



December 31, 2008

The Honorable Mayor and City Council

RE: Transmittal - Fiscal Year 2009 Final Budget

It is my pleasure to present to you the Fiscal Year 2009 Final Budget for your review. Since the Tentative Budget there have been few changes to the budget document. The City has conducted several work sessions with Council and department heads to review, in detail, their staffing, programs, and project planned expenditures. This year's total final expenditures budget is \$88,545,340. This is an overall increase of \$10,372,445 over the previous fiscal year revised of \$78,172,895. This difference is largely attributed to the reallocation of resources for continuing projects, increases in some reserves, and the many new projects being proposed for the new fiscal year.

The largest single increase is in the General Fund which includes a number of reserve funds. The next largest increase is in the Wastewater Fund with an anticipated increase of \$2.6M; including a \$5.6M Water Reclamation Facility in the Bella Montaña area. 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 2009. A general discussion about the funds follows; however, in-depth information is in the Key Issues section of this document. There is an increase of 0.8% in the sales tax rate, being proposed for this year. This will bring the total sales tax rate from 2.2% to 3.0%.

The General Fund's operational budget is \$19,687,440. This is a \$5,394,715 increase over the previous fiscal year revision of \$14,292,725. This net increase includes \$4,424,390 in reserves, \$213,000 in new programs, \$76,305 in additional personnel and reclassification, including their related benefits, and some rollover projects. Inclusive in the personnel budget is a 4% Cost of Living Adjustment (COLA) anticipated for January 1, 2009, with the provision that revenues are received as projected. The additional staffing for this year includes a Project Coordinator, and an additional Transit Driver, for the Utilities Department and Transit System, respectively.

The rising costs of fuel is reflected in the General Fund as are increases to Public Safety Personnel Retirement System (PSPRS) contribution increased from 17.30% to 22.07% for the Police Department and 10.32% to 14.83% for the Fire Department. As for the contributions to the Arizona State Retirement System, their rates came down from 9.6% to 9.45%. A listing of the programmed capital outlay and projects is on page 233.

The total budget for the Special Revenue Funds is \$9,531,455. This fund's expenditures increased by \$4,668,840 over last year's funding of \$4,862,615. This increase is primarily due to the new projects

being programmed to begin in fiscal year 2009, including a Highway Expansion and Extension Loan Program (HELP) loan to accelerate the reconstruction of 12th Street. Some of the projects currently being planned are the construction of the Willard Street Extension, West Mingus Street Reconstruction, and the design of the 12th Street reconstruction with the aid of CDBG. C.A.T.S. has \$867,960 programmed for maintenance and operations of the transit system. An additional \$699,700 is planned for capital outlay. The CDBG program does not have any programming planned for FY 2009 but will be an important part of the previously mentioned 12th Street reconstruction. The Highway User Revenue Fund (HURF) reflects an increase in its reserves as the 1% construction activities sales tax completes its third full year, and major projects have been completed. There is also \$500,000 in the Other Grants budget used to cover any sizable and unforeseen grant opportunities. Lastly, approximately \$694,510 in transfers into the Special Revenue Funds will be utilized for operational purposes as the City strives to complete these projects.

The Debt Service Fund is budgeted for \$16,142,455. Last year's revised budget was \$15,688,740. The increase of \$457,715 is due to a transfer of monies to the Wastewater Fund for the construction of a Water Reclamation Facility in the Bella Montaña area. Only the Library Debt Service is remaining which will continue through July 1, 2013 in this fund. Three Greater Arizona Development Authority (GADA) loans are budgeted in the General Fund along with their respective funding.

The City budgeted \$18,171,005 in the Capital Projects Fund this year to fund several major projects. Some of the projects included in the budget are the completion of the Library Expansion for \$793,760, the purchase of county land property for \$675,580, and architectural for a new communications center for \$350,000. The largest however, is the construction of a new Recreational Center, with \$14.8M in reserves for construction next fiscal year.

The Enterprise Fund budgets, which consists of water and wastewater, have increased from last fiscal year's \$22,647,175 to \$24,560,505 for fiscal year 2009. The \$1,913,330 increase is attributed to sewer line extensions, construction projects, and sewer reserves in the sewer fund. As for the Water Utility, there are some major projects relating to arsenic mitigation along with substantial reserves of over \$6.4M. The arsenic project has become so large, that the City brought on a Construction Manager At Risk to ensure that the water system is prepared properly to handle the arsenic equipment. Another reason for the sizable increases is that this is the first full year of debt service payments on both of the Water Revenue Bonds issues in 2004 and 2006.

The Internal Service Fund and Fiduciary Fund aggregate total is up by \$9,730. There is an increase in the Internal Service Fund due to interest income accrued by the City's Employee Benefits Trust. The Fiduciary Fund is having increasingly better years as interest rates stabilize. The City's Volunteer Firefighters Pension is anticipated to increase in value 19.4% to \$171,360.

Material changes are expected in the fund balances of several funds as anticipated projects get underway. General Fund change in fund balance is anticipated at \$794,900 as it makes \$694,510 in transfers to various other funds. The HURF fiscal position improves only through the completion of projects. Debt service is expected to transfer some of its reserve to the Sewer Fund for capital improvement projects. The Capital Project Fund will use its reserves to complete the expansion of the Public Library as well as complete the Recreation Center.

General Commentary

The preparation of the budget continues to pose an extraordinary challenge to all department heads this year. This year has been especially difficult with the large decline in our largest revenue source, local sales tax. Prior cost containment measures are providing value back to the City of Cottonwood with no increases in health insurance, workers compensation, and general liability. Those same measures play an integral part in surviving the downturn in our local economy. There are, however, issues that are out of our control such as rising fuel prices, utility costs, and common expenditures in general. Some external forces are also placing demands on our staffing and capital equipment requirements. These issues along with the City's dedication to the citizens' insistence for quality services are one of its highest priorities causing an increased challenge to balancing this 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 5 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 .08% for the past five years, estimated through the period ending June 30, 2008. Fiscal year 2008 reflects a decline in sales tax of over 10% which lowered the overall average. For fiscal year 2009, a conservative approach is being maintained in estimating city sales tax for the year. We are currently projecting a 3% decrease in local sales tax.

KEY ISSUES - FISCAL YEAR 2009


GENERAL FUND


Growth and the economy continue to be the major issues facing the City in the development of the budget. Most of the major issues addressed in this budget are a result of the growth and slower economy 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.


 **Slowing Economy** – After two consecutive strong years, FY 2008 brought with it some of the worse economic problems seen in over 16 years. This downturn in the economy is expected to continue well into FY 2009. The most critical component of this fiscal decline has been the local sales tax which has seen double digit decreases. Early on in the budget season, this was proving to be quite a fiscal dilemma. The fledgling employee longevity plan was shelved as well as some programs in order to reduce costs. It is still the single largest challenge the City of Cottonwood is facing.

 **Taxes** – The City of Cottonwood has prided itself on managing its affairs on local sales tax. Though successful for many years, it has displayed the fallacy of the notion that it can continue to provide quality services on a major source of revenue that is at the mercy of the economy. The City Council is contemplating an increase of .8% to the local sales tax, from 2.2% to 3.0%. This temporary measure would allow the City to continue its quality services. The Council's plan is to

keep the .8% until such time as the City passes a property tax, which is a more stable revenue source.


 **Uncontrollable Rising Costs** – Health Insurance Premiums will remain static for FY 2009 due to some plan changes by the Verde Valley Employee Benefits Pool, which provides the City’s medical insurance. The rising cost of fuel is taking its toll on several departmental budgets, namely our Public Safety. These costs though beyond our control, are being managed by changing the way we take care of business. Our Police Department is making full use of their new Mobile Data Terminals in their vehicles and not driving as much. By parking in strategic locations, they are able to take care of their work and be effective. Other departments are studying ways to reduce their fuel consumption; including reducing their fleets and replacing large vehicles with smaller more fuel efficient models.







 **State Shared Revenues** – These revenue sources are always of concern to municipalities. The budget reflects an increase in State Shared Income Tax of \$94,980 from last year’s \$1,528,380. State Shared Sales Tax is budgeted at a 2.6% decrease over FY 2008. State Sales Tax is anticipated to generate \$982,260 in 2009. With the State of Arizona budget in a deficit position expected to reach \$2.2 billion, soon there could very well be severe consequences to the shared revenues.

 **General 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 compensation study late into the last quarter of the fiscal year to possibly be implemented in FY 2010. It also contains a 4% Cost Of Living Adjustment (COLA) at mid fiscal year to assist employees with rising costs. Both of these items are contingent on the local economy and its turnaround

 **Public Safety Compensation**

- The Police Department continues to experience some salary compression among the different levels in the departmental hierarchy. Some Patrol Officers are earning as much as Sergeants, and Sergeants are earning as much as Commanders. This has prompted the City to prepare for a compensation study to deal with these matters. Unfortunately, this study is planned for late FY 2009, to possibly implement in FY 2010.
- The Fire Department is moving toward a 24/48 work schedule. This work schedule is currently a standard method of work among fire departments and is anticipated to implement July 1, 2008 or shortly there after. This new work schedule, however, does not resolve the same issues facing the Police Department.






 **Recreation Center** - The City’s planned construction of a Multigenerational Recreation Center is still a source of controversy among the community. All the studies and design work are completed, and a construction manager at risk has been hired. Inclusive, the financing of the project has already taken place, through a Greater Arizona Development Authority (GADA) loan. The largest concerns stem around the costs of the project and the future maintenance and operational costs of the facility. All of this being done during a slowing economy.

-  **Capital Infrastructure Planning** – The City has been struggling with capital planning due to the slowing economy. Some projects will be postponed till the markets get better. The planning process is anticipated to go into the first quarter of the fiscal year, while the city deals with its current budgetary issues.
-  **Financial Operations Guide Issues** – The City of Cottonwood has been making some changes to its Financial Operations Guide to correct some conflicts with Internal Revenue Service Code and to improve the fiscal controls within the policies. Issues around wireless communication devices and tracking personal use continue to consume large amounts of staff time. There is also the question of travel per diem being paid out. Currently we are following the General Services Administration (GSA) guidelines which are high in some cases and cannot be maintained with the current economy. The Finance Department will ensure that these items are handled with minimal impact to the employee.
-  **Water Issues** – The growth of Cottonwood and its neighboring communities continue the need for the City to maintain an active role in the water issues that are affecting the local area, as well as the Verde Valley region. Issues of water quality, availability, management, water rights, water system development, conservation, and fire protection are all critical issues that we need to become more involved with. This budget contains a change in the Assistant City Manager’s position to Director of Natural Resources in an effort to focus on the area’s water availability and to deal with the many facets of water rights acquisition.
-  **Wastewater Issues** – The City of Cottonwood wastewater treatment facility is gradually getting to its capacity. It is expected that with the current growth patterns, the City will be looking for some locations to establish some satellite wastewater treatment facilities. These small package plants will be strategically placed to not only treat, but produce quality reclaimed water for use by city parks, other community areas, dust control, and many other possible uses.
-  **Cemetery** – Some years ago the City Council identified the need for a new cemetery, since the current cemetery is full. Council has instructed staff to look for options to make this come to fruition. The City is looking toward a private cemetery or possibly a collaboration with a private agency to share the maintenance and operational cost of a cemetery.
-  **Economic Development** – In FY 2007 the Community Development Department hired its first full time Economic Development Planner, dedicated full time to economic development. In FY 2008 this position was upgraded to Economic Development Director, and is currently under the direct supervision of the City Manager. For FY 2009 the City is developing an Economic Development Department headed by this Director.

At the same time, the Cottonwood Chamber of Commerce has reconstructed its long standing economic development committee, the Foundation for Economic Development. The committee is now known as the Cottonwood Economic Development Council (CEDC). The CEDC has expanded its membership and is staffed by the city’s Economic Development Director. The CEDC receives 15% of the bed tax paid to the Chamber from the City, or approximately \$17,700 per year.

Operational Efficiencies

The City of Cottonwood is always looking for ways to make City more efficient and reduce operational cost to our citizens. Below are some of the ways the City is being more efficient.

-  **Finance Department** - A staff member has been assigned to monitor all electrical and HVAC system in the building. This person will ensure that all non-essential systems are turned off at the end of business day. Custodial services in some areas have been reduced from 5-day cleaning to 3-day cleaning
-  **Police** - Staff has been directed to park at strategic locations throughout the City and use their newly acquired Mobile Data Terminals to do work in the field in an effort to reduce overtime, fuel, and vehicle maintenance costs.
-  **Utilities Department** – This department installed programmable thermostats to regulate HVAC during off hours. Variable drive booster pump systems were installed which reduce energy costs by up to 40%. Each morning field operations staff plans out their travel routes to ensure they are taking the most efficient route and avoiding multiple staff in the same areas.
-  **Parks/Building Maintenance** - A staff member has been assigned to monitor all HVAC systems in their various buildings. This person ensures that all non-essential systems are turned off at the end of business day and on weekends. Custodial services in some areas have been reduce from 5-day cleaning to 3-day cleaning
-  **Library** - We have written opening and closing procedures in Youth and Adult Services that require all staff computers, copiers, printer, etc. to be turned off. HVAC units are on a schedule with higher temperatures in the summer and lower temperatures in the winter to conserve energy.

City Staffing

This budget continues the employee merit program and contains a 4% Cost of Living Adjustment (COLA) for all fulltime employees, at mid-year. This COLA is contingent on revenues coming in as planned. This year also saw 13 requests for staffing; unfortunately, a decision was made to add only two with one part-time position being made full time. There were also 15 reclassifications requests, of which only one is planned.

Additional Positions

FTE Description	Timing	Budgeted
Transit Driver	¾ year	\$27,360
Utilities Project Coordinator	¾ year	42,290
		<u>\$69,650</u>

Reclassifications

FTE Description	Old Range	New Range	Budgeted Amount
Assistant City Manager to Director of Natural Resource	56	56	-\$4,590
Police Officer to Sergeant	37	44	11,245
			<u>\$6,655</u>

Other matters were previously noted in the Key Issues under Public Safety Compensation.

Contributions to Dependent Health Insurance Coverage

Around the nation, rising medical and prescription costs continue to force the cost on health insurance to record levels. This year the Verde Valley Employee Benefits Pool (VVEBP), the City's health insurance provider, has decided to make adjustments to the plan which will reduce rates in some categories. Rate changes vary from a 9% decrease for the High Deductible Health Plan (HDHP) – Employee and Children category to an increase of 4.4% for the Core Plus Plan – Employee + Family.






Below is a summary of the total costs on health insurance for employees and their dependents. The VVEBP has successfully contained costs of health coverage by way of plan changes, education, and sound health care management. For families in overall good health, an employee can choose the High Deductible Health Plan and save on their dependent coverage, as well as take advantage of the City's increased contribution from \$74 to \$107 a month into 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 July 01, 2008 to June 30, 2009						
Category	Core Plan		Core Plus Plan		HDHP	
	Employer	Employee	Employer	Employee	Employer	Employee
Employee	437		437	67	330	
Employee +Spouse	437	433	437	567	330	328
Employee + Children	437	373	437	498	330	282
Employee + Family	437	641	437	786	330	482

Note: The High Deductible cost does not include the employer contribution to the HSA of \$107 per month.

New Programs

Due to an ailing economy, only five new programs are planned. These programs are to assist with several facets of the City operations, from personnel morale to quality of life.

-  **National Night Out** - This is more than a public education event. It shows the unity and community participation to and from our City residents, with the message being, we are taking a stand against crime. This event educates our citizen's as to what they can do to prevent crime as well as what to do and where to go when one does occur.
-  **City-wide Asset Inventory** – The City will be taking an organization-wide inventory of all the assets owned by the City of Cottonwood. This \$20,000 program will help reconcile our records to what is actually out on the streets, allow us to compile all necessary records for all City assets, and updates the City infrastructure listing to comply with GASB 34.
-  **Compensation Study** – The City is trying to re-gain their salary competitiveness with the surrounding areas. This study will be accomplished the last quarter of the fiscal year to fund in FY 2010, if the economy improves by them.
-  **Growth Impact Study** – The City is formulating a plan to measure growth and how it relates to current and future services with emphasis on enhancement to the present revenues structure.
-  **Sizzlin' Salsa and Walking on Main St.** – The purpose being to draw attention to the City's Old Town area.

BUDGET POLICIES - FISCAL YEAR 2009

This budget reflects the fund balance policies of the City. This policy currently requires the City to restrict an amount equal to 16.67% of the previous years operating revenues as part of its fund balance. This requirement to the policy brought this year's restricted fund balance reserve to \$1,899,670. This is also estimated to be about 60 days of expenditures coverage.

Additionally, an accumulating reserve of 2.67% of the previous year's general fund operating revenues is reserved for capital projects. This year represents the thirteenth year of this policy. In November 2006 the Council decided, with a recommendation from management, to fund an additional \$700,000 from excess sales tax into this capital accumulation fund.

With this fund now over \$1,000,000, the City Council, at the recommendation of Management, made the decision to cap this fund at \$1,000,000 and use any excess for everyday maintenance and operational costs until the economy improves. \$266,745 is currently available in additional capital reserves, which come from the excess .2% Library Debt Service sales tax. These policies, along with development of five-year budget projections, will ensure the financial stability of the City into the future.

BUDGET DEVELOPMENT

The mission statement of the City of Cottonwood changed this fiscal year to reflect the changing environment of the Community. In developing the fiscal year 2008-09 budget, our new Vision, Mission, and Values 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 ____). Any capital acquisition would require some financing alternatives (see pages ____). 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 2007-08, 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.

RESERVED

CAPITAL ACQUISITION PLAN – FISCAL YEAR 2009

Included in the budget is \$36,719,625 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 2009 are budgeted.

The following is a summary list of equipment purchases by function along with a list of major capital projects included in this budget. More details are provided beginning on page ___ of the budget document.

Equipment	
Function	Estimated Cost
General Government	\$95,030
Public Safety	326,650
Culture & Recreation	3,000
Health & Sanitation	101,000
Transit	296,500
Streets	59,500
Total Equipment	\$881,680

Capital Projects	
Project Description	Estimated Cost
12 th St. Project 89A - Fir – HELP Loan	1,500,000
W. Mingus St. Reconstruction	1,030,000
Willard St. Extension	910,000
12 th St Reconstruction – Design – Grant Funds	555,000
Pavement Preservation / Sidewalks	430,000
Paula Street Reconstruction	345,000
Bella Montaña Wastewater System	5,565,000
Hwy 260 Sewer/Water Line Construction	3,400,000
Viejo Park	30,000
Herridge Park Relocation & RF Park	14,950
Equestrian Center Irrigation System	10,000
CMAR / Arsenic Mitigation	1,950,000
Wastewater Collection System Master Plan	110,000
Wastewater Upgrades	575,000
Water Storage	893,000
Fire Flow Upgrades	500,000
Runway Lighting	360,000
Land Acquisition/Environmental Study	300,000
Library Expansion	784,420
Transit Facility	370,800
Bus Shelters & Signing	32,400
Recreation Center Construction	14,846,795
Communication & Evidence Storage Building	350,000
Land Acquisition	675,580
Total Capital Projects	\$35,537,945

Employee Vision, Mission Statement and Values








Our Vision:

Our Vision is to be recognized by the community and our peers as a model city dedicated to progressive leadership, employee development, innovation, technology and economic, social and environmental sustainability as well as the successful provider of efficient and effective public services.

Our Mission Statement:

Cottonwood employees are committed to providing responsive, innovative, respectful and sustainable services to our community members and visitors in an effort to effectively improve the quality of life in our community.

Our Values:

-  *Treat Everyone with Dignity and Respect*
-  *Ensure for Uncompromising Integrity*
-  *Communicate and Actively Listen*
-  *Be Responsive and Accountable*
-  *Be Innovative*
-  *Be a Professional in Attitude, Conduct, and Appearance*
-  *Strive to Provide Effective and Efficient Services*

ACKNOWLEDGMENTS

The preparation of this municipal budget document is attributed to the many hours spent by the Finance Department assembling this informative document. Special thanks to the finance staff for the time spent in providing the financial information needed during the budget process, to Ms. Kirsten Lennon, Accountant for the compiling of this informative document, and Mr. Jesus R. Rodriguez, CGFM, Finance Director for managing the process. In addition, thanks to the rest of the department heads that assisted in the development of the FY 2009 Annual Budget.

Despite the challenges, 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,

Doug Bartosh
City Manager

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Table of Contents

EXECUTIVE SUMMARY	PAGE
City Profile - Demographic/Economics.....	1
Budget Philosophy/Policies	5
Budget Process.....	5
Process for Changing the Budget.....	6
Budget Monitoring.....	6
Budget Calendar.....	7
Fund Accounting.....	7
Budget Basis	9
Fiscal Policy.....	10
Debt Service Policy.....	11
Investment Policy.....	13
 STRATEGIC PLANNING	
City Accomplishments FY 2008.....
Organizational Goals FY 2009	Pending meetings in first
Organizational Goals FY 2010 - 2014.....	half of fiscal year
5 year Capital Improvement Projects.....
Long Range Financial Projections
Revenues and Expenditures Analysis
Community Timeline.....
Organizational Chart.....
 FINANCIAL RESOURCES	
City Sales Tax Revenues	19
State-Shared Income Tax Revenues	20
State-Shared Sales Tax Revenues	21
Motor Vehicle In-Lieu Revenues.....	22
Investment Revenues	23
Building Permit Revenues	24
Fines and Forfeitures.....	25
Franchise Tax Revenues	26
Highway User Revenues.....	27
Local Transportation Assistant Revenues.....	28
Wastewater Service Revenues	29
Water Utility User Fees	30
 CONSOLIDATED SUMMARY - ALL FUNDS	
Revenues/Expenditures and Changes in Fund Balance - All Funds.....	31
Revenues - All Funds - Graph	32
Expenditures - All Funds - Graph.....	33
Budget Summary - By Fund	34

TAB #1 - GENERAL FUND	PAGE
Description and Fund Balance Presentation	35
Revenues/Expenditures and Changes in Fund Balance	36
Revenues/Expenditures Comparison - Graph	37
Revenues Summaries - Charts & Graphs.....	38
Expenditures Summaries - Charts & Graphs	52

General Government

Administration	45
Personnel.....	49
City Council.....	53
Natural Resources	57
Finance.....	61
IT Services	65
Planning and Zoning.....	69
Municipal Court.....	77
Legal	81
Non-Departmental.....	85
Greater Arizona Development Authority (GADA) Information	89
Engineering.....	93

Public Safety

Building Inspection Department	97
Police.....	101
Animal Control	105
Communications	109
Fire	113

Cultural and Recreation

Parks and Recreation.....	117
Construction and Parks Maintenance.....	121
Custodial Services.....	125

TAB #2 - SPECIAL REVENUE FUND	PAGE
--------------------------------------	-------------

Description and Fund Balance Presentation	129
Consolidated Revenues/Expenditures and Changes in Fund Balance	130
Departmental Budgets	
HURF Revenues/Expenditures and Changes in Fund Balance	131
Street Department	135
Street Construction.....	139
Cottonwood Area Transit System.....	143
Library.....	149
Cemetery Trust Fund	155
Airport Authority	161
Other Grants.....	167
Community Development Block Grant	173

Table of Contents

TAB #3 - DEBT SERVICE FUND	PAGE
Description and Revenues and Reserves Presentation.....	177
Revenues/Expenditures and Changes in Fund Balance.....	179
Debt Service.....	180
Bonded Indebtedness	
Indebtedness Summary	183
Consolidated Debt Service Schedule	184
Sewer Revenue Bonds Information	185
Water Infrastructure Finance Authority (WIFA) Information.....	186
Library General Obligation Bonds Information	187
Computation of Direct and Overlapping Debt.....	187
Computation of Legal Debt Margin.....	188
TAB #4 - CAPITAL PROJECTS FUND	PAGE
Fund Description.....	189
Consolidated Revenues/Expenditures and Changes in Fund Balance.....	190
Airport Improvements.....	191
Public Safety Building	195
Railroad Wash Improvements.....	199
Heritage Grant / Riverfront Park Improvements	203
Library Expansion Project	207
Rec. Projects	211
TAB #5 - PROPRIETARY/ENTERPRISE FUNDS	PAGE
Description/Revenues	215
Revenues/Expenses & Changes in Retained Earnings	216
Wastewater Department.....	219
Water System Department	223
Water System Revenue Bond 2004	229
Water System Revenue Bond 2005	230
TAB #6 - INTERNAL SERVICE FUND	PAGE
Description/Revenues/Retained Earnings.....	231
Revenues/Expenditures and Changes in Retained Earnings.....	233
Employee Health Benefit Trust Fund	234
TAB #7 - FIDUCIARY FUNDS	PAGE
Descriptions/Fund Balance	237
Consolidated Revenue/Expenditures and Changes in Fund Balance	239
Volunteer Firefighter's Pension Fund.....	240

Table of Contents

TAB #8 - APPENDIX

Schedules

Capital Outlay	243
Salary Ranges.....	247
Authorized Position Classification Plan & Three Year Comparison.....	248
Resolution Adopting the FY 2009 Budget.....	
Schedule A	
Schedule B	
Schedule C	
Schedule D	
Schedule E	
Glossary of Terms	260
Glossary - Acronyms	266
City Map	267

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 picturesque 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 close to Interstate 17 on State Highway 89A and 260. The City is at an elevation of 3,320 feet above sea level with a total geographic area of 15.75 square miles.

The 2000 census set the City's population at 9,179, depicting a 55% increase over the 1990 census. July 1, 2007 Department of Economic Security¹ estimates the population at 11,130. 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>2007 Property Tax Assessed Valuation</u> (a)	
2007 – 15.75 Square Miles	Primary	\$ 107,946,447
	Secondary	\$ 120,953,271

Paved Streets

38 Miles

Cottonwood Labor Force Data (b)

	<u>2005</u>	<u>2006</u>	<u>2007</u>
Civilian Labor Force	4,840	5,109	5,245
Employed	4,626	4,905	5,032
Unemployed	214	204	213
Unemployment Rate	4.4%	4.0%	4.1%

Source:

- a) Arizona Department of Revenue, Property Tax Division
- b) Arizona Department of Commerce – Cottonwood Community Profile³

¹ Research Administration Division – website - www.workforce.az.gov

<u>Year</u>	<u>Population</u> (a)	<u>Public School Enrollment</u> (b)	<u>Unemployment Rate</u> (c)
2007	11,130		4.1%
2006	10,925		4.0%
2005	10,860	3,432	4.4%
2004	10,570	2,981	3.7%
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%

Sources:

- (a) Department of Economic Security - Research Administration Division – website - www.workforce.az.gov
- (b) School census - Cottonwood School Districts
- (c) Arizona Department of Commerce – Cottonwood Community Profile

<u>Gross Taxable Sales</u> (a)		<u>Building Permits</u> (b)		
<u>Year</u>	<u>Value</u>	<u>Year</u>	<u>Number</u>	<u>Value</u>
2007	\$447,902,909	2007		
2006	427,052,394	2006	880	45,924,027
2005	357,682,343	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

Source:

- (a) City of Cottonwood Finance Department
- (b) City of Cottonwood Community Development

<u>Major Private Employers</u> (a)	<u>Education</u> (b)	
Griffith Enterprises	Elementary Schools	2
Phelps & Sons, Inc.	High School	1
Verde Valley Medical Center	Exceptional Children Program	1
Wal-Mart - Retail	Community College	1
<u>Major Public Employers</u>	Students:	
City of Cottonwood	Grades K-8	
Cottonwood/Oak Creek Schools	Grades 9-12	
Arizona Public Service	Total Students	<u>5</u>
Mingus Union High School		

Source:

- (a) Arizona Department of Commerce – Community Profile

2008 Service Statistics

<u>Fire Protection</u>		<u>Police Protection</u>	
Stations	1	Stations	2
Employees (Full-time)	16	Employees (Full-time)	44
Fire & Haz Mat Calls	181	Sworn	27
Rescue & Medical Calls	1,909	Non-Sworn	17
Public Assist Calls	229	Part I Crimes	517
Good Intent Calls	136	Part II Crimes	4,310
Fire Inspections (various kinds)	1,287	Traffic Warnings	749
Plan Reviews & Permits	443	Traffic Citations	2,310
Public Ed Contact Hours	6,709	Calls for Service Dispatched	17,787
<u>Public Works</u>		<u>Library</u>	
Engineering Reviews (ea. proj)	25	Items in Collections	96,000
Subdivisions (lots)	374	Total Items Circulated	350,000
Right of Way Permits (ea)	60	Circulation Transactions Per Day	1,163
Flood Plain Inquires	160	<u>Municipal Parks</u>	
Streets Inspected (LF)	10,000	Developed Parks	5
Contract Administration	4,700,000	Developed Acres	38.7
<u>Recreation Programs</u>		Undeveloped Acres	91.3
Participation:		Swimming Pools	1
Adult Sports	35,000	Tennis Center	1
Special Events	23,000	Lighted Ball fields	8
Recreational Swimming	19,000	<u>Transit System</u>	
Instructional Classes	20,500	Annual Ridership	45,947
Youth Sports	10,500	Miles Traveled	211,506
<u>Sewer</u>		Cottonwood Ridership	22,757
Sewer Line Inspected (LF)	120,000	Disabled Ridership	3,800
Miles of Line	48	<u>Water Utility</u>	
Average Daily Treatment	1.08mg	Blue Stake Requests	2,600
Plant Capacity	1.5mgd	Pumping Capacity	100mgd
Blue Stake Requests	1,050	Average Pumpage	34mgd
Reclaimed Water Sold	25 mg	Number of Wells	26
Number of Sewer Accounts	42,000	Number of Storage Tanks	24
Sewer Taps installed	15		

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

Governmental Organization and Services Provided

The Mayor is elected directly by the voters and serves a four-year term. The voters elect six City Council representatives for staggered four-year terms. The City Council appoints a City Manager who is responsible for the general administrative operations of the various departments within the city. An organizational chart is shown on page____.

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's operational budget, as well as its adoption, and implementation. These policies as presented below in the 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 proposed 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.

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.

Proposed Budget Calendar for FY 2007-08

 Distribute Budget Worksheets & Instructions	February 6, 2008
 Distribute Goals & Performance Measures Forms & Instructions	February 11, 2008
 Distribute Personnel Request & Reclassification Forms	February 11, 2008
 Capital Improvements Meeting (Finance & City Manager)	February 26, 2008
 Budget Worksheets Due to Finance	February 20, 2008
 Distribute Capital Improvements Schedules, Forms, & Instructions	February 22, 2008
 Goals & Performance Measures due to Finance	February 22, 2008
 Potential Budget Issues Meeting - City Manager	February 26, 2008
 Goal Setting Meeting - City Manager	February 29, 2008
 Capital Improvement Forms due back to Finance	March 05, 2008
 Council Annual Goal Setting Workshop	March 12, 2008
 Review of 1 st . Budget Draft with Finance & Administration	March 17-21, 2008
 1 st . Round Departmental Budget Meetings	March 24-April 4, 2008
 Revenue Update Workshop	April 15, 2008
 Capital Improvements Workshop- ½ Day (Staff)	April 17, 2008
 Review of 2 nd Budget Draft - Finance & Administration	April 21-25, 2008
 Economic Issues Facing the 2009 Budget – Administration & Finance	April 28, 2008
 Departmental Budget Meeting - Economic Issues: Dealing with a Deficit	May 7, 2008
 Strategic Budget Meeting – The Budget Deficit – Administration & Finance	May 15, 2008
 Budget Work Session – The Declining Local Economy & Meeting Service Levels	May 29, 2008
 Finance Budgetary Meeting – Working Through the Deficit	May 29, 2008
 Department Head Budgetary Update Meeting (Pre-Council Workshops)	June 23, 2008
 Present <i>Proposed</i> FY 2008-09 Budget to City Council	June 20, 2008
 Budget Work Sessions with City Council @ Council Chambers	June 2008
○ Introduction to the Budget / Personnel Matters / Capital Requests	June 24, 2008
○ Departmental Presentations / Budgetary Wrap-up	June 25, 2008
○ Reserved for additional Budget Meeting	June 30, 2008
 Present Tentative FY 2009 Budget to City Council	July 11, 2008
 Public Hearings on Tentative Budget	July 15, 2008
 Adopt <i>Tentative</i> FY 2008-09 Budgets, set Expenditure Limitation	July 15, 2008
 Present Final FY 2009 Budget to City Council	August 8, 2008
 Public Hearing on Final Budget	August 12, 2008
 Adopt <i>Final</i> FY 2008-09 Budget	August 12, 2008
 Budget Due to GFOA for Award Review	November 12, 2008

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 that 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 16.67% 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 expenditures 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, 2007	
Net secondary assessed valuation (Full Cash Value)	\$120,953,271
<u>Calculation of 20% Debt Limitation</u>	
20% of secondary net assessed valuation	\$24,190,654
Bonds outstanding	0
Net 20% Debt Limitation	\$24,190,654
<u>Calculation of 6% Debt Limitation</u>	
6% of secondary net assessed valuation	\$7,257,196
Bonds outstanding	0
Net 20% Debt Limitation	\$7,257,196
Total Bonding Capacity	\$31,447,850

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:
 - Creating sinking funds when possible to provide for expansion or replacement of capital equipment.
 - 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, 2008				
Project	Term	Principal	Interest	Funding Revenue
GO Bonds-Library Expansion	07/2013	670,000	158,245	0.2% Sales Tax
GADA-Railroad Wash Improvements	07/2013	425,000	103,625	0.2% Sales Tax
GADA-Public Safety Building	07/2013	1,190,000	224,760	0.2% Sales Tax
GADA – Recreational Center	08/2027	19,935,000	10,474,275	1.0% Sales Tax
MPC-Senior Lien Water Rev Bonds - 2004	07/2029	12,685,000	7,905,345	User Fees
MPC-Senior Lien Water Rev Bonds - 2006	07/2035	23,965,000	20,305,386	User Fees
Total Debt Service		\$58,870,000	\$39,171,636	










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 2008

The following depicts the continued commitment of the City of Cottonwood to make the community a better place to live. Fiscal year 2008 goals obtained are summarized within this list of accomplishments:






Physical Development

-  Finalized construction and installation of three (3) Little League field irrigation systems at Riverfront Park and installed all major electrical lines for service feed connections.
-  Installed infrastructure/irrigation systems to the Cottonwood Dog Park, the Riverfront Park Football/Soccer field facility and the new 4th Softball field. Over 6 acres of irrigations systems installed.
-  City staff crack-sealed 12 streets and all of the Cottonwood Ranch area.
-  Completed the design and construction of Aspen Street from 11th Street to Main Street.
-  Began construction of the library expansion project.
-  Completion of the security upgrade project that added an automatic gate and card key system to the main gate.
-  Completed installation of water sampling stations for ADEQ mandated monthly bacteriological samples.
-  Completed water line relocation for Hwy 260 widening project.
-  Installed reclaimed water standpipe sales automatic tracking and billing system installed.
-  Selected a Construction Manager At Risk to provide oversight of the construction phase of the Cottonwood Community Recreation Facility.








Community and Economic Development

-  Continued to provide equipment, labor and trash disposal to the Stewards of Public Lands for public lands clean ups and assisted several neighborhood with clean ups.
-  Continued developed the use of volunteers in patrol, investigations and crisis intervention in a better effort to support the community.
-  Joined Northern Arizona Intergovernmental Public Transportation Authority (NAIPTA) to facilitate the movement to a regional transportation system.

Public Safety

-  Received more than \$100,000 from Homeland Security for Special Weapons and Tactics Team; \$5,000 from the Automobile Theft Authority for VIN etching equipment and \$15,000 from the Arizona Criminal Justice Commission and the Governor's Office of Highway safety, respectively, for DUI Saturation Patrols.
-  Instituted proactive "alcohol sales to minor" investigations and "Warrant Hunt" emphasis by working with the Court to reduce the number of outstanding warrants held by the City and County for Cottonwood residents.
-  Added Mobile Data Terminals in all patrol units to include CAD and report writing capabilities.
-  Three firefighters completed paramedic training - now all full-time shift personnel are Certified Paramedics.
-  Installed 72 child restraint systems and inspected 94. Four staff are now Certified Child Seat Technicians










General

-  Continued to update the City's Website.
-  Received the Government Finance Officers Association's (GFOA) award for the City's Comprehensive Annual Financial Report for the 17th 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 18th year.
-  Established a workplace Influenza Pandemic plan.
-  Implemented new investment policy and transferred funds to Davidson Fixed Income and Stone & Youngberg to be invested.
-  Developed a new Cellular Phone Policy which provides a monthly allocation to employees requiring cellular access.
-  Participated in the Regional Housing Task Force and a variety of other regional planning efforts (trails, transportation study, etc)






Organizational Goals – Fiscal Year 2009

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 2009.









Physical Development

-  Continue constructing drainage improvements city wide.
-  Bid and construction of W. Mingus Avenue Reconstruction project.
-  Complete the expansion of the Public Library.
-  Complete design work and begin construction of the Multi Generation Recreational Center.
-  Upgrade of reclaimed wastewater collection system.
-  Construction of Hwy 260 Master Plan.
-  Complete the installation of the arsenic remediation equipment mandated by the United States Environmental Protection Agency (USEPA).
-  Conversion Clemenceau water system to gravity supply from the Well 5 reservoir.
-  Construct a new water line from Well 8/9 to Cottonwood Street as part of the Willard Extension Project.







Community and Economic Development

-  Finalize Conservation Plan and begin discussion of Integrated Management Plan for water, land and ecological resources that promote conservation and sustainable use in an equitable fashion and supporting livelihoods.
-  Acquire Adequate Water Supply Designation.
-  Acquire long-term water portfolio.
-  Establish and facilitate a Housing Program/Commission and review feasibility of possible affordable housing projects and mechanisms.
-  Implement "Focus on Success", a 5-year economic development strategy

Public Safety

-  Continue the vehicle replacement program to change out many of the Police Department's older police cruisers.
-  Continue efforts to create a satellite family advocacy center and a regional communications and emergency operations center.
-  Educate the public and enforce leash laws.
-  Improve Communications Specialist retention through training and recognition.
-  Acquire land for future use by the City for expansion of the Public Safety facility.
-  Develop and implement a pre-hospital quality improvement program for the EMS delivery system.
-  Implement fire hydrant inventory, location, assessment and flow project in cooperation with the Water Utility Department.
-  Conduct an exercise of our Emergency Operations Center, implementing the new N.I.M.S. operating criteria

General

-  Continued to update the City's Website.
-  Complete a cost of services analysis related to development.
-  Complete a cost of services analysis related to development.
-  Review Key Performance Indicators, i.e.; projected succession requirements, turn-over rate, reason for turnover, time to fill vacancies, cost for employment advertisement, Worker's Compensation incidents, and Liability claims
-  Receive the Government Finance Officers Association's (GFOA) award for the City's Comprehensive Annual Financial Report for the 18th 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 19th year.

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