



August 15, 2006

The Honorable Mayor and City Council

RE: Transmittal - Fiscal Year 2006-07 Budget

It is my pleasure to present to you the Fiscal Year 2006-07 Final Budget for your review and approval. There have been several budget work sessions with department heads to review, in detail, their staffing, programs, and project planned expenditures. This year's total commitments & fund balances is \$57,529,125. This is an overall decrease of \$658,215 from the previous fiscal year of \$58,187,340. This amount includes the expenditure budget of \$35,723,865 and \$21,805,260 in estimated fund balances. This difference between years is largely attributed to the reallocation of resources for continuing projects and the many new projects being proposed for the new fiscal year and no longer needing to budget for Water Company.

The largest single decrease is in the acquisition, maintenance & operation, and debt service related City water distribution facilities, Cottonwood Municipal Water & Wastewater Utility (CMWWU). This department has completed its facilities acquisition and will now concentrate on maintenance and operations, as well as its debt service and system improvement commitments. This year's budget also includes several rollover projects that have not yet started or will not be completed prior to the close of the current fiscal year and therefore are budgeted in FY 2006-07. A general discussion about the funds follows; however, in-depth information is in the Key Issues section of this document. In addition, a 1% increase in the local Transaction Privilege Tax for all Construction Activities within the City of Cottonwood was initiated on January 1, 2006 and is currently in the budget. No other tax or user fee increases are anticipated or budgeted this year.

The General Fund's budget is \$14,673,910. This is a \$5,350,335 increase over the previous fiscal year of \$9,323,575. This net increase includes \$2,452,870 in fund balance, some rollover projects, and \$148,005 in additional personnel, including their related benefits. An in-house evaluation was performed last fiscal year on the entire City's salary structure, of which the first half of the recommendation was funded in FY 2005-06, and the second half of the recommendations have been incorporated into this budget. Salary as well as range adjustments were made to numerous positions. Inclusive of the range adjustments, this budget includes a 2% Cost of Living Adjustment (COLA). Additional staffing includes an Information System Technician, a Library Clerk, a PANT Officer (funded partially through a grant), a Deputy City Clerk, and an Electrical & Instrumentation Specialist for the Utility Department. These positions are partially offset by the elimination of a Building Inspector and Administrative Clerk. Other increases in the budget included a 23.08% increase in retirement contributions from 7.4% to 9.1%.

Additional increases that are reflective in the General as well as all other funds are the rising cost of fuel. Currently in Arizona, gasoline prices average \$2.89/gal compared to \$2.21/gal a year ago, a 23.5% increase. Additional increases include Arizona Public Service, our power provider, who just got approval for a 4.6% rate hike, and our own water utility which has doubled our water rates.

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 page xi.

The total budget for the Special Revenue Funds is \$5,263,705. This fund's expenditures increased by \$1,778,045 over last year's funding of \$3,485,660. This increase is primarily due to the new projects being programmed to begin in fiscal year 2006-07. Some of the projects currently being planned are the design and construction of the Willard Street Extension, and Aspen Street Improvements. C.A.T.S. has \$362,810 programmed for equipment and infrastructure. The CDBG program also has \$360,380 from Rural Development scheduled for the year. The Highway User Revenue Fund (HURF) reflects an increase in its reserves as the 1% construction activities sales tax completes its first full year, and a one-time infusion of \$300,000 from the General Fund is transferred over. There is also \$500,000 in the Other Grants budget used to cover any sizable and unforeseen grant opportunities. Approximately \$954,545 in transfers into the Special Revenue Funds will be utilized as the City strives to complete these projects.

The Debt Service Fund is budgeted for \$17,890,555. Last year's budget was \$15,637,055. The increase of \$2,253,500 is due to a strong sales tax in fiscal year 2005-06. There is \$744,050 programmed to the Wastewater Treatment Plant for capital equipment acquisition. Also included in the budget is reimbursement of sales tax for the construction of the Rodeo Drive.

The City budgeted \$2,361,330 in the Capital Projects Fund this year to fund several major projects. Some of the projects included in the budget are the Library Expansion for \$1,304,290, the Riverfront Park - Heritage Grant Improvement Project for \$235,250, and Airport Improvements for \$821,790.

The Enterprise Fund budget has decreased from last fiscal year's \$29,909,010 to \$16,854,690 for fiscal year 2006-07. The \$13,054,320 decrease is attributed to having completed the acquisition of the last water company. There is still a substantial amount of capital being budgeted for the year, as well as the necessary debt service requirement necessary to comply with the bond documents.

The Internal Service Fund and Fiduciary Fund aggregate total is up by \$11,495. There is a decrease in the Internal Services Fund due to reduced services being provided by the City's Employee Benefits Trust through AFLAC. The Fiduciary Fund is having increasingly better years as interest rates rise and economy improves. The City's Volunteer Firefighters Pension is anticipated to increase in value 16.2% to \$205,130.

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 \$578,240 as it makes \$1,292,470 in transfers to various other funds. The HURF fiscal position improves only through a transfer in from the General Fund of \$300,000 to assist in the completion of several street improvement projects. Debt service is expected to transfer an estimated \$744,050 to the Sewer Enterprise as continued support to its capital needs. The Capital Project Fund will use its reserves to complete the expansion of the Public Library. Finally the Fiduciary Fund will see an increase in their fund balance as interest rates and contributions to the fund improve.

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, workers compensation, and general liability continue to tighten its grip on already strained budgets. Increases in fuel as well as utility costs are also causing some budgetary issues. These issues coupled with the City's dedication to the citizens' demand for quality services as one of its highest priorities have increased the challenge to balance the budget. Long range financial planning has taken the forefront in this year's 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 approximately 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 8.4% for the past five years, ending June 30, 2006. Fiscal year 2005-06 has shown great promise with a 16.6% increase over 04-05. For fiscal year 2006-07, a more conservative approach is being used to estimate city sales tax for the year.

Residential and commercial construction valuations are 3.9% lower than FY 04-05 for the same period. The construction category currently represents 7.6% of our sales tax base. This category has ranged from sub 2.8% in the late 80's to nearly 12.0% in the late 90's. Wholesale and retail trade has increased an average of 6.7% per year, over the last five years. Retail sales tax collection compared to total sales tax has been at its peak with it consisting of 74.2% of total sales tax. Combined, these three components represent 83.0% of our sales tax base.

Retail sales tax revenues are projected to increase by 10.4% for fiscal year ending June 30, 2007. This includes the construction activities sales tax currently designated to street improvements.

KEY ISSUES - FISCAL YEAR 2006-07

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** – We are fortunate that Health Insurance Premiums will not show up on this listing for FY 2006-07, however there are some new ones to add. The rising cost of fuel has taken its toll on all departments, especially, service departments – Police, Utilities, Public Works, Parks & Recreation, and Transit. Utility costs are also increasing, mostly due to fuel recovery costs. These costs, to a large extent, are uncontrollable.

 **State Shared Revenues** – These revenue sources are always of concern to municipalities. The budget reflects an increase in State Shared Income Tax of \$270,690 from last year's \$960,660. State Shared Sales Tax is budgeted at a 15.1% increase over FY 2005-06. State Sales Tax is anticipated to generate \$1,035,160 in 06-07.

-  **Staffing & Compensation** – With the growth of our community, is the need for service to the growth areas as well as administrative support. Most 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 a completion of the salary range adjustment plan initiated in FY 2005-06. It also calling for a 2% Cost of Living Adjustment to assist employees with rising costs.

-  **Water Issues** - It continues to be evident over the past several years, the need for the City to continue its active role 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.

-  **Wastewater Issues** – It has been a known fact that the City of Cottonwood wastewater treatment facility is slowly getting to capacity. It is expected that with the current growth patterns, the City will be looking for a location, and beginning the design process in the next year. It is expected that a new facility will be on-line by FY 2011-12.

-  **Cemetery** – Known to all, the City Cemetery has been full for some time. The City Council identified the need to establish a new public cemetery. \$60,000 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. The Capital Improvements Program section reflects \$575,000 to be spent in FY 07-08 for the full implementation and development of a new Cottonwood Cemetery.

-  **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 \$11,980 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 has been completed for some time and has recommended a full-time staff position for economic development. In an effort to meet the recommendation, the City has converted a Planner position to an Economic Development Planner which was filled as of August 08, 2006.

City Staffing

This budget continues the employee merit program. This year the salary range adjustments that began in FY 2005-06 to improve the internal equity and external competitiveness of our pay plan will be complete. This year also saw 22 requests for staffing; unfortunately, a decision was made to add only 5 and while eliminate 2 FTEs. There were nine reclassifications, of which only five are planned.

Additional Positions

FTE Description	Timing	Budgeted
Information Systems Technician	¾ year	\$41,445
PANT Officer	Full year	64,400
Deputy City Clerk	Full year	40,810
Library Clerk	¾ year	27,635
Transit Driver	¾ year	27,945
Electrical Instrument Specialist	¾ year	42,475
		<u>\$244,710</u>

Eliminated Positions

FTE Description	Budgeted
Administrative Receptionist	\$32,305
Building Inspector	64,400
	<u>\$96,705</u>

Reclassifications

FTE Description	Old Range	New Range	Budgeted Amount
From: Administrative Assistant (H.R.) To: Human Resource Technician	17	23	\$4,525
From: Administrative Coordinator (Police) To: Police Administrative Technician	23	25	2,080
From: Utilities Bookkeeper (Finance/Utilities) To: Utilities Bookkeeper (Finance)	35	35	0
From: Water Superintendent To: Water Operations & Maintenance Mgr.	37	39	2,390
From: Operator III To: Operations Foreman	27	31	3,179
			<u>\$12,174</u>

Contributions to Dependent Health Insurance Coverage

Rising medical and prescription costs continue to force the cost on health insurance to record levels. This year however the Verde Valley Employee Benefits Pool (VVEBP), the City’s health insurance provider, has decided to hold the line on its rates for additional 6 months. This will carry the existing rates for the entire fiscal year.

Below is a summary of the total costs on health insurance for employees and their dependents. The VVEBP has successfully slowed the double digit increases for health coverage by way of plan changes and sound health care management. For families in overall good health, employees can continue to choose the High Deductible Health Plan (HDHP) and save on their dependent coverage and the City will continue to contribute \$41 a month to their Health Savings Account (HSA). For moderately healthy families, an employee still has the option to choose the Core Plan. And for families with some health issues, there is the Core Plus Plan with its lower out of pockets and deductibles; however, it comes with a cost, higher premium.

Employee Health Care Rates Summary January 2006 to July 2007						
Category	Core Plan		Core Plus Plan		HDHP	
	Employer	Employee	Employer	Employee	Employer	Employee
Employee	418		418	35	377	
Employee + Spouse	418	493	418	547	377	427
Employee + Children	418	441	418	486	377	391
Employee + Family	418	619	418	687	377	556
Retiree		732		792		660
Retiree + Spouse		1,594		1,687		1,407
Retired + Children		1,504		1,581		1,344
Retiree + Family		1,815		1,934		1,633

Note: The High Deductible cost does not include the employer contribution to the HSA of \$41.00 per month.

New Programs

Several departments introduced some programs to assist with several facets of the City operations, from personnel morale to quality of life.

Fire Department Volunteer Compensation Adjustment

This program costing approximately \$5,000 will increase a Volunteer Firefighter’s compensation from \$8 to \$9 an hour, with a minimum 2 hour call-in. It also provides for an increase for the Firefighter Paramedic’s compensation to go to \$9.50 from \$8, also with a 2 hour call-in minimum. Likewise, in this budget is the establishments of wildfire assignment pay rates at \$9 for Firefighter, \$10 for a Firefighter/Engineer, and \$11.25 for an Officer. This program has an offset in overtime of the same amount of \$5,000.

Fire Department – Certification Pay Program

In order to stay competitive with the surrounding communities, a task which is becoming increasingly difficult, this program proposes to increase the stipend provided to firefighters with additional specialized training. It proposes to increase the Paramedic stipend from \$3,100 to \$4,500 and the Intermediate Emergency Medical Technician (IEMT) from \$1,600 to \$3,500. Currently the City employs seven Paramedics and IEMT. The programs estimated costs is \$11,700.

Public Safety – Trauma Intervention Program (TIP)

There is \$2,500 allocated to provide highly trained volunteers to respond to the forgotten victims of trauma. They will serve the community by responding when called by the Fire or Police Departments to provide support, guidance and counseling to family members and victims of traumatic events. Whether it be fire, vehicle accidents, death in the family, domestic violence & crime, or any other major incident or community disaster, TIP volunteers will provide support and follow up to those affected within 20 minutes of being called. The TIP volunteer service will be available 24 hours a day, 365 days a year.

Parks & Recreation - Summer Concert Series

With the City of Cottonwood taking over the Summer Concert Series, \$3,500 has been budgeted to continue the series. These free concerts provide an evening of music and camaraderie that has become tradition in the Cottonwood area.

Parks & Recreation - Cottonwood Farmers Market

Another event that has become very successful in the Cottonwood area is its Farmers' Market. \$5,000 is allocated for this event which spans about six weeks, bringing together local growers, artisans, and other vendors with area residents. This is yet another event to bring the community together.

Parks & Recreation - Youth Advisory Commission

The Youth Advisory Commission functions as an extension of the City Council to provide youth creative opportunities to serve their community and implement outreach to disadvantaged youth throughout Cottonwood and the Verde Valley. The Commission provides a hands-on-approach to youth problems and creatively inserts teens into areas of involvement and programming. Currently there is \$5,000 in the budget for the endeavor.

Parks & Recreation - Summer Youth Camp

The Summer Youth Camp is designed to meet the needs of the community through providing of youth health, cultural, and sports based programming. This fee based program is intended to recoup its costs and provide for public participation and service need. This program format would be a standard summer youth program whereby Counselors/Temporary Recreation Aides and Instructors would be hired for a four (4) week summer event camp program. \$5,600 is allocated to this recreational program. It is expected that \$6,000 will be generated to offset the costs of the program.

Special Revenue Funds

The *Street Department* has begun planning for two major street improvements in the fiscal year. The Willard Street Extension, which has been waiting funding, will get underway this next year. This \$1,008,000 project will be using a \$680,000 Federal grant with the remaining \$328,000 coming from HURF matching funds. This extension will provide another route for the community to take from the Southside of town to the Northside. Another project is the Aspen Street Improvement Project, having an estimated cost of \$350,000. For this project off the ground, the General Fund will be contributing \$300,000 from its Capital Accumulation Fund reserves. Inclusive, in order to improve the fund's fiscal stability, the City Council in 2005-06, designated an additional 1% construction sales tax to the HURF. This additional tax is expected to bring in \$300,720 into the HURF.

The *Cottonwood Area Transit System (CATS)* shows the continued expansion of the bus stop facilities which started back in FY 2002-03. This expansion includes the bus stop benches and shading, a fueling depot, wash pad, and paving. 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 five buses running with two backups and is anticipated to add yet another diesel bus this year. There is an additional driver budgeted for this year. As a note, the City has been having talks with other area communities on setting up a regional transit authority. This concept is looking favorable and is expected to come to fruition before fiscal year end.

The *Library* continues to be heavily supported by the General Fund with \$628,260 in operational transfers in. A major expansion of the Library facility is a rollover from FY 2005-06, and is included in the Capital Improvements Fund. All related information is in that section of the document, **page 125**.

The *Cemetery* continues with its .3 FTE's 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 \$26,285. There is \$60,000 budgeted for the development of a new Cemetery, since the current one is at capacity. This funding is coming from the City's Capital Accumulation Fund and is reflected in the City Council's budget.

The *Airport Authority* continues to do well as additional land leases continue to come on-line. 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 (\$32,470) to assist in providing matching funds for Airport Improvement Grants.

This will be the sixth year in a row that the Community Development Block Grant (CDBG) fund has received funding for projects. We are still making adjustments to this budget item and will rework it during the final to final budget revisions. This year's budget is looking at multiple projects totaling \$590,830. This year's projects are as listed below:

Description	Amount of Funding
Self Help Housing Program	\$290,830
Contract – Administration	70,000
Total CDBG Funding	<u>\$360,830</u>

Debt Service Funds

This year Debt Service Funds is budgeted at \$17,890,555, including all the required reserves. This includes Sewer, Library, and GADA debt. It remains stable with only a \$42,195 increase in debt service. An interesting thing to note is that the final payments on all the Sewer Plant debt will be due on July 01, 2007. The necessary debt service for the acquisition of the remaining local water company is budgeted in the Enterprise Funds since it will be repaid through user fees. This fund also shows an increase in balance of \$1,682,680 due to a strong sales tax base. There is a \$744,050 transfer out to the Wastewater Division of the Enterprise Fund for major equipment needing to be purchased.

Capital Projects Funds

There are five projects programmed for FY 2006-07 in the Capital Project Fund. There are three Airport Improvements Projects, the Riverfront Park Heritage Grant Project, and the Library Facility Expansion.

In the *Airport Improvements* Fund consists of Land Acquisition (\$265,000), completion of the Perimeter Road (\$475,790), and Design Lighting and Runway Extension (\$81,000). All of these projects are 95% FAA grant funded, with the remaining 5% being divided between ADOT Aeronautics Division and the City's Airport Fund.

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 or \$550,197. The City's commitment to the project was originally only \$150,000 as part of transfer in monies from the General Fund, however, the City made a commitment to contribute an additional \$200,000 to help with rising costs. Any remaining amounts are to be funded through commitments of materials and labor from generous area businesses and contractor contributions supporting the concession stand construction.

The *Library Facility Expansion* is the final of the Capital Projects in the budget with an allocation of \$1,304,290 to expand the building to accommodate more resources and patrons. The funding for the construction has been transferred from the Debt Service Fund restricted specifically for this purpose.

Enterprise Funds

The newly formed Utilities Department contains both the Wastewater Treatment and the Water Distribution Divisions. The Sewer Fund will be beginning State Route (SR) 260 Sewer Design Project as soon as an engineer is contracted for the project. This project will extend a sewer main down SR 260, thus opening up that area for much needed commercial business. This division continues the release of effluent into Del Monte Wash to establish a riparian area along the wash. The City will soon be releasing a Request for Proposal (RFP) for design consultants for the necessary wastewater work. The Water Fund has spent much of its time doing some much needed maintenance work on the recently acquired companies. Other parts of the time have been spent on formulating a plan to comply with the upcoming Federal Arsenic Mandate whose deadline was extended to March 31, 2007. This Division acquired the final water company in FY 2005-06

BUDGET POLICIES - FISCAL YEAR 2006-07

This budget continues the prior years' fund balance restriction policies of the City. A restricted reserve of \$1,155,555, representing 12.5% of the previous fiscal year's General Fund operating 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 eleventh year of this policy with \$569,330 reserved in the City Council budget for capital projects. This amount has increased by \$88,930 from last year's \$480,400, despite budgeting \$60,000 for the New Cemetery and \$300,000 for the Aspen Street Improvements. \$596,360 is available in additional capital reserves, which come from the excess .2% Library Debt Service sales tax. This capital reserve was depleted, until 2003-04, by a 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 barely keep up with operational expenditures for the next five years. This is mainly due to the economy and the state's future financial picture (see pages 40-44). Any capital acquisition would require some financing alternatives (see pages 33-39). 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 2006-07, have been integrated into the work plans of the appropriate department responsible for implementation. A summary depicting the funding resources available for the many projects is also presented.

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

CAPITAL ACQUISITION PLAN – FISCAL YEAR 2006-07

Included in the budget is \$13,589,205 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 2006-07 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 **pages 283-286** of the budget document.

Equipment	
Function	Estimated Cost
General Government	\$70,020
Public Safety	1,082,435
Culture & Recreation	29,600
Health & Sanitation	375,000
Transit	362,810
Streets	23,000
Total Equipment	\$1,942,865

Capital Projects	
Project Description	Estimated Cost
Cemetery	\$60,000
Aspen Shadows Fence	10,000
Pavement Preservation/Street Contingency	339,975
Aspen St. Reconstruction	325,000
Willard Street Extension	998,000
Increase Wet Well Capacity	100,000
Line Extensions-Design & Engineering	240,000
Wastewater Treatment Plant Master Plan	150,000
Construction Manager at Risk	1,750,000
Arsenic Mitigation	5,000,000
Lift stations	150,000
CDBG Projects	590,830
Airport Perimeter Road	475,790
Library Expansion	1,304,290
Riverfront Part – Heritage Grant	205,700
Airport Land Acquisition	265,000
Design Lighting & Runway Extension	81,000
Total Capital Projects	\$12,045,585

"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 many 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 2006-07 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, 2005 Department of Economic Security estimates the population at 10,860. 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>2006 Property Tax Assessed</u>	
	<u>Valuation</u>	
2005 – 15.75 Square Miles	Primary	\$ 97,019,991
	Secondary	\$ 105,746,913

Paved Streets

38 Miles

Cottonwood Labor Force Data

	<u>2002</u>	<u>2003</u>	<u>2004</u>
Civilian Labor Force	3,963	4,064	4,246
Employed	3,773	3,890	4,087
Unemployed	190	174	159
Unemployment Rate	4.8%	4.3%	3.7%

Source: Arizona Department of Commerce – Community Profiles

<u>Year</u>	<u>Population (1)</u>	<u>Public School Enrollment (2)</u>	<u>Unemployment Rate (3)</u>
2005	10,860	3,432	3.9%
2004	10,570	2,981	3.6%
2003	10,300	2,642	4.3%
2002	10,020	2,559	4.5%
2001	9,770	2,510	3.8%
2000	9,179	2,432	3.6%
1999	8,845	2,248	4.4%
1998	7,775	2,419	4.3%
1997	7,300	2,282	4.7%
1996	6,675	2,247	4.6%

Sources:

(1) AZ Dept. of Economic Security and U.S. Census @ beginning of fiscal year

(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>
2005	350,146,545	2005	767	\$43,759,186
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

Source: Planning, Zoning and Building Departments

<u>Major Employers</u>	<u># Of Employees</u>
Verde Valley Medical Center	804
Cottonwood/Oak Creek Schools (Cottonwood only)	181
Wal-Mart - Retail	450
Mingus Union High School	136
City of Cottonwood	145
Fry's - Retail	110
Food City - Retail	75
Arizona Public Service	51
Phelps & Sons, Inc.	160
Home Depot	135

2004-05 Statistics

<u>Education</u>	
Elementary Schools	3
Middle School	1
High School	1
Exceptional Children Program	1
Community College	1
Students:	
Grades K-8	2,203
Grades 9-12	1,295
Total Students	3,498

Source: AZ Department of Education Website - reportcards

2005-06 Service Statistics

<u>Fire Protection</u>		<u>Police Protection</u>	
Stations	1	Employees (Full-time)	44
Employees (Full-time)	16	Sworn	28
Fire & Haz Mat Calls	161	Non-Sworn	16
Rescue & Medical Calls	1,533	Part I Crimes	892
Public Assist Calls	191	Part II Crimes	3,951
Good Intent Calls	85	Traffic Warnings	603
Fire Inspections (various kinds)	1001	Traffic Citations	2,931
Plan Reviews & Permits	409	Communications Dispatched	16,869
Public Ed Contact Hours	4,370		
 <u>Public Works</u>		 <u>Library</u>	
Engineering Reviews (ea. proj)	247	Items in Collections	86,182
Subdivisions (lots)	296	Total Items Circulated	309,351
Right of Way Permits (ea)	80	Circulation Transactions Per Day	1,011
Flood Plain Inquires	300		
Streets Inspected (LF)	7,720		
		<u>Municipal Parks</u>	
<u>Recreation Programs</u>		Developed Parks	5
Participation:		Developed Acres	42
Adult Sports	36,500	Undeveloped Acres	79
Special Events	24,500	Swimming Pools	1
Recreational Swimming	18,750	Tennis Center	1
Instructional Classes	20,000	Lighted Ball fields	8
Youth Sports	10,500		
		<u>Transit System</u>	
<u>Sewer</u>		Annual Ridership	40,830
Sewer Line Inspected (LF)	6,000	Miles Traveled	179,644
Miles of Line	35	Cottonwood Ridership	22,731
Average Daily Treatment	987,000	Disabled Ridership	3,800
Plant Capacity	1.5mgd		

Weather

<u>Month</u>	<u>Average Temperature (F)</u>		<u>Average Total</u>
	<u>Daily</u> <u>Maximum</u>	<u>Daily</u> <u>Minimum</u>	<u>Precipitation</u> <u>(inches)</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 50.

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 water distribution system, sewer system, cemetery and municipal airport.

BUDGET POLICY

These budget policies provide general guidance for preparing the City of Cottonwood operational budget, as well as its adoption, and implementation. These policies as presented below various categories as follows.

Budget Philosophy

The City's budget philosophy includes planning based on available information, developing a process by which financial guidelines and goals are established, implementation of those financial and programmatic goals, and the review and evaluation of the achievement of those goals. Policies are set forth to provide support guidance for the City's budget philosophy.

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.

Balanced Budget – The City of Cottonwood will develop a balanced budget in which current resources (current revenues plus fund balance) will equal or exceed current expenditures. The City will avoid budgetary or accounting procedures that balance the budget at the expense of meeting future year's expenditures, such as: postponing expenditures, accruing future year's revenues, or rolling over short-term debt. The budget will provide for adequate maintenance and replacement of capital plant and equipment.

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 final 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 2006-07

 Distribute Budget Worksheets & Instructions	February 06, 2006
 Distribute Goals & Performance Measures Forms	February 13, 2006
 Council Annual Goal Setting Workshop	February 16, 2006
 Capital Improvements Meeting (Finance & City Manager)	February 16, 2006
 Budget Worksheets Due to Finance	February 17, 2006
 Goals & Performance Measures due to Finance	February 24, 2006
 Capital Improvements Workshop - All Day (Staff)	March 13, 2006
 1 st Round Budget Meetings (Dept Heads / Finance)	March 13 - 26, 2006
 Revenue Update and Public Safety Property Tax Workshop	April 24, 2006
 Capital Improvements Workshop – The Revenue Prospective	April 27, 2006
 Budget Meetings (City Manager/Finance/Staff)	May 8-26, 2006
 Department Head Budgetary Update meeting	May 30, 2006
 Present <i>Proposed</i> FY 2006-07 Budget to City Council	Early June 2006
 Budget Work Sessions with City Council	June, 2006
o Introduction to the Budget/Personnel Matters/ Capital Requests	June 13, 2006
o Departmental Highlights	June 15, 2006 & June 20, 2006
o Budgetary Wrap-up	June 27, 2006
 Adopt <i>Tentative</i> FY 2006-07 Budgets, set Expenditure Limitation	July 11, 2006
 Adopt <i>Final</i> FY 2006-07 Budget	August 15, 2006

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 (i.e.: 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.

FISCAL POLICY

The overall goal of the City's fiscal policy is to establish and maintain effective management of the City's financial resources. The City's formal policy statements and major objective provide the foundation for achieving this goal. Accordingly, this section outlines the policies used to guide the preparation and management of the City's overall budget and major objectives to be accomplished.

-  A comprehensive annual budget will be prepared for all funds expended by the City.
-  The Budget will be prepared in such a manner as to facilitate its understanding by citizens and elected officials.
-  In addition to any required hearings, the Council will hold work sessions on the budget which will be open to the public.
-  Copies of the budget will be made available to citizens and elected officials prior to work sessions.
-  Budgetary emphasis will focus on providing those municipal services which provide the maximum level of services, to the most citizens, in the most cost effective manner, with due consideration to economic, fiscal, and social costs.
-  The budget will provide for adequate maintenance of capital, plant, and equipment and their timely replacement.
-  The City will avoid budgetary practices the balance current expenditures at the expense of meeting future years' expenses.
-  The City will give highest priority in the user of one-time revenues to the funding of capital assets or other non-recurring expenditures.
-  The City will maintain a budgetary control system to help it adhere to the established budget.
-  Reports comparing actual revenues and expenditures to budgeted amounts will be prepared monthly.

Financial stability of the City

To insure the financial stability of the City, some strict guidelines have been set forth by City Council and implemented by city management.

-  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.

DEBT SERVICE POLICY

The goal of the City of Cottonwood's debt management policy is to maintain the City's ability to incur debt at the most favorable interest rates in the amounts needed for financing capital projects and equipment, while keeping adverse affects to the City's ability to finance essential City services to a minimum.

The City may issue bonds for general improvement purposes or for specific programs within the statutory limitations on the amount of bonds sold as a percentage of secondary assessed valuation. Twenty percent (20%) of secondary assessed valuation represents the amount of bonding that can be used for water, sewer, lights, parks, open space and recreational facilities. An additional six percent (6%) of secondary assessed valuation can be used for all other "general municipal uses".

General obligation bonds are secured by the ad valorem taxing of the City. Within the percentage of assessed valuation limitation above, the City may issue bonds for general improvement purposes or for specific projects. For statutory purposes, the City's current outstanding bonds are not considered general obligation bonds subject to the statutory limits listed above because the City's bonds outstanding at June 30, 2006 were secured by sales taxes instead of property taxes.

**Computation of Legal Debt Margin
June 30, 2006**

Net secondary assessed valuation (Full Cash Value)	\$92,189,189
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Calculation of 20% Debt Limitation

20% of secondary net assessed valuation	\$18,437,838
Bonds outstanding	0
Net 20% Debt Limitation	\$18,437,838

Calculation of 6% Debt Limitation

6% of secondary net assessed valuation	\$5,531,351
Bonds outstanding	0
Net 20% Debt Limitation	\$5,531,351

Total Bonding Capacity	\$23,969,189
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Policy Statement

-  A five year Capital Improvements Plan will be developed and updated annually along with corresponding funding sources.
-  Financing of Capital projects will not exceed the useful life of the project.
-  Debt Service Schedules will be prepared and included in the Annual Budget as well as the Five Year Capital Improvement Plan with annual updates.
-  Debt Service payment will be scheduled in equal installments over the life of the bonds.
-  Efforts will be made to maintain and improve the City's bond rating.
-  Timely submittal to the Nationally Recognized Municipal Securities Information Repository (NRMSIR).
-  Pay-as-you-go financing will be an essential part of the City's Capital Improvement Plan
-  The City will carefully monitor compliance with all bond covenants.

Debt Performance

-  The City will limit long-term debt to only those capital improvements that cannot be financed through current revenues or designated capital reserves.
-  Terms of repayment for any debt will not exceed the estimated useful life of the asset acquired.
-  Debt will not be issued for recurring expenditures normally considered maintenance and operational expenditures
-  Minimize debt service impact to taxpayers by:
 - o Creating sinking funds when possible to provide for expansion or replacement of capital equipment.
 - o Seeking grant funding opportunities and lower interest debt options such as Water Infrastructure Finance Authority (WIFA) or Greater Arizona Development Authority (GADA), or the State Revolving Loan Funds to lower the size of the debt obligation.

- Working closely with the City’s financial advisors to structure debt in such a way that the debt load is explicitly related to the operating budget yet not impair operational needs.
- Maintaining a good working relationship with City Financial Advisors, bond rating agencies, and insurance carriers, and providing full disclosure on all financial reports.

The following is a list of the City’s current bond obligations along with their respective funding source.

Total Outstanding Debt by Type of Bond As of June 30, 2006				
Project	Term	Principal	Interest	Funding Source
Sewer Expansion Bonds 1990	07/2007	\$450,000	\$66,000	1% Sales Tax
Sewer Expansion Bonds 1992	07/2007	110,000	23,450	1% Sales Tax
WIFA–Sewer Expansion	07/2007	1,000,000	100,800	1% Sales Tax
GO Bonds-Library Expansion	07/2013	890,000	261,465	0.2% Sales Tax
MPC-Streets & Sewer Improvements	07/2007	290,000	42,750	State Shared Revenues
GADA-Railroad Wash Improvements	07/2013	560,000	174,240	.2% Sales Tax
GADA-Public Safety Building	07/2013	1,595,000	369,720	.2% Sales Tax
MPC-Senior Lien Water Rev Bonds - 2004	07/2029	13,340,000	9,031,213	User Fees
MPC-Senior Lien Water Rev Bonds - 2006	07/2035	23,965,000	21,911,621	User Fees
Total Debt Service		\$42,200,000	\$31,981,259	

INVESTMENT POLICY

Policy

It is the policy of the City of Cottonwood to invest public funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the city and conforming to all applicable state and city statutes governing the investment of public funds.

Scope

This investment policy applies to all financial assets of the City of Cottonwood. These funds are defined in the City of Cottonwood's Comprehensive Annual Financial Report (CAFR) and include:

-  General Funds
-  Special Revenue Funds
-  Debt Service Reserve Funds
-  Debt Service Sinking Funds
-  Capital Project Funds
-  Proprietary Funds
-  Fiduciary Funds
-  Expendable Trust Funds
-  Any new funds created unless specifically exempted by council

Objectives

The primary objectives, in priority order, of the City of Cottonwood's investment activities shall be:

Safety of Principal

The City recognizes its fiduciary responsibility for the stewardship of public funds with which it has been entrusted. Therefore, its foremost investment objective is to ensure safety of principal. Investments of the City shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

Liquidity

City of Cottonwood's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements, which might be reasonably anticipated.

Yield

City of Cottonwood's investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account City of Cottonwood's investment risk constraints and the cash flow characteristics of the portfolio.

Standard of Care

Prudence

This policy shall apply the "prudent person" standard, as defined in the glossary, in the context of managing the overall portfolio. Investment officials acting in accordance with procedures consistent with this policy and exercising due diligence, shall not be held personally liable for market price changes or the credit risk of a certain investment, provided that any unexpected deviations are reported in a timely manner and that appropriate action is taken to control adverse developments.

Ethics and Conflicts of Interest

Investment officials shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Investment officials shall disclose to the City Manager any material personal financial interests in financial institutions that conduct business within this jurisdiction, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the City, particularly with regard to the time of purchases and sales.

Delegation of Authority

Authority to manage the investment program is granted to the Finance Director, and derived from the Arizona Revised Statutes §35-323. Procedures for investing of Trust and Sinking Funds are specified in Arizona Revised Statutes §35-324 and §35-328. Investments in the State Treasurer's Pool investment fund for collective investments of public funds is authorized in Arizona Revised Statutes §35-326. Responsibility for the operation of the investment program is hereby delegated to the Finance Director, who shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with this investment policy. Procedures should include references to: safekeeping, delivery vs. payment, investment accounting, repurchase agreements, wire transfer agreements, and collateral/depository agreements, and resolutions for participation in the State Treasurer's Local Government Investment Pool – LGIP are included with this. No person may engage in an

investment transaction except as provided under the terms of this policy and the procedures established by the investment officer within the City's Financial Operations Guide. The Finance Director, with the concurrence of the City Manager, shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

Authorized Financial Dealers and Institutions

The Finance Director shall maintain a list of financial institutions, which are authorized to provide investment services. In addition, a list will be maintained of approved security brokers/dealers selected by credit worthiness who are authorized to provide investment services in the State of Arizona. No public deposit shall be made except in a qualified public depository as established by state laws.

Banks and Savings and loans shall provide their most recent "Consolidated Report of Condition" (call report) at the request of the city.

Securities dealers not affiliated with a bank shall be required to be classified as reporting dealers affiliated with the New York Federal Reserve Bank as primary dealers, or meet certain other criteria as determined by the Finance Director.

All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the Finance Director with the following:

-  Most recent audited annual financial statements
-  Proof of National Association Security Dealers membership,
-  Proof of State of Arizona registration, and a
-  Completed broker/dealer questionnaire

An annual review of the financial condition and registrations of qualified bidders will be conducted by the Finance Director.

A current audited financial statement is required to be on file for each financial institution and broker/dealer with which the city does business.

Safekeeping and Custody

Delivery vs. Payment

All trades of marketable securities will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in an eligible financial institution prior to the release of funds.

Safekeeping

All securities shall be held by a third party custodian designated by the Finance Director. The third party custodian shall be required to issue a safekeeping receipt to the city listing the specific instrument, rate, maturity and other pertinent information.

Collateralization shall be required on two types of investments:

-  Certificates of deposits
-  Repurchase agreements

In order to anticipate market changes and provide a level of additional security for all funds, the collateralization level will be 102% of market value of principal and accrued interest. Acceptable types of collateral for repurchase agreements shall consist of treasuries and agency notes with a maximum maturity of 5 years and a collateralization level of 102% of market value of principal and accrued interest.

Internal Controls

The Finance Director shall establish a system of written internal controls, which will be reviewed annually with the independent auditor. This review will provide internal control by assuring compliance with policies and procedures.

Suitable and Authorized Investments

Authorized Investments

The City is empowered by statute to invest in the following types of securities. If an investment is not specifically listed in the suitable list, it is prohibited.

-  Fully insured or collateralized certificates of deposit and other evidence of deposit at banks and savings and loan associations;
-  Interest bearing savings accounts in banks and savings and loan institutions doing business in Arizona whose accounts are insured by federal deposit insurance.
-  Repurchase agreements with a maximum maturity of one hundred eighty days, collateralized at no less than 102 percent, provided a signed PSA Master Repurchase Agreement is on file with the counterpart bank or broker\dealer;
-  Deposits in the local government investment pool operated by the Treasurer of the State of Arizona.
-  Bonds or other evidences of indebtedness of the United States or any of its agencies or instrumentalities if the obligations are guaranteed as to principal and interest by the United States or by any agency of instrumentality of the United States.
-  Bonds or other evidences of indebtedness of this state or any of its counties, incorporated cities or towns, school districts, or municipal improvement districts which carry as a minimum one of the A ratings of Moody's Investors Service or one of the A ratings of Standard and Poor's Rating Service or their successors.
-  Commercial Paper with an A-1/P-1 rating or higher rating.
-  Mortgage-backed securities

Prohibited Investments

-  Reverse Repurchase Agreements
-  Futures, Contractual Swaps, Options
-  Inverse Floaters
-  Interest Only Securities
-  Interest Bearing Securities that have the possibility of not accruing current income
-  Closed end management type companies
-  Securities whose yield/market value is based on currency, commodity or non-interest indices
-  Bearer-form securities
-  Securities lending
-  Any security product not described in this document until reviewed and approved by the City Council.

Investment Pools

A thorough investigation of any investment pool is required prior to investing. There shall be a questionnaire developed which will answer the following general questions:

-  A description of eligible investment securities, and a written statement of investment policy and objectives.
-  A description of interest calculations and how it is distributed, and how gains and losses are treated.
-  A description of how the securities are safe kept (including the settlement processes), and how often are the securities priced and the program audited.
-  A description of who may invest in the program, how often, what size deposit and withdrawal.
-  A schedule for receiving statements and portfolio listings.
-  Are reserves, retained earnings, etc. utilized by the pool?
-  A fee schedule, and when and how is it assessed.
-  Is the pool eligible for bond proceeds and/or will it accept such proceeds?

Diversification and Maturity Limitations

The City will diversify its investment portfolio to minimize the risk of loss resulting from over concentration of assets in a specific maturity, specific issuer, or specific class of securities. Diversification standards by security type and issuer shall not exceed the following:

 Fully insured or collateralized CD's	no more than 25%
 U.S. Treasuries and securities having principal and interest guaranteed by the U.S. Government or agencies or instrumentalities of the U.S. Government	100%
 State, county, school district and other district municipal bonds or debt with an A rating or better	no more than 25%
 Repurchase agreements	100%
 Local Government Investment Pool	100%

The Finance Director shall be required to diversify maturities. To the extent possible, the Finance Director and the City Manager will attempt to match investments with anticipated cash flow requirements. Matching maturities with cash flow dates will reduce the need to sell securities prior to maturity, thus reducing market risk. Unless matched to a specific requirement, the Finance Director may not invest more than 25% of the portfolio for a period greater than three years. Unless matched to a specific requirement, the Finance Director may not invest any portion of the portfolio for a period greater than 5 years.

Reporting

Method

The Finance Director shall prepare quarterly reports for the City Manager's review, which provide a clear picture of the status of the current investment portfolio. The management reports shall include:

-  Comments on fixed income markets and economic conditions,
-  Discussions regarding restrictions on percentage of investment by category,
-  Possible changes in portfolio structure going forward, and
-  Thoughts on investment strategies.
-  Any schedules should include:

-  A listing of individual securities held at the end of the reporting period by authorized investment category
-  Weighted average maturity and final maturity of all investments listed
-  Coupon, discount or earnings rate
-  Par Value, Amortized Book Value and Market Value
-  Percentage of the portfolio represented by each investment category

The City Manager and Finance Director shall be responsible for making recommendations to the City Council of changes in the investment policy and in establishing performance benchmarks based upon City of Cottonwood's portfolio composition and current investment strategy.

The Finance Director shall include a market report on investment activity and returns in City of Cottonwood's Comprehensive Annual Financial Report - CAFR.

Performance Standards

The City of Cottonwood's cash management portfolio shall be designed with the objective of regularly meeting or exceeding a selected performance benchmark, which could be the average return on three-month U.S. Treasury bills, the state investment pool, a money market mutual fund or the average rate of Fed funds. These indices are considered benchmarks for lower risk investment transactions and therefore comprise a minimum standard for the portfolio's rate of return.

Investment Policy Adoption

City of Cottonwood's Investment Policy shall be adopted by the City Council. The policy shall be reviewed on an annual basis by the City Manager and significant modifications thereto must be approved by the City Council.

STRATEGIC PLANNING

City Accomplishments for Fiscal Year 2005-06

The following depicts the continued commitment of the City of Cottonwood to make the community a better place to live. Fiscal year 2005-06 goals obtained are summarized within this list of accomplishments:

Physical Development

-  Completed the acquisition of Cottonwood Waterworks, the last locally owned water company.
-  Initiated the design phase of the Aspen Street Reconstruction, and pavement replacement.
-  Initiated the design phase of the Willard Street Extension Project.
-  Completed total remodel (interior/exterior) of the Old Town Police Substation.
-  Completed the interior remodel of the City Council Chambers.
-  Initiated the remodel of the Municipal Court building
-  Completed several drainage improvements including placing a 24" culvert and ditch system on Cochise Street east of N. 10th Street and recreating an open channel "wash" by the northwest corner of Fir and 5th Street.
-  Installed improvements at Riverfront Park such as a new driveway, headgate and wet well for "raw" water irrigation pump station and structural fill for the new Little League concession building.
-  Completed the design work for the expansion of the Public Library.
-  Completed the arsenic feasibility study

Community and Economic Development

-  Completed CDBG & HOME Programs
-  Completed the Transitional Housing and Old Town Mission Projects
-  Transition the Old Town Farmers Market and Summer Concert Series to the Parks & Recreation Department.

Public Safety

-  Developed a regional Special Weapons Unit with minimal fiscal impact to the City of Cottonwood.
-  Organized an extensive volunteer program
-  Expanded the Block Watch Program by initiating the Old Town Block Watch and the Pilot Block Watch.
-  Obtained a second drug detection K-9 unit.
-  Completed the development and publication of a new Hazardous Mitigation Plan for the City.
-  Participating in the "*Everyone Goes Home*" - 16 Firefighter Life Safety Initiatives with enhancements in training, emergency response safety, incident operations safety, medical monitoring & physical fitness, incorporating technology, public safety education and code enforcement.
-  Engine Company staffing was increased to four personnel to improve service delivery, firefighter & public safety and to comply with O.S.H.A. regulations & N.F.P.A. standards.
-  Purchased a computer fire training simulator and a search & rescue mannequin to improve our capabilities in fire ground tactical and rescue operations.

General

-  Completed total revamp for the City's Website.
-  Received the Government Finance Officers Association's (GFOA) award for the City's Comprehensive Annual Financial Report for the 13th straight 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 14th year, the new submission complies with the new GASB 34 reporting format.
-  Completed Debt Service Policy and incorporated it into the FY 06-07 budget.
-  Hired an in-house City Attorney and Assistant.
-  Implemented and began enforcement of Fire Sprinkler Ordinance.

Organizational Goals - Fiscal Year 2006-07

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 2006-07.

Physical Development

Project – Airport - Land Acquisition I (6.7 acres)

The City proposes to acquire 6.7 acres at the southwest line of the airport to meet standards for object free area (OFA) for the relocated Taxiway A.

Fiscal/Programmatic Impact

The acquisition will allow for the taxiway parallel to the runway to move an additional 90' away from the runway. This greater separation will increase safety for the Airport users. Funding for this project \$450,000, over two years (2004-05 & 2005-06), is a 97.5% FAA and ADOT grant, with the City contribution 2.5% local share from the Airport Fund. This project is programmed in the 2003 Cottonwood Airport Master Plan and Airport Layout Plan (ALP).

Project – Airport - Design Lighting and Runway Extension

This project involves designing airfield lighting upgrades to the 20-year old lighting. It also includes the design of Runway 14 extension. The overrun on the south end of the runway will be converted to runway. Taxiway A will be extended to the south end of the new runway.

Fiscal/Programmatic Impact

The upgrading the airport lighting improves safety for the Airport users. The lengthening of the runway increase the safety margin for take-offs. This \$81,000 project is 97.5% FAA and ADOT grant with a 2.5% local share provided by the Airport Fund. This project is also programmed in the 2003 Cottonwood Airport Master Plan and Airport Layout Plan (ALP).

Project – Utilities - Increase Wet Well Capacity at Lift Stations 1, 2, 3, 4

This project is for design and construction of additional wet wells next to existing wet wells to increase capacity of each lift station. The project begins with the Main Lift Station #4, and then proceeds to Lift Stations 3, 2, 1.

Fiscal/Programmatic Impact

Increasing the current capacity of the lift station wet wells will significantly decrease the likelihood of raw sewage spilling onto the surrounding properties. This \$100,000 expense will also reduce the constant cycling of the pumps and also increase the peak flow capacity. The funding for this project will be funded by a Debt Service reserve fund designated for sewer capital improvement.

Project –Utilities - Forced Air Blowers at Wastewater Treatment Plant

The use of larger forced air blowers and a redesign of the piping that carries the air will help reduce the number of Dissolved Oxygen Demand crashes, especially in the summer months.

Fiscal/Programmatic Impact

By using forced air blowers, operator interaction and adjustment decreases saving on labor costs. A positive impact to the quality of the effluent can significantly reduce the regulatory implications and can avert mandated improvements and/or regulatory penalties. This \$240,000 expense is funded by a Debt Service reserve fund designated for sewer capital improvement.

Project – Utilities - 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

\$240,000 is in this year's Sewer budget is for design and engineering work on this project. The funding for this project will be funded by a Debt Service reserve fund designated for sewer capital improvement. When completed, 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 – Utilities - Construction Manager at Risk

This project is a prerequisite to installation of the arsenic remediation equipment mandated by the United States Environmental Protection Agency (USEPA). It replaces three existing storage reservoirs into one 500,000 gallon reservoir and booster station, allowing for centralized arsenic treatment. This also provides for the replacement of booster pumps and electrical equipment at all Cordes Lake sites except 3-1 which are already properly fitted.

Fiscal/Programmatic Impact

This \$1,750,000 project is funded through system improvements reserves. It provides a more efficient and reliable operation directly related to less crisis management and a reduction in the amount of time staff spends monitoring and maintaining the system.

Project – Utilities - Replacement of Main Line Valves

This project calls for the progressive replacement of defective or damaged main line valves.

Fiscal/Programmatic Impact

This \$150,000 program is to replaced defective or damage valves that were discovered during a recent valve exercising program. Finding for this project is through system improvements reserves.

Project – Utilities - Arsenic Mitigation

The new Federal regulations require reduction in arsenic concentrations in potable water to ten (10) parts per billion or less. This regulation is an unfunded mandate and the City is required to bear the full cost of compliance. This program will fund purchase and/or lease of the arsenic treatment systems and operational costs.

Fiscal/Programmatic Impact

This program will provide customers with drinking water in compliance with new Federal arsenic regulation and avoid costly noncompliance fines and sanctions. The \$5,000,000 project will be funded through System Improvement Reserves currently in the water fund.

Project – HURF - Street Improvements (on-going)

This program consists of 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 has been transferred solely to the HURF, with the allocation of a 1% sales tax taking place January 1, 2006. There is a strong need to upgrade our streets, including the addition of sidewalks when funds are available. There is \$195,000 allocated to maintain streets, bridges and sidewalks throughout the community. The City’s Street Maintenance Department will be responsible for the program.

Project – Administration - 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 \$60,000 is budgeted in the City Council's budget for 2006-07. This project goes from the planning phase to actual development of the site. Currently, the fiscal implications are being addressed.

Project – HURF - Aspen Street Reconstruction (reprogrammed)

This is the reconstruction of 2,400 feet of Aspen Street from 11th Street to Main Street. This program will replace bad pavement, loaded with cracks and potholes that could cause vehicles to lose control.

Fiscal/Programmatic Impact

The 2006-07 budgeted expenditure for this project is \$325,000. This project will be funded through a transfer from the General Fund of \$300,000 and the remainder from HURF revenues. By reconstructing this street we will reduce the amount of maintenance work that would have to be done. Staff will be able to concentrate on other projects for about a ten year period. It also will provide an eastern access to our Public Safety Building improving emergency response. A pedestrian sidewalk is also being considered to improve pedestrian safety.

Project – HURF - Willard Street Extension

This project will construct a new collector street from Cottonwood Street to the intersection of Mesquite Drive and Monte Tesoro, approximately 3,000 linear feet.

Fiscal/Programmatic Impact

The total estimated project cost is \$1,008,000. The City has obtained \$680,000 in grant funds for the project from ADOT/FHWA, with the City's matching share of \$328,000 or 32.5% of the construction cost. This extension improves emergency response in the southwest portion of the City, improves access to regional medical center, and unlike 6th Street, will provide an "all weather" crossing of Silver Springs Gulch.

Project – Parks - Riverfront Park Ball field 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 will also be included with sports lighting for the Skate Park and Roller Hockey facility.

Fiscal/Programmatic Impact

The original cost to the City was \$150,000 in matching funds for this project, which was transferred over as work progressed in past years. The City has since approved an additional \$200,000 to complete this project. Community involvement through donated labor and materials has accounted for a major part of this project and will continue through its completion. The State Heritage Grant program will contribute \$550,197 of the \$1,300,394 price tag. 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 - Facilities Expansion (reprogrammed)

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 \$1,304,290. The expansion will increase the library's budget substantially; the largest single increase will be to the staff for operating the larger facility.

Project – Airport - Perimeter Road (reprogrammed)

This project provides for the construction of a perimeter road to improve the security of the Airport Facility.

Fiscal/Programmatic Impact

This \$475,790 expenditure is 95% funded with an FAA grant. ADOT funds 2.5% of the project and the City's Airport Fund completes the funding with it 2.5% match.

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 \$590,830. The first grant is for \$320,000 from Rural Development for the establishment of a Self Help Program. This program will provide an opportunity for individuals to invest some sweat-equity into the rehabilitation of their existing home or building of their new home. The second CDBG Grant – HOME has \$270,830 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.

Public Safety

Project – Police - Vehicle Replacement Program (on-going)

This project provides for the systematic replacement of police patrol vehicles before they become too costly to maintain.

Fiscal/Programmatic Impact

This year Council budgeted \$150,000 as the beginning of this program. There is still some work being done as to buying outright or lease purchasing and replacing more of our aging fleet. By having a newer fleet, maintenance costs are reduced as well as avoiding down time.

Project – Fire - Engine/Support Vehicle Purchase (reprogrammed)

This program provides for the financing of a fire truck and support vehicle for the City's Fire Department. These specialty vehicles have already been ordered and this takes care of the financing.

Fiscal/Programmatic Impact

The \$90,000 cost is lease purchase, however, funded through the City of Cottonwood's .2% sales tax reserves. The fire truck will replace our current unit and place it on reserve status.

Of the \$1,942,865 of capital equipment programmed this fiscal year, there are several items that need to be mentioned. \$75,000 is budgeted to refurbish one of our fire pumpers, \$50,000 is allocated to wastewater for odor control units, as is \$85,000 for backup pumps, and \$42,000 is budgeted for Parks and Recreation Building Maintenance for needed trucks.

Organizational Goals for the Future - Fiscal Year 2007-11

The following long-range goals address issues facing the City in the future. The timing of the various programs and projects are reflected on the Five-year Capital Improvement Plan on **pages 33-39**. The current year is included in the City's five year plan.

Physical Development

Project - Airport – Acquire Land II (10.9 acres)

This program is to acquire 10.9 AC at the southwest line of the airport to meet standards for object free area (OFA) for the relocated Taxiway A.

Fiscal/Programmatic Impact

The acquisition will allow for the taxiway parallel to the runway to move an additional 90' away from the runway. This greater separation will increase safety for the Airport users. Funding for this project \$730,000 is a 97.5% FAA and ADOT grant, with the City contribution 2.5% local share from the Airport Fund. This project is programmed in the 2003 Cottonwood Airport Master Plan and Airport Layout Plan (ALP).

Project - Airport – Relocate Segmented Circle

This project will move the segmented circle and wind cone to a location clear of the new hangar area.

Fiscal/Programmatic Impact

This important item, the segmented circle visually provides pattern information and wind direction to pilots. Its relocation is a very important part of keeping the airport patron safe. The \$42,000 is funded 97.5% FAA and ADOT grant, with a 2.5% local share provided by the Airport Fund. This project is programmed in the 2003 Cottonwood Airport Master Plan and Airport Layout Plan (ALP).

Project – Airport - Design and Construction of Runway Lighting

This project involves final design and ultimate construction of the airfield lighting upgrades to the 20-year old lighting.

Fiscal/Programmatic Impact

The upgrading the airport lighting improves safety for the Airport users. This \$450,000 project is 97.5% FAA and ADOT grant with a 2.5% local share provided by the Airport Fund. This project is also programmed in the 2003 Cottonwood Airport Master Plan and Airport Layout Plan (ALP).

Project - Airport – Extend Runway and Taxiway

This project will convert the south overrun into a runway; extend Taxiway A to the new south end of the runway, and effectively lengthen the runway 300' for take-offs.

Fiscal/Programmatic Impact

Lengthening the runway increases the safety margin especially for heavier aircraft. The \$289,000 is funded 97.5% FAA and ADOT grant, with a 2.5% local share provided by the Airport Fund. This project is programmed in the 2003 Cottonwood Airport Master Plan and Airport Layout Plan (ALP).

Project – Airport - Install Automatic Weather Observation Station (AWOS)

This project installs an automatic weather observation station (AWOS), a weather instrument with radio and phone communication capability that allows pilots to get remote, real-time weather information for the airport. This is required for instrument approaches and commuter service.

Fiscal/Programmatic Impact

This equipment that provides accurate weather information is an important safety issue for airport users as the airport becomes increasingly busy. The \$232,000 is funded 97.5% FAA and ADOT grant, with a 2.5% local share provided by the Airport Fund. This project is programmed in the 2003 Cottonwood Airport Master Plan and Airport Layout Plan (ALP).

Project - I Airport – Design T-Hangars Apron/Taxiway

This project is to design an apron and taxiway for new T-hangars.

Fiscal/Programmatic Impact

This project allows aircraft to have a paved surface to protect propellers and jet engines from debris. The \$391,000 is funded 97.5% FAA and ADOT grant, with a 2.5% local share provided by the Airport Fund. This project is programmed in the 2003 Cottonwood Airport Master Plan and Airport Layout Plan (ALP).

Project - Airport – Acquire Land III (4.65 acres)

This program is to acquire 4.65 AC at the southwest line of the airport to protect approach.

Fiscal/Programmatic Impact

The acquisition of this vacant land zoned R-1, will allow for the protection of the approach path of incoming planes. This increase protect approach path will increase safety for the Airport users. Funding for this project \$365,000 is a 97.5% FAA and ADOT grant, with the City contribution 2.5% local share from the Airport Fund. This project is programmed in the 2003 Cottonwood Airport Master Plan and Airport Layout Plan (ALP).

Project - Airport – Grading for T-Hangars

This project is for site preparation for new T-hangars in the vicinity of the current parachute drop zone. Site will need substantial excavation of material to bring the site down to the airfield elevation.

Fiscal/Programmatic Impact

This preliminary work prior to construction will provide additional safety by reducing the risk of vandalism/tampering of aircraft by providing more secure storage in hangars. The \$500,000 is funded 97.5% FAA and ADOT grant, with a 2.5% local share provided by the Airport Fund. This project is programmed in the 2003 Cottonwood Airport Master Plan and Airport Layout Plan (ALP).

Project - Airport – Relocate Parachute Drop Zone

This project relocates the parachute drop zone from current location, site of future hangars, to the new location on newly acquired property.

Fiscal/Programmatic Impact

This Project creates access to the new parachute drop zone needed for health and safety of the users. The \$124,000 is funded 97.5% FAA and ADOT grant, with a 2.5% local share provided by the Airport Fund. This project is programmed in the 2003 Cottonwood Airport Master Plan and Airport Layout Plan (ALP).

Project – Administration - City Hall

This project is to design and ultimately construct a New City Hall to be located in Old Town on city-owned property.

Fiscal/Programmatic Impact

Currently the facilities are over-crowded, old, and scattered throughout Old Town and the community. A new facility would be up to current life safety code standards, it would centralize more of city staff, eliminating unnecessary pedestrian and vehicle trips, for staff and the public

Project – Administration - Old Town Parking Lots

These improvements are on our Old Town “public parking”. These projects repave the Finance/Court parking lot and the Parks and Recreation parking lot. The Parks and Recreation lot also receives lighting so that it can be used at night.

Fiscal/Programmatic Impact

The fiscal impact of about \$335,000 is project through the City 1% sales tax as soon as available in fiscal year 07-08. On a safety note, a uniform, level surface will prevent trip and fall accidents. Proposed lighting will improve safety for night time users.

Project HURF - Pavement Maintenance Program

This program executes pavement maintenance contracts to extend the useful life of the streets. Pavement maintenance has typically been chip seal coating.

Fiscal/Programmatic Impact

The first two years of the program will also include crack sealing. Other types of seal coats such as slurry coats may also be used. Chip seals are the only affordable treatment for most “local streets”. Cottonwood historically gets a very long useful life out all pavement types, far in excess of the expected useful life. Routine pavement maintenance is required to keep the streets from “going to gravel”. This ongoing program is funded through HURF fund and the 1% construction sales tax initiated January 1, 2006.

Project – HURF - Paula Street Reconstruction

This project reconstructs the access street in the Garrison Park/County Complex area to add curb, gutter and sidewalk. The existing street is very narrow and lacks pedestrian facilities in spite of being in a park. If traffic is intensified by the proposed Cottonwood Recreation Center, increased pedestrian and bicycle traffic should be accommodated.

Fiscal/Programmatic Impact

The project widens the road for easier access. It is also improving emergency response access, as well as access by pedestrians and bicycles. There is also an opportunity to install a sidewalk on that street. This project is to be funded by the HURF and a 1% construction sales tax.

Project – HURF - 6th Street Reconstruction

This reconstructs 2,600 feet of pavement from Mingus Avenue to SR 89A. The pavement thickness will be improved with the project, to ensure it can handle the weight and the volume of traffic. The drainage problem will also be addressed.

Fiscal/Programmatic Impact

This \$480,000 reconstruction will have a 20 year useful life. A street of this quality in industrial areas as this one promotes business retention and development. This is a HURF and 1% construction sales tax project.

Project – HURF - 12th Street Reconstruction

This project is a 3,700 LF reconstruction project from SR 89A to Fir Street. This project also includes reconstruction of a 2,000 foot segment of S. 12th street from Mingus to Birch.

Fiscal/Programmatic Impact

This \$710,000 reconstruction will have a 20 year useful life. It will add a sidewalk and correct the problems with the clayey sub soils. There is a planned vertical alignment to meet with standards (hills and valleys). A full reconstruction includes curbs, sidewalk, and new asphalt pavement. This is a HURF and 1% construction sales tax project.

Project – HURF - Mingus Street Reconstruction

This reconstruction project is a 1,800 foot segment of collector street to be widened.

Fiscal/Programmatic Impact

This new pavement section will have a 20 year useful life. It will be constructed to handle the additional traffic brought about by the Mingus Street extension. It will also have sidewalk and bike lanes, and will have the poor drainage corrected.

Project – Administration - City Cemetery

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

Fiscal/Programmatic Impact

Current funding of \$60,000 is budgeted in the City Council's budget for 2006-07. This project goes from the planning phase to actual development of the site. Future funding is set at \$575,000 and is supported by the 1% sales tax allocated to general government facilities.

Project – Parks - Herridge Field Relocation-Light Project

The relocation of Herridge Field to Riverfront Park will provide for the completion of the Little League facilities at the park.

Fiscal/Programmatic Impact

This relocation will be used by the little league and it meets Parks & Recreation Commission Five (5) Year Planning Document. This project will be funded by the 1% sales tax.

Project - Parks – Multigenerational Center Design/Engineering

This project provides for the engineering, and architectural design as well as the construction of a large scale Aquatics/Recreation Center, approximately 82,000 sq. ft.

Fiscal/Programmatic Impact

This project meets community health and quality of life needs for a quickly expanding community. The direct funding impact to city would be the cost of the debt service estimated to be \$1.4M and another \$400,000 in operating costs. This project is the Cottonwood General Plan – Priority Community Service Project and the Parks & Recreation Commission 5 Year Planning Document.

Project – Parks – Maintenance Facility

This project is to construct a facility to house Building Maintenance Department to replace an old structure that is in dire need of repair.

Fiscal/Programmatic Impact

This project will enable the City to provide a more safe and efficient environment for two reasons: (1) increased growth in work force experienced by the department in Buildings & Parks Maintenance and, (2) the large volume increase in projects. This \$560,000 project is to be funded through the City 1% sales tax.

Project –Parks - 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 \$130,000 and is scheduled for FY 2010-11. 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 – Parks - 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 \$100,000 is projected into FY 2007-08. The Parks Maintenance and Street Division would incur additional recurring costs for grounds and parking lot maintenance. This project is funded by the City’s 1% sales tax.

Project – Parks – Tennis Center Resurface

This program is to install a polyurethane coating materials to the surface of the Cottonwood Tennis Center courts. The city has five (5) tennis center courts at Garrison Park which will be resurfaced and then have the lines and court interior/exterior boundaries marked.

Fiscal/Programmatic Impact

An estimated cost of \$65,000 is to be funded in FY 2007-08 from the City’s 1% sales tax dedicated to general government facilities. The resurface will extend the life of the courts which are used heavily year-round.

Project – Utilities – Regional Wastewater Treatment Plant

This project proposes to purchase land, design and ultimately construction a Regional Wastewater Treatment Plant.

Fiscal/Programmatic Impact

As the current plant reaches capacity, the ability to safely and effectively treat wastewater begins to deteriorate. We have a high priority to protect the public health and safety. The City is recognized as the wastewater treatment provider for the Cottonwood area. The new plant would allow the City to redirect wastewater flow from the southeastern side of the City to the new plant and reduce pumping distance and cost. This multi million dollar project will begin with land acquisition in 2008-09, to be funded through existing reserves and other financing sources.

Project – Utilities - Increase Wet Well Capacity at Lift Stations 1, 2, 3, 4

This project is for design and construct of additional wet wells next to existing wet wells to increase capacity of each lift station. The project begins with the Main Lift Station #4, and then proceeds to Lift Stations 3, 2, 1.

Fiscal/Programmatic Impact

Increasing the current capacity of the lift station wet wells will significantly decrease the likelihood of raw sewage spilling onto the surrounding properties. This \$100,000 expense will also reduce the constant cycling of the pumps and also increase the peak flow capacity. The funding for this project will be funded by a Debt Service reserve fund designated for sewer capital improvement.

Project – Utilities – SR 260 Sewer Line Extension

This project installs sanitary sewer lines along the State Route 260 corridor.

Fiscal/Programmatic Impact

It is anticipated that a large part of the \$2.1M cost would be recaptured from the development utilizing this expansion of the sewer system. Development of this area would increase the sales tax base for the City. It also allows the City the ability to provide centralized sewer service to this area with the advent of the new Regional Wastewater Treatment Plant. Funding is expected to come from debt service reserves.

Project – Utilities - Construction Manager at Risk

This project is a prerequisite to installation of the arsenic remediation equipment mandated by the United States Environmental Protection Agency (USEPA). It replaces three existing storage reservoirs into one 500,000 gallon reservoir and booster station, allowing for centralized arsenic treatment. This also provides for the replacement of booster pumps and electrical equipment at all Cordes Lake sites except 3-1 which are already properly fitted.

Fiscal/Programmatic Impact

This \$2,250,000 project is funded through system improvements reserves. \$1,750,000 is planned in the current fiscal year and to be completed in the 2007-08 fiscal year. It provides a more efficient and reliable operation directly related to less crisis management and a reduction in the amount of time staff spends monitoring and maintaining the system.

Project – Utilities - Replacement of Main Line Valves (on-going)

This project calls for the progressive replacement of defective or damaged main line valves.

Fiscal/Programmatic Impact

This continuous program replaces defective or damage valves that are discovered during valve exercising procedures. Finding for this project is through system improvements reserves.

Project – Utilities - Arsenic Mitigation

The new Federal regulations require reduction in arsenic concentrations in potable water to ten (10) parts per billion or less. This regulation is an unfunded mandate and the City is required to bear the full cost of compliance. This program will fund purchase and/or lease of the arsenic treatment systems and operational costs.

Fiscal/Programmatic Impact

This program will provide customers with drinking water in compliance with new Federal arsenic regulation and avoid costly noncompliance fines and sanctions. The \$5,000,000 project will be funded through System Improvement Reserves currently in the water fund.

Project – Utilities – Fire Flow Upgrades

This program replaces undersized, substandard and defective water lines and installs fire hydrants in areas which do not currently have a sufficient amount to provide adequate fire protection

Fiscal/Programmatic Impact

This program will allow increased fire protection capability and replace substandard and/or defective water lines which inhibit safe delivery of potable water. It will also reduce the amount of waterline repairs. The \$1.7M cost will be provided through system improvement reserves and user fees.

Project – Utilities – Other System Improvements

This program provides for improving well capacity, as well as storage and booster pumping.

Fiscal/Programmatic Impact

The \$2.24M allocation will improve overall capacity of the system over the next five years and will provide for the continued growth in the Cottonwood area. The funding will be absorbed by the system improvements fund and user fees.

Community and Economic Development

Project – Parks - Cottonwood Farmer’s Market

Previously part of the Old Town events, the Farmer’s Market is now under the City’s Park and Recreation Department.

Fiscal/Programmatic Impact

The fiscal impact of the event is that of initial cost for extending electricity to the Old Town Ballfield where the event will be moved and the cost of marketing the program. That cost is estimated at \$3,000.

Project – Parks - Summer Concert Series

Previously part of the Old Town events, the Summer Concert Series is now under the City’s Park and Recreation Department.

Fiscal/Programmatic Impact

The fiscal impact of the event is the cost of marketing this program, which is estimated at \$3,000 for advertising.

Public Safety

Project – Fire - Communications Infrastructure and MDT Upgrades

This program will allow the City to meet federal interoperability and narrow band requirements. We must contribute to the communications infrastructure development in the Verde Valley. These costs are to be funded by the .2% sales tax.

Fiscal/Programmatic Impact

Recent homeland security issues have created a tremendous need for improvements in our ability to operate multi-jurisdictionally. Interoperability is necessary to efficiently and safely respond to and mitigate major emergencies in our community. The annual cost of the program is to be funded through the City’s .2% sales tax.

Project – Fire - Replacement of Aerial Ladder Truck

The acquisition of a 100’ ladder truck to replace a 20 year old 55’ ladder truck is to improve suppression and rescue capabilities as the demand for multi-story development in the community “rises”.

Fiscal/Programmatic Impact

This apparatus will be necessary to provide rescue and fire suppression services in these structures and others in the city. Its \$970,000 cost will be funded through a lease purchase program. The Debt Service on this equipment will be funded by the City’s .2% sales tax.

Project – Police - Communications Infrastructure and MDT Upgrades

This program will allow the City to meet federal interoperability and narrow band requirements. We must contribute to the communications infrastructure development in the Verde Valley

Fiscal/Programmatic Impact

Recent homeland security issues have created a tremendous need for improvements in our ability to operate multi-jurisdictionally. Interoperability is necessary to efficiently and safely respond to and mitigate major emergencies in our community. The annual cost of the program is to be funded through the city’s .2% sales tax.

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 \$45,417,960. This figure is imposing and cannot realistically be funded from normal operating 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 \$35,000 or greater.

Beginning this fiscal year, we have programmed and will begin restricting revenues specifically designated to capital improvements projects. There are policies outlining the requirements of the various restricted revenue sources. Each restricted revenue has multiple projects assigned based on council guidance.

GRANT FUND POLICY

-  Any grant that is programmed yet funding is not attained, will not be allowed to proceed.
-  Grants will only be budgeted if there is a strong indication that it will be obtained.
-  All grant application will be reviewed by staff for funding ability prior to application to ensure availability of matching funds.
-  Priority will be given to grant matching funds.
-  Sizeable matching funds and/or large percentage of contribution may keep some grants from being solicited.

Grants - CIP

Funding Availability	2006-07	2007-08	2008-09	2009-10	2010-11
Beginning Balance	\$0	\$0	\$0	\$0	\$0
FAA Aeronautic Grants	780,700	917,100	882,900	495,000	515,700
ADOT Aeronautic Grants	20,545	50,950	49,050	27,500	28,650
Airport Fund Matching	20,545	50,950	49,050	27,500	28,650
Funds Available	821,790	1,019,000	981,000	550,000	573,000
Planned Expenditures					
Land Acquisition (10.9 acres)		730,000			
Relocate Segmented Circle			42,000		
Runway Lighting			450,000		
Land Acquisition (6.7 acres)	265,000				
Airport Perimeter Road	475,790				
Extend Runway & Taxiway		289,000			
Design Lighting and Runway Extension	81,000				
Install All Weather Operating System					232,000
Construct T-hangar Apron				50,000	341,000
Land Acquisition (4.65 acres)			365,000		
Grading				500,000	
Relocate Drop Zone			124,000		
Subtotal Planned Expenditures	821,790	1,019,000	981,000	550,000	573,000
Resources Available	\$0	\$0	\$0	\$0	\$0

0.2% SALES TAX

This revenue source is derived from a .2% sales tax originally designated for the payment of debt service on the Public Library. November of 1998 voters requested that any amount collected above the necessary debt service be restricted to capital improvements.

-  Priority will be given to current commitments
 - Library Debt Service
 - Public Safety Building – GADA Loan
 - Public Safety Building furnishings - Lease Purchase
 - Fire Department specialty vehicles
-  Restricted to Public Safety capital
 - 1st priority is fleet
 - 2nd priority is to other projects
-  5% annual growth policy

0.2% Sales Tax

Funding Availability	2006-07	2007-08	2008-09	2009-10	2010-11
Beginning Balance	\$499,160	\$436,630	\$428,180	\$169,355	\$79,070
Annual Deposit	782,970	865,050	908,300	953,715	1,001,400
Revenue	1,282,130	1,301,680	1,336,480	1,123,070	1,080,470
Current Commitments					
Library Debt Service	158,000	158,000	158,000	158,000	158,000
Public Safety Building - GADA	271,000	271,000	271,000	271,000	271,000
Public Safety Furnishings - Lease Purchase	54,500	54,500	27,125	0	0
Fire Trucks	90,000	90,000	90,000	90,000	90,000
Subtotal Commitments	573,500	573,500	546,125	519,000	519,000
Revenue (net of commitments)	708,630	728,180	790,355	604,070	561,470
Planned Expenditures					
Fire Pumper Refurbish	75,000				
Police Mobile Data Terminals		75,000	75,000	75,000	75,000
Fire Mobile Data Terminals	5,000	25,000	25,000	25,000	25,000
Aerial Ladder Truck - Lease Purchase		0	250,000	250,000	250,000
Police Patrol Vehicle Replacement Program	150,000	150,000	175,000	175,000	200,000
Fire Safety Equipment		50,000			
Evidence Bar Coding Software			35,000		
Imaging Software			61,000		
Call Taker Console	42,000				
Subtotal Planned Expenditures	272,000	300,000	621,000	525,000	550,000
Resources Available	\$436,630	\$428,180	\$169,355	\$79,070	\$11,470

1.0% SALES TAX

This revenue source is derived from a 1.0% sales tax originally designated for the payment of debt service on the Wastewater Treatment Plant. This tax was to sunset on July 1, 2007, however, the City Council approved to implement a 1% Sales Tax effective July 1, 2007 to be used for capital improvement projects.



Anticipated commitment of funds

- 45% to Recreational Center Debt Service and Maintenance Operations
- 10% for General Government for Maintenance & Operations
- 45% to Capital Projects
 - 15% Street Improvements
 - 15% Future Sewer Facility Improvements
 - 15% General Government facilities



5% annual growth policy

1.0% Sales Tax - General Government

Funding Availability	2006-07	2007-08	2008-09	2009-10	2010-11
Beginning Balance	\$0	\$0	\$716,345	\$103,760	\$183,390
Annual Deposit		2,466,345	2,589,660	2,718,515	2,854,440
Funds Available	0	2,466,345	3,306,005	2,822,275	3,037,830
Planned Expenditures					
Recreational Center		500,000	1,942,245	2,038,885	2,140,830
City Hall					500,000
Old Town Parking		335,000			
Herrige Field		125,000			
Cemetery		575,000			
Communication & Evidence Storage Building		100,000	600,000	600,000	
Maintenance Building			560,000		
Civic Center Renovation					130,000
Urban Trail System			100,000		100,000
Riverfront Park Improvements		50,000			
Tennis Center Resurface		65,000			
Subtotal Planned Expenditures	0	1,750,000	3,202,245	2,638,885	2,870,830
Resources Available	\$0	\$716,345	\$103,760	\$183,390	\$167,000

HIGHWAY USER REVENUE FUND AND TRANSIT

These funding sources come from several areas. State HURF may be used for maintenance and operations as well as capital projects. The City also approved an increase in the City's tax on construction activities by 1% to be designated to street improvements. Another is grant funding for major street projects, and finally 15% of the 1% City Sales Tax mentioned in the previous restricted revenue section. These sources have council imposed guidelines.

-  1% construction sales tax will be used by this fund.
-  15% of the 1% general sales tax will be allocated to HURF.
-  Uses of these revenue resources
 - Street Department maintenance & operations
 - Street construction
 - Street Capital
 - Transit programs
 - Including filling the gap if LTAF Funding is inadequate.
-  All major street projects will have a 10% restricted funding component to be used for
 - Sidewalks
 - Landscape
 - Bike paths & trails
-  2.5% annual growth policy

HURF and Transit Funds - CIP

Funding Availability	2006-07	2007-08	2008-09	2009-10	2010-11
Beginning Balance	\$241,160	\$174,380	\$141,270	\$1,040,000	\$1,329,400
HURF Funds (net M&O)	203,000	200,550	197,770	194,650	191,170
1% Construction Sales Tax	300,720	315,755	331,545	348,120	365,525
Grants	680,000				
General Fund Contribution (including portion of 1% Sales Tax)	300,000	616,585	647,415	679,630	713,610
Funds Available	1,724,880	1,307,270	1,318,000	2,262,400	2,599,705
Planned Expenditures					
Willard Street Extension	998,000				
Pavement Maintenance Program	195,000	195,000	153,000	163,000	173,000
Aspen Street Reconstruction	325,000				
Old Town Off-Street Parking		80,000	125,000		
Sidewalk Additions Alternative	32,500	81,000		70,000	71,000
6th St. Reconstruction		480,000			
12th St. Reconstruction					710,000
W. Mingus St. Reconstruction				700,000	
Paula St. Reconstruction		330,000			
Street Sweeper					150,000
Subtotal Planned Expenditures	1,550,500	1,166,000	278,000	933,000	1,104,000
Resources Available	\$174,380	\$141,270	\$1,040,000	\$1,329,400	\$1,495,705

WASTERWATER USER FEES

User fees for Wastewater are not sufficient enough to cover capital projects that are planned for the future in this department. Other revenue sources have been allocated to assist this enterprise fund with its capital needs.

Wastewater Fund - CIP

Funding Availability	2006-07	2007-08	2008-09	2009-10	2010-11
Beginning Balance	\$0	\$5,818,518	\$4,653,428	\$3,225,843	\$1,630,473
1% Sales Tax Portion	2,424,713	616,585	647,415	679,630	713,610
Plant Expansion Reserves	97,275				
Equipment Replacement Fund	1,209,805				
Debt Service Surplus Sales Tax	2,951,725				
FmHA Reserve Fund		580,255			
WIFA Reserve Fund		311,035			
MPC Reserve Fund		302,035			
Funds Available	6,683,518	7,628,428	5,300,843	3,905,473	2,344,083
Planned Expenditures					
Regional Wastewater Treatment Plant		1,000,000		2,200,000	2,200,000
Increase Wet Well Capacity	100,000	75,000	75,000	75,000	
Forced Air Blowers	240,000				
Hwy 260 Sewer Line	240,000	1,900,000			
Odor Control Unit	50,000				
6" Emergency Diesel Pump	10,000				
Backup Pumps	75,000				
WWTP Masterplan	150,000				
Land Acquisition			2,000,000		
Subtotal Planned Expenditures	865,000	2,975,000	2,075,000	2,275,000	2,200,000
Resources Available	\$5,818,518	\$4,653,428	\$3,225,843	\$1,630,473	\$144,083

Accumulated reserves from a 1% sewer debt service sales tax that was being set aside in the Debt Service Fund will be available on July 1, 2007 for Sewer Capital Projects. Since this amount is not sufficient to cover the entire cost of a new treatment plant, other funding sources will need to be explored.

WATER USER FEES

The Water Utility, unlike the Wastewater, is designed to be self sufficient. It provides enough revenue to cover maintenance, operations, administration, debt service, and capital improvements. User fees provide the majority of the revenue for this utility.

Upon acquisition of the water companies, the City included additional proceeds in the bond issue for future system improvements. That has come in useful since the system was in need of some serious attention.

Water Utility CIP

Funding Availability	2006-07	2007-08	2008-09	2009-10	2010-11
Beginning Balance	\$0	\$1,476,530	\$115,390	(\$127,200)	(\$422,506)
User Fees *	1,333,190	1,173,860	1,007,410	1,060,694	1,258,940
Bond Capital Reserves	6,913,340				
Interest Income	130,000	40,000	40,000	4,000	40,000
Funds Available	8,376,530	2,690,390	1,162,800	937,494	876,434
Planned Expenditures					
Arsenic	5,000,000	500,000	500,000	500,000	500,000
Construction Manager at Risk	1,750,000	500,000			
Valves	150,000	125,000	100,000	100,000	100,000
Wells		500,000	150,000	200,000	500,000
Fire Flow Upgrades		400,000	425,000	450,000	500,000
Storage		500,000	80,000	85,000	90,000
Booster Pumping		50,000	35,000	25,000	25,000
Subtotal Planned Expenditures	6,900,000	2,575,000	1,290,000	1,360,000	1,715,000
Resources Available	\$1,476,530	\$115,390	(\$127,200)	(\$422,506)	(\$838,566)

The City is still looking into leasing rather than purchasing the arsenic treatment equipment scheduled for 2006-07. If the City is successful, those excess funds will be available for additional projects in the future.

SUMMARY OF CAPITAL

GOVERNMENTAL FUNDS					
Funding Availability	2006-07	2007-08	2008-09	2009-10	2010-11
Resources					
Resources Available (net of commitments)	\$3,415,525	\$5,721,125	\$6,630,865	\$6,516,280	\$7,095,480
Planned Expenditures					
Public Safety	\$272,000	\$400,000	\$1,221,000	\$1,125,000	\$550,000
Culture & Recreation	0	1,315,000	2,602,245	2,038,885	2,370,830
General Government	0	335,000	0	0	500,000
Street Construction	1,550,500	1,166,000	278,000	933,000	1,104,000
Airport	821,790	1,019,000	981,000	550,000	573,000
Total Governmental Capital	\$2,644,290	\$4,235,000	\$5,082,245	\$4,646,885	\$5,097,830
Balance Forward	771,235	1,486,125	1,548,620	1,869,395	1,997,650

ENTERPRISE FUNDS					
Funding Availability	2006-07	2007-08	2008-09	2009-10	2010-11
Resources					
Resources Available (net of commitments)	\$15,060,048	\$10,318,818	\$6,463,643	\$4,842,967	\$3,220,517
Planned Expenditures					
Wastewater	\$865,000	\$2,975,000	\$2,075,000	\$2,275,000	\$2,200,000
Water	6,900,000	2,575,000	1,290,000	1,360,000	1,715,000
Total Governmental Capital	\$7,765,000	\$5,550,000	\$3,365,000	\$3,635,000	\$3,915,000
Balance Forward	7,295,048	4,768,818	3,098,643	1,207,967	(694,483)

Long Range Financial Projections

GENERAL FUND

<u>Revenues</u>	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11
Taxes	\$5,539,725	\$5,809,279	\$6,092,088	\$6,387,901	\$6,698,231
Licenses and Permits	481,500	495,945	510,823	526,148	541,932
Intergovernmental Revenues	3,055,230	3,212,781	3,378,560	3,553,005	3,736,570
Charges for Services	805,595	865,765	884,851	904,466	924,625
Fines and Forfeitures	309,200	320,240	329,757	339,560	349,657
Use of Monies & Properties	267,200	286,100	276,404	296,814	287,332
Miscellaneous Revenues	46,100	49,325	50,484	51,678	52,907
Other Financing Sources	23,490	23,490	23,490	23,490	23,490
Total Revenues	\$10,528,040	\$11,062,925	\$11,546,457	\$12,083,062	\$12,614,744
<u>Expenditures</u>	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11
General Government	\$4,830,765	\$4,906,473	\$5,149,820	\$5,365,714	\$5,583,600
Public Safety	4,851,775	5,071,054	5,294,974	5,525,203	5,767,966
Culture & Recreation	651,680	685,232	720,860	844,850	869,850
Total Expenditures	\$10,334,220	\$10,662,759	\$11,165,654	\$11,735,767	\$12,221,416
Gain/(Loss)	\$193,820	\$400,166	\$380,803	\$347,295	\$393,328

CONCLUSION

The result of this five-year analysis demonstrates that operating revenues will hardly keep 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 some of the rising employee benefits costs. Health insurance for employees and their dependents will remain static throughout fiscal year 2006-07; however, there will probably be an increase after July 01, 2007. Fortunately, workman's compensation has been improving in recent years, thus lowering City's experience modifier (E-mod).

Rising fuel prices are a very large part of the City's cost. These rising costs affect our fleets, our utilities, and our ability to do our jobs efficiently. There are also the required capital reserves that need to be met. To fund these reserves the General Fund will run a deficit in current operating that will have to be covered by fund balance. That, too, poses a different set of issues.

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.

SPECIAL REVENUE FUND

<u>Revenues</u>	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11
Street Department	\$978,190	\$998,426	\$1,019,100	\$1,040,223	\$1,061,805
Transit System	576,680	605,514	635,790	667,579	700,958
Library	816,000	814,201	857,403	903,666	953,296
Airport	149,425	149,425	72,950	72,950	72,950
Grants	500,000	500,000	500,000	500,000	500,000
CDBG	590,830	0	0	0	0
Total Revenues	\$3,611,125	\$3,067,566	\$3,085,243	\$3,184,418	\$3,289,009

<u>Expenditures</u>	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11
Street Department	\$758,320	\$683,533	\$720,018	\$759,066	\$800,956
Transit System	597,165	632,198	670,033	710,972	755,356
Library	815,930	814,201	857,403	903,666	953,296
Airport	149,425	136,375	105,659	85,765	88,654
Grants	500,000	500,000	500,000	500,000	500,000
CDBG	590,830	0	0	0	0
Total Expenditures	\$3,411,670	\$2,766,307	\$2,853,113	\$2,959,469	\$3,098,262
Gain/(Loss)	\$199,455	\$301,259	\$232,130	\$224,949	\$190,747

CONCLUSION

Street Department

Revenues are a bit more stable in the HURF due to the City Council approving a 1% Contracting Activities Sales Tax designated for street improvements. This will reduce the need for the City’s General Fund to transfer in operating funds.

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. Any expenditure that exceeds the projected revenue sources will be paid for through a General Fund transfer in.

DEBT SERVICE FUND

<u>Revenues</u>	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11
Taxes	\$4,525,788	\$157,275	\$157,275	\$157,275	\$157,275
Interest Income	183,680	1,660	1,660	1,660	1,660
Transfers In	334,925	334,925	334,925	334,925	334,925
Total Revenues	\$5,044,393	\$493,860	\$493,860	\$493,860	\$493,860
<u>Expenditures</u>	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11
Trustee Fees	\$15,500	\$0	\$0	\$0	\$0
Interest Payments	227,160	148,860	148,860	148,860	148,860
Principal Payments	1,938,600	345,000	345,000	345,000	345,000
Total Expenditures	\$2,181,260	\$493,860	\$493,860	\$493,860	\$493,860
Gain/(Loss)	\$2,863,133	\$ 0	\$ 0	\$ 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 2006-07 compared to 1.8x in FY 2005-07. This small increase is due to the stabilization of the debt service payments and continued strong growth in the sales tax base. This tax will sunset on July 1, 2007, at the same time the final payments will be made on all the Sewer debt obligations.

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 2005-06 to 4.2x in FY 2006-07. This trend is expected to continue to increase, demonstrating exceptional coverage. Final disposition of the library debt service and the .2% sales tax is July 1, 2013.

The Debt Service for the water company is reflected in the Enterprise Funds. January 2006 was the month in which the City of Cottonwood completed the acquisition of the final local water company.

ENTERPRISE FUND - SEWER

<u>Revenues</u>	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11
User Fees	\$1,432,120	\$1,475,347	\$1,519,878	\$1,565,760	\$1,613,034
Miscellaneous Income	54,600	55,400	56,222	57,066	57,933
Total Revenues	\$1,486,720	\$1,530,747	\$1,576,100	\$1,622,826	\$1,670,967

<u>Expenses</u>	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11
Operations	\$1,061,880	\$1,119,679	\$1,179,939	\$1,243,851	\$1,311,932
Administration	173,020	178,923	187,633	196,893	206,752
Total Expenses	\$1,234,900	\$1,298,602	\$1,367,572	\$1,440,744	\$1,518,684
Gain/(Loss)	\$251,820	\$232,145	\$208,528	\$182,082	\$152,283

ENTERPRISE FUND - WATER

<u>Revenues</u>	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11
User Fees	\$4,962,190	\$5,210,300	\$5,340,557	\$5,474,071	\$5,610,923
Service Charges	90,400	94,920	97,293	99,725	102,218
Connection Fees	4,100	4,305	4,413	4,523	4,636
Other Income	154,430	162,152	166,206	170,360	174,669
Total Revenues	\$5,211,120	\$5,471,677	\$5,608,469	\$5,748,679	\$5,892,446

<u>Expenses</u>	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11
Operations	\$1,375,410	\$1,472,161	\$1,531,009	\$1,583,366	\$1,520,348
Administration	370,735	368,052	386,794	406,764	428,073
Debt Service	1,980,354	2,298,604	2,520,280	2,530,804	2,513,804
Total Expenses	\$3,726,499	\$4,138,817	\$4,438,083	\$4,520,934	\$4,462,225
Gain/(Loss)	\$1,484,621	\$1,332,860	\$1,170,386	\$1,227,745	\$1,430,221

CONCLUSION

The Enterprise Funds, which includes the Water and Wastewater Divisions are both self-sufficient and depend on their user fees to fund their operations. The Wastewater Division is no longer being subsidized by the special one-percent sales tax enacted in 1987, or the General Fund. 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.

The Water Division also relies on only its user fees to fund all of its operations, including capital projects and debt service. Original Bond distributions assist the fledgling company to handle its first interest payment on the bonds and sets up a capital improvement fund to initiate some system improvements. Other revenue sources for both divisions are interest on investments, building rentals, sale of effluent, and miscellaneous income.

INTERNAL SERVICE FUND

<u>Revenues</u>	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11
Interest Income	\$4,060	\$4,182	\$4,307	\$4,436	\$4,570
Total Revenues	\$4,060	\$4,182	\$4,307	\$4,436	\$4,570
<u>Expenditures</u>	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11
Benefits Paid	\$22,000	\$22,000	\$22,000	\$22,000	\$22,000
Total Expenditures	\$22,000	\$22,000	\$22,000	\$22,000	\$22,000
Gain/(Loss)	(\$17,940)	(\$17,818)	(\$17,693)	(\$17,564)	(\$17,430)

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 now funds the City's short-term disability coverage for the City employees.

CEMETERY TRUST FUND

<u>Revenues</u>	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11
Other Income	\$35	\$37	\$39	\$41	\$43
Charges for Services	7,000	7,350	7,718	8,104	8,508
Total Revenues	\$7,035	\$7,387	\$7,757	\$8,145	\$8,551
<u>Expenditures</u>	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11
Operations	\$33,320	\$35,194	\$37,204	\$39,361	\$41,681
Total Expenditures	\$33,320	\$35,194	\$37,204	\$39,361	\$41,681
Gain/(Loss)	(\$26,285)	(\$27,807)	(\$29,447)	(\$31,216)	(\$33,130)

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 8.4% for the past five years, ending June 30, 2006. Fiscal year 2005-06 has shown great promise with a 16.6% increase over 04-05. For fiscal year 2006-07, a more conservative approach is being used to estimate city sales tax for the year.

For Fiscal Year 2006-07 the decrease for all funds is 1.4% under revised figures of \$58,387,340 in FY 2005-06. The cause of the decrease is the completion of the water company acquisitions project. These numbers are inclusive of all Other Funding Sources. A listing of All Funds Consolidated Revenues by Sources is on **page 67**. A further breakdown by source and fund may be found on **page 70**.

Consolidated Expenditures - All Funds

Expenditure projections for Fiscal Year 2006-07 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 8-9% due to anticipated increases being proposed by the various local utilities and rising cost of fuel. Salaries and associated benefits were projected to increase at an annual rate of slightly over 4%, excluding any personnel requests and salary adjustments. This increase is predominately due to increases in contributions to the Arizona State Retirement System.

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 individually and in a general budget update work session.

Included within the budget is the addition of five new full-time equivalents (FTEs), the elimination of two FTE's, the final funding of an in-house salary compensation study, and a 2% Cost of Living (COLA) for all employees. The budget also includes a vehicle replacement program for the Police Department, numerous capital projects and capital equipment acquisition. These items are detailed on the Capital Outlay Summary on **pages 283-286** 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 74 and 77** of this document.

Taxes

Special attention was given to our local city sales tax. In developing the fiscal year 2006-07 budget, total local sales tax revenues were conservatively projected to increase 10.4%. This included an additional 1% increase in Construction Sales Tax designated for the HURF. Local city sales tax

compared to total operating revenues in the General Fund has increased in importance from 40% in FY 1998-99 to an approximately 44.9% in FY 2006-07. Large fluctuations in the economy can dramatically affect this revenue source.

Residential and commercial construction valuations are 3.9% lower than FY 04-05 for the same period. The construction category currently represents 7.6% of our sales tax base. This category has ranged from sub 2.8% in the late 80's to nearly 12.0% in the late 90's. Wholesale and retail trade has increased an average of 6.7% per year, over the last five years. Retail sales tax collection compared to total sales tax has been at its peak with it consisting of 74.2% of total sales tax. Combined, these three components represent 83.0% of our sales tax base.

Retail sales tax revenues are projected to increase by 10.4% for fiscal year ending June 30, 2007. Construction sales tax receipts are projected to increase, predominately due a 1% increase to benefit the HURF. Retail sales tax had increased dramatically in the past two years with FY 2004-05 and FY 2005-06 seeing a 74.19 percent to total and 74.22 percent to total, respectively. This is this is up over 11% to the five year fiscal average ending 06/30/2004. This category obviously continues to be the mainstay of our sales tax base. In developing long-range revenue projections, sales tax revenues are projected to increase a conservative 5% after fiscal year 2006-07 through 2010-11. 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 5% through FY 2010-11. This spike is not reflected in the 5-year maintenance & operations plan since it is currently designated mainly toward capital projects. It is however reflected in the five-year capital improvements plan.

State shared revenues constitute 26.1% of total operating revenues or about \$2.95M for FY 2006-07. 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 not longer receives a 1% fee for water, since it acquired all the local water companies. It does, however, collect 1% from power, 2% for gas, and a 3% fee for cable television. Franchise revenues have increased an average of 5.9% per year over the past five years. With the loss of the Water Franchise fees, this year's budget reflects a very conservative increase of .52%.

Licenses and Permits

License and permit revenues which had peaked in FY 1997-98 and had been declining since has seen a resurgence in the past two years culminating in an estimated \$481,500 for FY 2006-07. It is expected to stay in the lower to mid \$400K for the next year or two as more commercial establishments and several residential developments get under way. For next year, license and permit revenues are projected to increase by about 4.6% to \$481,500.

Intergovernmental Revenues

Intergovernmental revenues have a combined increased average of 31.3% 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 29.1% for this year, including all police and fire grants. The

State Shared Income Tax is distributed to the cities based on collections two years prior. The large increase (28.2%) 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 3.8% per year over the past five years. The largest increase was for a \$300,000 water system evaluation reimbursement at the acquisition of the water companies. Another contributor to this sharp increase is the sewer inspection fees. This revenue source is projected to decrease by about 7.3% this year.

Fines and Forfeitures

Fines and forfeitures have increased an average of 19.8% 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 traditionally taper 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 17.2%.

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 changed drastically since then with reserves being used for capital projects and earnings of slightly under 2% interest. No increase is estimated for FY 2006-07 in the area of interest income as the City is anticipating stabilization in interest rates and yields on its investments. The City recently adopted an investment policy to allow greater investment flexibility to capitalize on opportunities other than strictly the State's Local Government Investment Pool (LGIP). With the preparation of the five year capital plan, this policy will be a very useful tool.

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 to increase by .24% on a five-year average of 23.7%.

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 51.6% this fiscal year. This translates to a \$4,920,335 increase over the previous fiscal year of \$9,523,575. This net increase includes \$2,465,260 in reserves, some rollover projects, and \$148,005 in additional personnel, including their related benefits. An in-house evaluation was performed last fiscal year on the entire City's salary structure, of which the first half of the recommendation was funded in FY 2005-06, and the second half of the recommendations have been incorporated into this budget. Salary as well as range adjustments were made to numerous positions.

Inclusive of the range adjustments, this budget includes a 2% Cost of Living Adjustment (COLA). Additional staffing includes an Information System Technician, a Library Clerk, a PANT Officer (funded through a grant), a Deputy Clerk, and an Electrical & Instrumentation Specialist for the Utility Department. These positions are partially offset by the elimination of a Building Inspector and Administrative Clerk. Other increases in the budget included a 23.08% increase in retirement contributions from 7.4% to 9.1%. This year also saw 22 requests for staffing; unfortunately, a decision was made to add only 5 and while eliminate 2 FTEs.

Additional Positions

FTE Description	Timing	Budgeted
Information Systems Technician	¾ year	\$41,445
PANT Officer	Full year	64,400
Deputy City Clerk	Full year	40,810
Library Clerk	¾ year	27,635
Transit Driver	¾ year	27,945
Electrical Instrument Specialist	¾ year	42,475
		\$244,710

Eliminated Positions

FTE Description	Budgeted
Administrative Receptionist	\$32,305
Building Inspector	64,400
\$96,705	

The City provides paid Health Insurance 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. A containment effort by the Verde Valley Employee Benefits Pool has helped to keep the current rate structure the same for the fiscal year through July1, 2007.

Operating supplies category has increased from \$366,995 last year to \$371,515 this year. This slight 1.2% increase is basically due to the continuing rise in fuel and utility costs. Cost control measures set in place in previous years due to uncertain local economic slow downs and the dependency on local and state shared sales tax revenues are keeping this category from escalating even further. Department heads take a very close look at their operating supplies and most are able to stay within their overall requests.

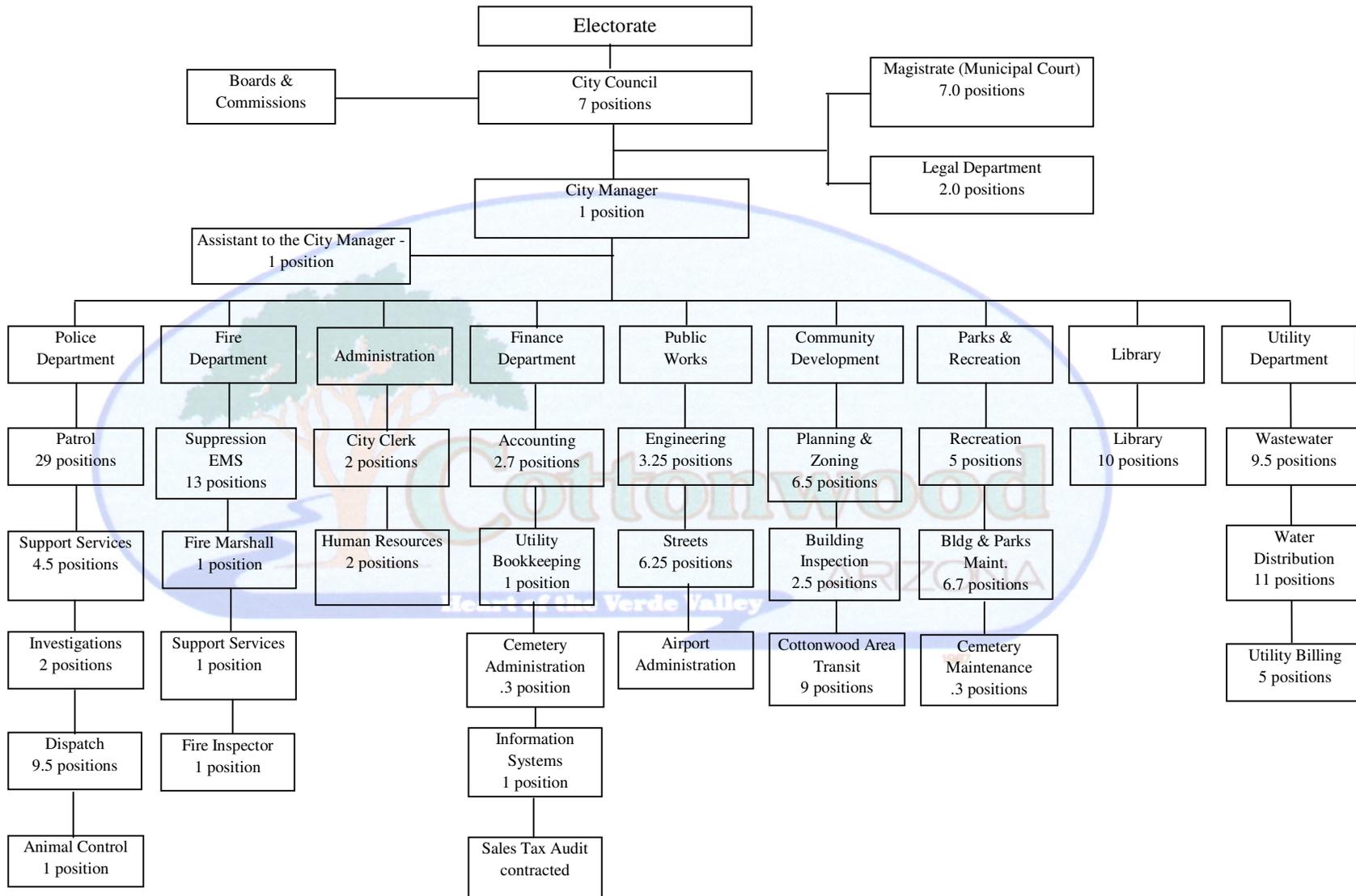
Contractual Services is anticipated to increase by 7.1%. The City major agreement causing the substantial increase is one of reimbursement of sales tax to the commercial developer which provided the infrastructure to being in the WalMart Supercenter. The other major increase is in the fire dispatching contract with Sedona Fire District.

Other services and charges reflect an 3.7% decrease or \$45,630. This category contains changes in grant funding for the Police and Fire.

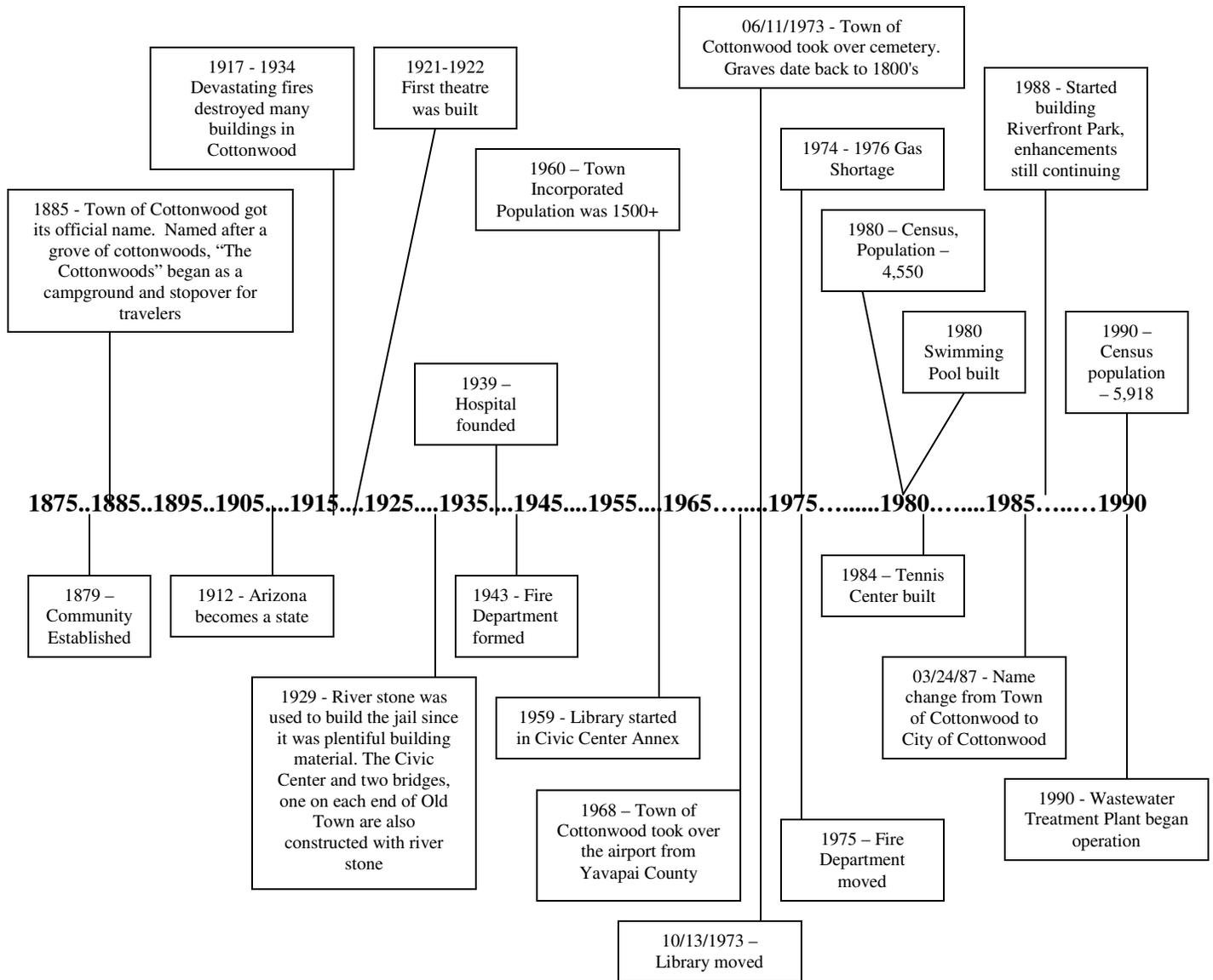
Capital Outlay increased by \$734,505 or 142.9% over last year's revised figure of \$517,550. This large increase is due to the rollover of the acquisition of some needed fire apparatus and capital grants that are being budgeted this fiscal year.

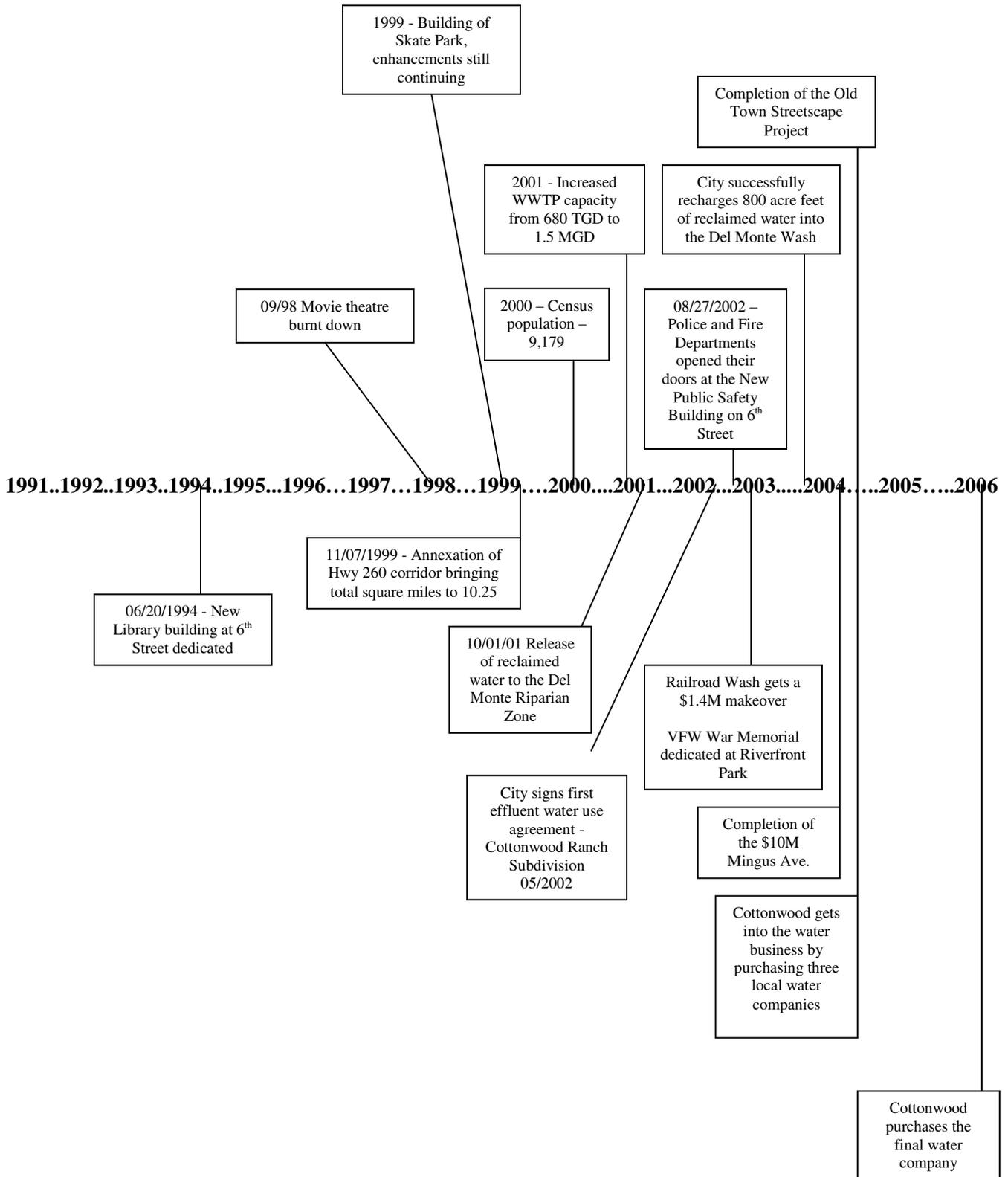
More information may be viewed in the summary pages of the individual funds and departments.

ORGANIZATIONAL CHART



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