental expenditures are tied to the actual revenues received. Expenditures will not exceed projected revenue sources.

DEBT SERVICE FUND

<u>Revenues</u>	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09
Taxes	\$3,363,945	\$3,155,512	\$3,617,248	\$152,505	\$152,505
Interest Income	67,400	249,400	258,200	38,100	39,960
User Fees	0	1,577,800	1,685,600	1,781,700	1,869,840
Transfers In	360,430	370,650	364,925	364,925	364,925
Total Revenues	\$3,791,775	\$5,353,362	\$5,925,973	\$2,337,230	\$2,427,230
<u>Expenditures</u>	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09
Trustee Fees	\$9,000	\$9,000	\$9,000	\$0	\$0
Interest Payments	1,836,545	2,138,423	2,120,779	1,267,230	1,247,230
Principal Payments	991,240	1,097,038	1,222,038	1,070,000	1,180,000
Transfers Out	2,138,850	0	0	0	0
Total Expenditures	\$4,975,635	\$3,244,461	\$3,351,817	\$2,337,230	\$2,427,230
Gain/(Loss)	(\$1,183,860)	\$2,108,901	\$2,574,156	\$ 0	\$ 0

CONCLUSION

A special one percent (1%) sales tax, enacted in 1987 funds the debt service of the Sewer Project of 1987. The coverage ratio of income to debt payment is estimated to rise to 1.9x in FY 2004-05 compared to 1.7x in FY 2003-04. This small increase is due to the stabilization of the debt service payments. This ratio is expected to continue to rise until 2007 when the debt will be extinguished. The \$1,183,860 loss in FY 2004-05 is due to a transfer out from the Debt Service Fund to the Enterprise Fund for the extension of the State Route (ST) 260 lines.

The special two-tenths of a percent (.2 %) city sales tax enacted in 1992, funds the debt service of the Library Project of 1992. The coverage of income to debt payment is expected to increase from 3.9x in FY 2003-04 to 4.2x in FY 2004-05. This trend is expected to continue to increase, demonstrating exceptional coverage.

Included in the schedule above is the anticipated Debt Service for the potential acquisition of four local water companies. Three of the four are expected to be acquired early in the year, with the remaining one to come on-board later in the year.

ENTERPRISE FUND

<u>Revenues</u>	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09
Taxes	\$0	\$0	\$0	\$0	\$0
User Fees	4,933,915	5,095,590	5,267,946	4,763,498	4,971,508
Miscellaneous Income	71,570	72,954	74,380	75,851	77,368
Transfer In	0	0	0	0	0
Total Revenues	\$5,005,485	\$5,168,544	\$5,342,326	\$4,839,349	\$5,048,876
<u>Expenses</u>	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09
Construction	\$3,953,035	\$1,776,900	\$1,810,200	\$1,160,550	\$1,216,930
Operations	2,978,610	3,129,067	3,287,496	3,454,849	3,631,728
Administration	209,300	218,906	228,802	239,220	250,200
Total Expenses	\$7,140,945	\$5,124,873	\$5,326,498	\$4,854,619	\$5,098,858
Gain/(Loss)	(\$2,135,460)	\$43,671	\$15,828	(\$15,270)	(\$49,982)

CONCLUSION

The Sewer Enterprise Fund operation has become self-sufficient and is no longer being subsidized by the special one-percent sales tax enacted in 1987. The tax will end with the final bond payment July 1, 2007. The City began “weaning” itself off the dependence of this subsidy in FY 2000-01 and now relies predominately on user fees. Other revenue sources are interest on investments, building rentals, sale of effluent, and miscellaneous income. The Council will be presented with a proposal, keeping sewer rates at the same level as FY 2003-04.

Included in the schedule above is the anticipated operational and construction costs if the acquisition of four local water companies comes to fruition. However, since three companies are anticipated to come on-line early in FY 2004-05 they are programmed into the schedule above. Due to the confidential nature of the negotiations between the City and the final water company, only FY 2004-05 is depicted in the Enterprise Fund schedule above.

INTERNAL SERVICE FUND

<u>Revenues</u>	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09
Contributions	\$9,500	\$9,785	\$10,078	\$10,381	\$10,692
Other Income	2,000	2,060	2,122	2,185	2,251
Total Revenues	\$11,500	\$11,845	\$12,200	\$12,566	\$12,943
<u>Expenditures</u>	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09
Benefits Paid	\$11,500	\$12,075	\$12,679	\$13,313	\$13,978
Other Expenses	0	0	0	0	0
Total Expenditures	\$11,500	\$12,075	\$12,679	\$13,313	\$13,978
Gain/(Loss)	\$ 0	(\$ 230)	(\$ 479)	(\$ 747)	(\$1,035)

CONCLUSION

This fund includes our Employee Benefits Trust Fund, which used to be the City’s health insurance for employees and dependents. In FY 2001-02, the City became a member of the Verde Valley Employee Benefits Pool, which provides health, dental, and vision coverage for many of the schools and cities in the Verde Valley. This fund is planning to provide short-term disability coverage for the City employees by the end of Fiscal Year 2004-05.

CEMETERY TRUST FUND

<u>Revenues</u>	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09
Other Income	\$20	\$20	\$20	\$20	\$20
Charges for Services	4,200	4,410	4,631	4,862	5,105
Operating Transfers - GF	\$23,070	\$24,435	\$25,909	\$27,504	\$29,234
Total Revenues	\$27,290	\$28,865	\$30,560	\$32,386	\$34,359
<u>Expenditures</u>	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09
Operations	\$27,290	\$28,865	\$30,560	\$32,386	\$34,359
Total Expenditures	\$27,290	\$28,865	\$30,560	\$32,386	\$34,359
Gain/(Loss)	\$0	\$0	\$0	\$0	\$0

CONCLUSION

The City will continue to subsidize the operations of the cemetery from the General Fund for the next five years. Volunteers established the cemetery in the 1880’s. Burials were provided at cost over the years and perpetual care funds were never established. The City took over the operations of the cemetery in 1976. At that time, most plots were either reserved or filled. The City is responsible for the perpetual maintenance of the cemetery.

REVENUE AND EXPENDITURE ANALYSIS

Consolidated Revenues - All Funds

Revenue projections were based on several different factors this year, including a detailed analysis of the past five years and economic factors provided by the State. Special attention was given to our local city sales tax and the economic situation at the State and Federal level. The City has experienced an average annual growth of 4.5% for the past five years, ending June 30, 2004. . Fiscal year 2003-04 show a great recovery with an 11% increase over 02-03 which was the first real loss in over ten years for the local sales tax. For fiscal year 2004-05, a modest 6.0% increase is anticipated for city sales tax over FY 2003-04. All indications are that the economy has turned the corner; however, the City continues to be conservative in its revenue projections.

Though for Fiscal Year 2004-05 the increase for all funds is 249.7% over revised figures of \$15,008,660 in FY 2003-04. The cause of the sharp increase is the inclusion of the costs involving the acquisition of the four local water companies. These numbers were not included in the calculations above, however, they are included in the budget.

A listing of All Funds Consolidated Revenues by Sources is on page 54. A further breakdown by source and fund may be found on page 56.

Consolidated Expenditures - All Funds

Expenditure projections for Fiscal Year 2004-05 began with the preparation of a “*base budget*” for each department. The base budget is defined as “*the essential expenses to operate a department at its current level of service*”. Projections were made in commodities and utilities based on an inflationary projection of 5%. Salaries and associated benefits were projected to increase at an annual rate of over 5.6% for fiscal year 2004-05, predominately due to increases in health insurance costs of 15%.

With the completion of the base budget, departmental budget requests were reviewed. Requests for new programs, buildings projects, position reclassifications and equipment were reviewed with each department head.

Included within the budget is the addition of 6 new full-time equivalents (FTEs), a 2% Cost Of Living Adjustment (COLA), the continuation of the vehicle replacement program, numerous capital projects and capital equipment acquisition. These items are detailed on the Capital Outlay Summary on pages 267-71 and in the individual departmental budgets.

General Fund - Revenues

Revenue projections for the General Fund are based on both historic years’ receipts and the best future assumptions known at this time. General Fund Revenues Schedule is provided on pages 60 and 61 of this document.

Taxes

Special attention was given to our local city sales tax. In developing the fiscal year 2004-05 budget, total local sales tax revenues are conservatively projected to increase 6.0%. Local city sales tax compared to total operating revenues has increased in importance from 40% in FY 1998-99 to an estimated 45.5% in FY 2004-05. Large fluctuations in the economy can dramatically affect this revenue source.

Residential and commercial construction revenues have increased an average of 1% per year, for the past five years. These increases are dramatically lower than the 31.9% average of the late 90's. Prior to 1991, construction represented less than 2% of our sales tax base compared to the 8.2% representation in FY 2003-04. Wholesale and retail trade has increased an average of 4.75% per year, for the same period. Retail sales tax collection compared to total sales tax has slowly been eroding from 70.8% in FY 1993-94 to 63.4% in FY 2003-04, a ten-year period. Combined, these three components represent 73.5% of our sales tax base.

Retail sales tax revenues are projected to increase by 6% for fiscal year ending June 30, 2005. Construction sales tax receipts are projected to increase by approximately 6% next year, in comparison to the five-year average of 1.0%. Despite the lower percent to total of the retail sales tax, it remains the mainstay of our sales tax base. In developing long-range revenue projections, sales tax revenues are projected to increase a conservative 5.4% after fiscal year 2004-05 through 2006-07. In FY 2007-08 there will be a 60% spike after the restrictions are lifted on the 1% sales tax currently reserved for Sewer Debt Service. After which, it settles in at about 3% through FY 2008-09.

State shared revenues constitute 28.3% of total operating revenues or slightly over \$2.2M for FY 2004-05. State finances as well as state legislation can have a dramatic affect on the City's budget. These revenue sources are being watched closely for any legislative action that could trickle down to cities.

Franchise revenues are a percentage of utility sales to customers. The City receives a 1% fee for water and power, 2% for gas, and a 3% fee for cable television. Franchise revenues have increased an average of 6.7% per year over the past five years. This year's budget reflects a conservative increase of 6.2% in this area.

Licenses and Permits

License and permit revenues peaked in FY 1997-98 and have been declining since. It is expected to stabilize in the next year or two. For next year, license and permit revenues are projected to increase by about 8.4% to \$321.860.

Intergovernmental Revenues

Intergovernmental revenues have a combined increased average of 5.3% per year for the past five years. Intergovernmental revenues are based on a sharing of state sales taxes, state income taxes and motor vehicle in-lieu tax on a per capita basis. Using the 2000 census and the Department of Economic Security (DES) estimates, intergovernmental revenues were adjusted to the new per capita formula. The City can expect a combined increase of 3.5% for this year. This revenue is distributed to the cities based on collections two years prior. The large decrease reflects the state of the Arizona economy, as well as the local economy, at that period and not necessarily current trends.

Charges for Services

Charges for services have increased an average of 4.5% per year over the past five years. The largest increases traditionally were in fees for police and fire dispatching to other agencies; however, this year the big winner is our Sewer Inspection Fees. This is due to fire dispatching being taken over in FY 2001-02 by Sedona Fire District nearby, thus changing the way we charge dispatch fees for Police only to our member communities. This budget has included a \$300,000 reimbursement for the Water System Evaluation services, relating to the acquisition of the local water companies. With this in mind, this source is projected to increase about less than 12.3% this year.

Fines and Forfeitures

Fines and forfeitures have increased an average of 3.2% per year over the past five years. There was a sharp increase in 1998-99 due to a new judge being sworn in. This again spiked in FY 01-02 as an additional motorcycle officer was placed into service late the previous year. The subsequent years tapered off with the trend expected to change with a replacement judge having been sworn in for the past judge. For the upcoming year, revenues in this area are expected to increase about 2.2%.

Uses of Monies and Properties

Uses of monies and properties revenues show an all time high in FY 1999-2000 with the high returns on City investments, around 6.5+%. Things have changed drastically, with reserves being used for capital projects and earnings of slightly under 2% interest. The relatively small increase of 1.8% presented for FY 2004-05 is in the area of interest income as the City is anticipating a rise in interest rates and better yields on its investments. The City is currently revising investment policies to allow greater investment flexibility to capitalize on opportunities other than strictly the State's Local Government Investment Pool (LGIP).

Miscellaneous

Miscellaneous revenues have always fluctuated wildly with donations and one-time revenues that do not fit into other revenue line accounts. This category is conservatively budgeted at 19.9% on a five-year average of 21.8%.

General Fund - Expenditures

The General Fund is used to account for resources traditionally associated with government that are not required legally to be accounted for in another fund. The general fund provides for municipal services including public safety (police, fire and building code enforcement), cultural and recreational activities, community planning and zoning, and general administrative services.

Expenditures

Total General Fund expenditures are projected to increase by 15.14% this fiscal year. This translates to a \$1,177,240 increase over the previous fiscal year of \$7,777,510. The majority of this increase is attributed to general operating expenses and several significant increases in personnel and benefit costs for employees. Those personnel and related costs are projected to increase by 19.2% this fiscal year.

Total personnel allocation for this fiscal year is \$5,302,590 up \$754,820 from last year's revised budget of \$4,447,770. Additional personnel staffing includes four additional Full Time Equivalents (FTEs).

The Council also approved a Cost of Living Adjustment (COLA) for the new fiscal year of 2% across the board.

The City Council approved the addition of two additional firefighters and two patrol officers for the Police Department. The City provides paid coverage for all employees and part of dependent coverage based on a tiered system, implemented as a cost containment measure to offset rising premiums. The tiered system is based on the number of dependents being covered dictating the amount of contribution from the employee. Despite containment efforts, the City's cost for employee and dependent coverage has risen 15% from \$711,466 to \$818,188.

Personnel related increases in the budget included a 6% increase in our workers compensation costs as well as an increase in the city's experience modifier (e-mod) from 1.31 to 1.37, increasing that expense by over \$52,642. Yet another personnel related significant increase was a 15% hike in employee health insurance premiums for employees and their dependents. This alone cost the City an additional \$106,722 compared to last fiscal year.

Operating supplies category has increased from \$275,940 last year to \$285,990 this year. This 3.6% increase is basically due to rising costs in fuel and every day supplies. Cost controls set in place in previous years due to uncertain local economy slow downs and the dependency on local and state shared sales tax revenues are keeping this category from escalating much further. Department heads take a very close look at their operating supplies and most are able to stay within any of the containment requests.

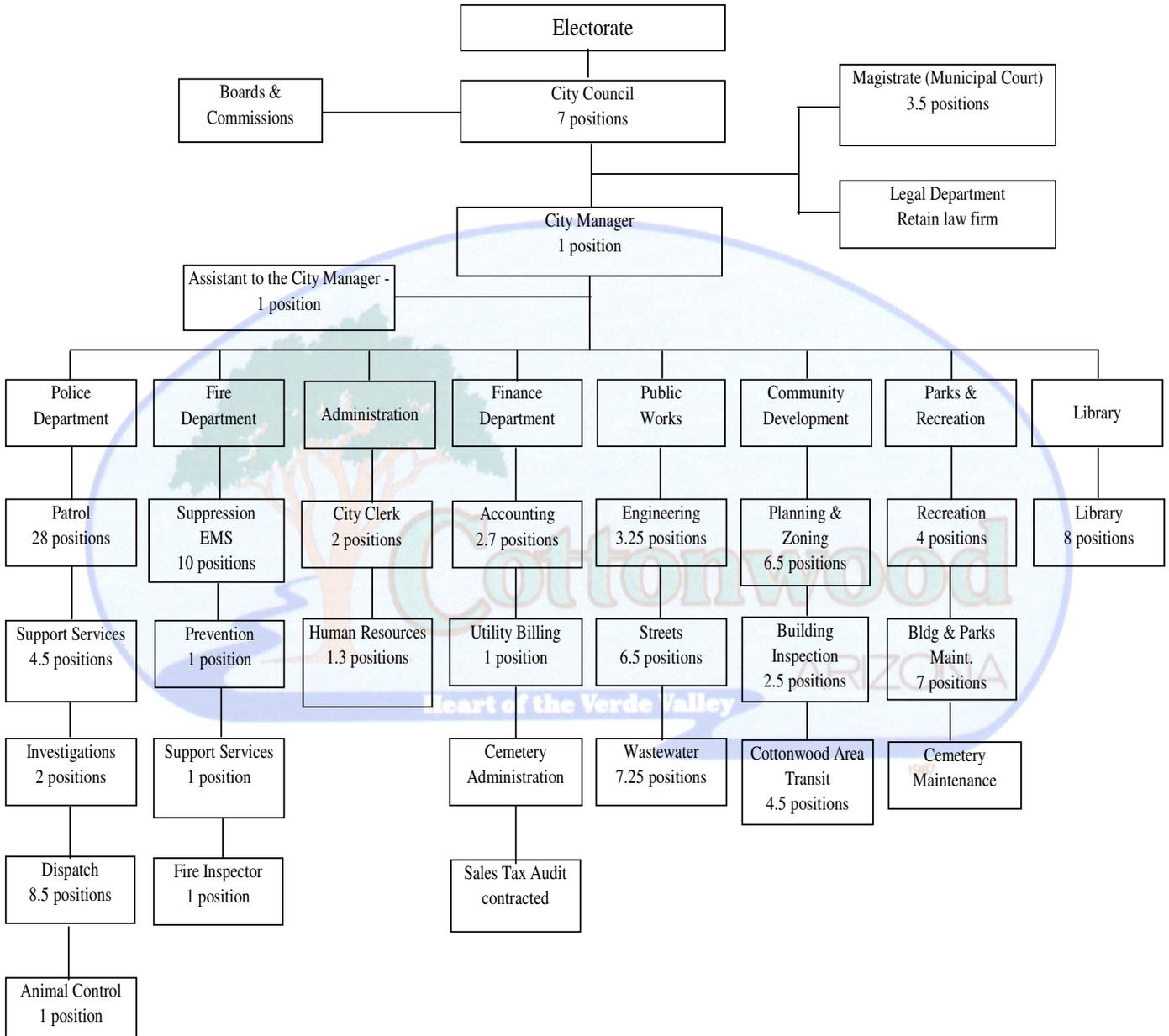
Contractual Services is anticipated to increase by 14.5%. The City did not take on any additional contracts nor does it plan to do so. The current contract with the City's custodial services did, however, increase in upwards of 15.1%

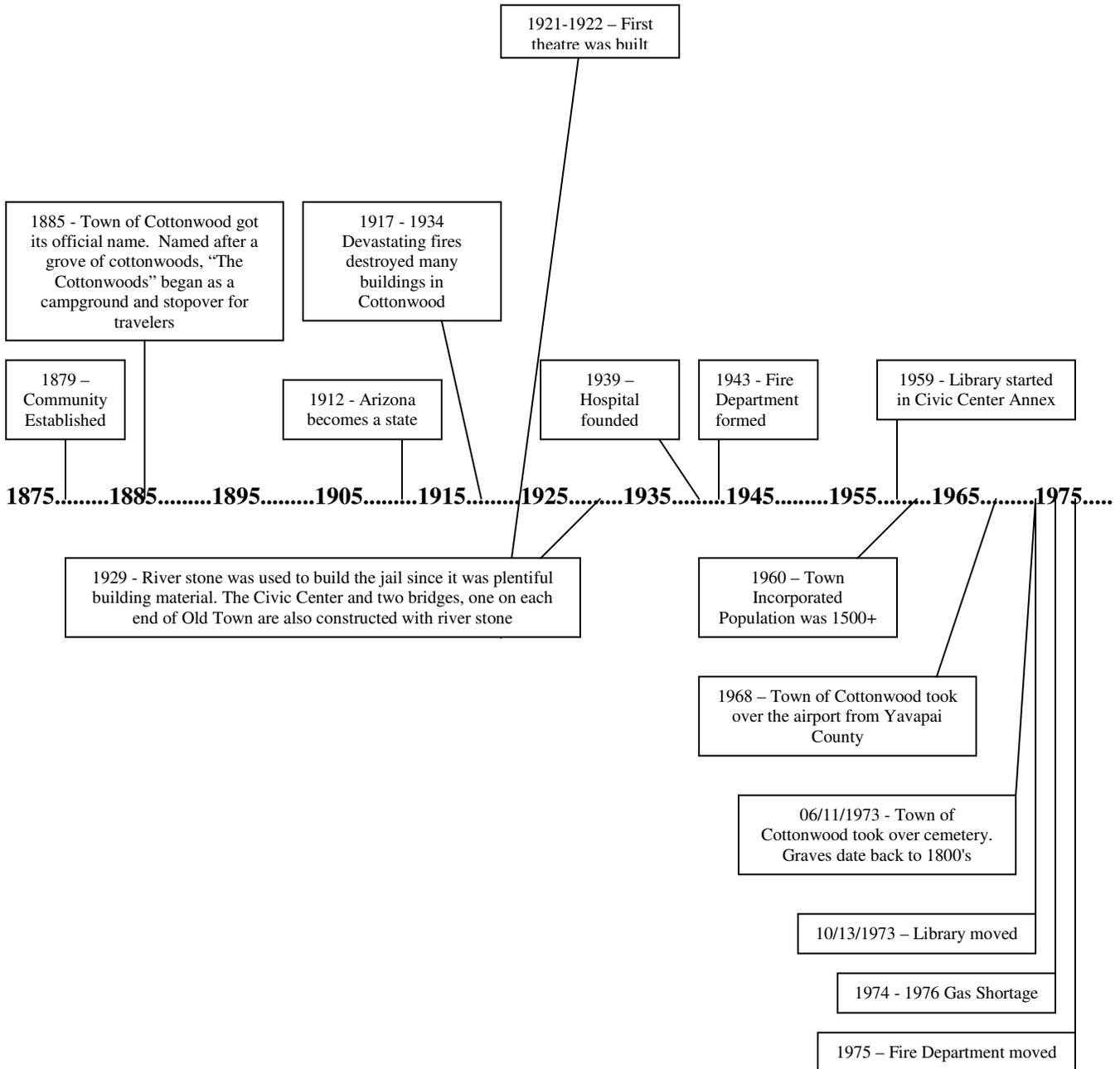
Other services and charges reflect a 14.1% increase or \$121,460. This category contains the substantial increases in travel and training for Fire and Police totaling \$30,700 up from \$14,200. Also included in this category are several additional small police department grants for a sum of \$29,500.

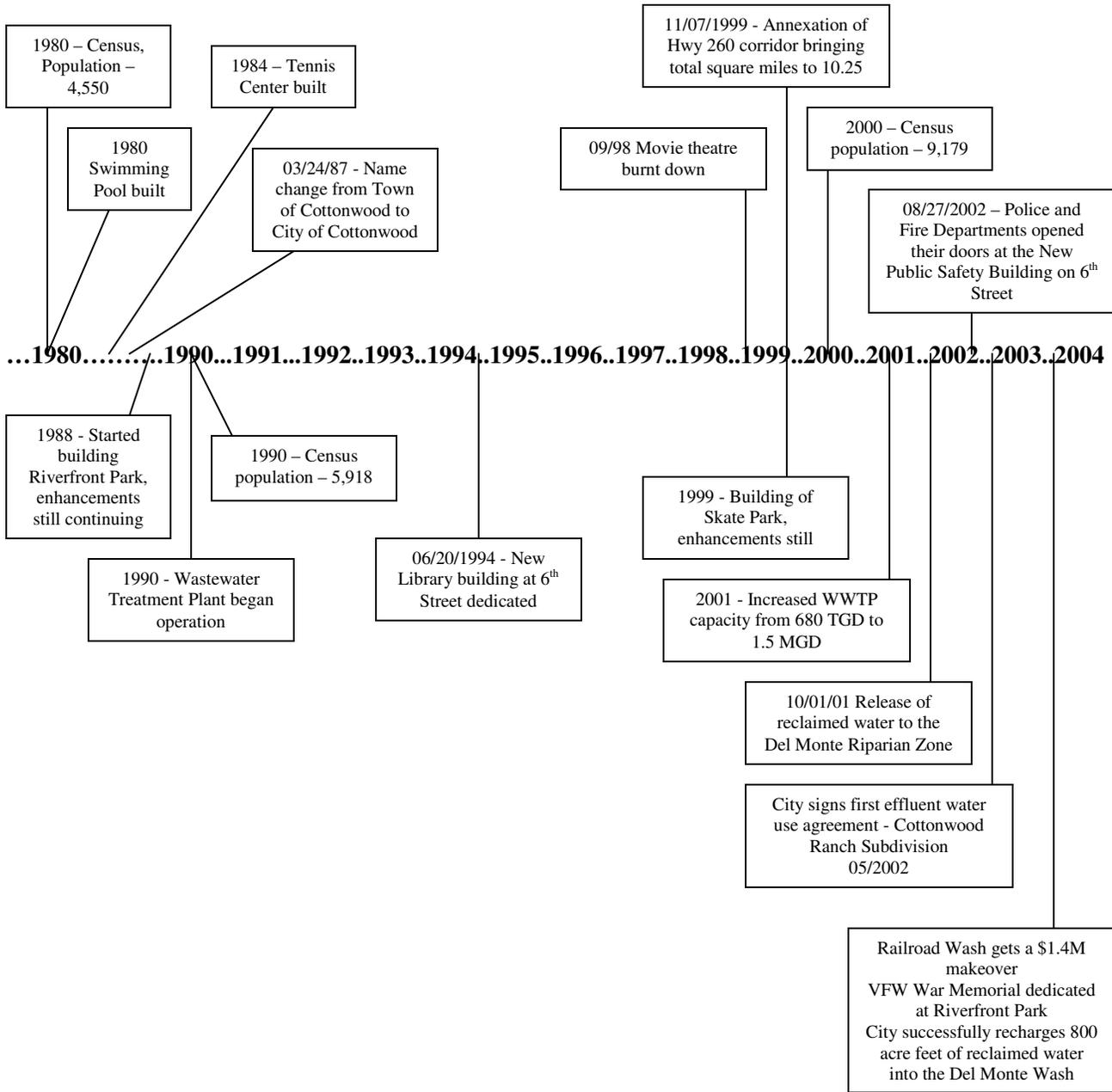
Capital Outlay has decreased by \$102,060 or -13.9% under last year's revised figure of \$731,080. This large decrease is due to a major Spillman Communication Grant to upgrade the Police Department's Spillman mainframe being almost completed. A listing of the department's capital requests can be viewed either in the individual budgets or on the Capital Outlay listing on pages 267-71 in the body of the document.

More information may be viewed in the summary pages of the individual funds and departments.

ORGANIZATIONAL CHART









GOVERNMENT FINANCE OFFICERS ASSOCIATION

*Distinguished
Budget Presentation
Award*

PRESENTED TO

City of Cottonwood

Arizona

For the Fiscal Year Beginning

July 1, 2003

A handwritten signature in cursive script, appearing to read 'Edwina Armstrong'.

President

A handwritten signature in cursive script, appearing to read 'Jeffrey R. Emer'.

Executive Director

The Government Finance Officers Association of the United States and Canada (GFOA) presented a Distinguished Budget Presentation Award to the City of Cottonwood, Arizona for its annual budget for the fiscal year beginning July 1, 2003. In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, as an operational guide, as a financial plan, and as a communications device.

This award is valid for a period of one year only. We believe our current budget continues to conform to program requirements, and are submitting it to GFOA to determine its eligibility for another award.

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