

MINUTES OF THE STUDY SESSION OF THE SHOW LOW CITY COUNCIL HELD ON TUESDAY, JANUARY 17, 2023 AT 6:00 P.M. IN THE CITY COUNCIL CHAMBERS, 181 NORTH 9TH STREET, SHOW LOW, NAVAJO COUNTY, ARIZONA

1. Call to Order.

Mayor Leech called the meeting to order at 6:05 p.m.

2. Roll Call.

COUNCIL MEMBERS PRESENT: Mayor Leech, Councilman Clark, Councilman Allsop, Councilman Hatch, Councilman Judd, and Councilman Adams (arrived at 6:09 p.m.).

COUNCIL MEMBERS ABSENT: Vice Mayor Kakavas.

STAFF MEMBERS PRESENT: Ed Muder, City Manager; F. Morgan Brown, City Attorney; Anna Atencio, City Attorney; Justin Johnson, Deputy City Manager; Brad Provost, Police Chief; Cari Bilbie, Accounting Manager; Kathy Clements, Assistant City Clerk; and Rachael Hall, City Clerk.

GUESTS: Jack Latham, Mike Stefaniak, and others.

3. Discussion of Fiscal Year 2024 Budget Process and Overview and Review of the Event Center Recommendations and Potential Financing.

Mr. Johnson said planning had begun for the fiscal year 2024 budget (July 1, 2023, through June 30, 2024). The goals of the budget process were to provide opportunities for citizen input and transparency (with forms available online for budget requests) during the budget process, provide a method to allocate funding throughout the organization based on priorities and projected revenues, maintain existing levels of service, ensure that the Council's high-priority programs continued to be funded, and continue to provide a balanced budget.

Mr. Johnson said the City applied the base budgeting method, wherein current budgeted expenses were used as the starting point. Budget requests were prioritized based on the Council's goals and what was most critical, and justification was required for increases and other targeted accounts. City departments would increase or decrease their base budgets by identifying changed priorities or uses, identifying actual expenses, and identifying new, modified, or expanded programs.

Mr. Johnson said the City Manager's recommended budget would be delivered to the Council on March 31. The budget would be balanced, including revenue details, expense line-item amounts, and requested and recommended amounts. The budget would reflect the four main Council goals: infrastructure (preserving

existing assets), quality of life, economic/community development, and the overall organization of the City.

Mr. Johnson said the labor market remained tight with low unemployment. Local retail sales and construction revenues remained strong, and US inflation continued to improve. He said that nationally, there was a potential for a slowdown in growth in 2023 across all major indicators. Staff would continue to monitor and budget accordingly.

Mr. Johnson reviewed and compared the City's annual expenditures from fiscal year 2019 through projections for 2024. Fiscal year 2023's adopted budget was \$98.6 million, and the estimated budget for fiscal year 2024 was projected at \$83.0 million. The fiscal year 2024 expenses included carryovers from America Rescue Plan Act (ARPA) funds, event center project, dispatch remodel, runway and taxiway projects, Highway User Revenue Funds (HURF), and wastewater and water projects. Mr. Johnson noted a history of underspending the budget, partially due to caution when building the budget on the revenue side and partially due to projects that were not completed during that fiscal year and carried over to the next fiscal year.

Mr. Johnson said estimated operating revenues for all funds for fiscal year 2024 came to \$35,976,794. Mr. Johnson said local tax comprised the City's primary revenue generator and utility fees were the second largest revenue generator.

Mr. Johnson said planned budget items included conservatively projecting 95% of prior-year actuals (or less) for revenue; maintaining a Council contingency budget of at least \$300,000, although the Council had the discretion to increase that amount; continually monitoring debt service seeking opportunities to pay down or pay off debt when funds were available; a cost of living adjustment for employees; maintaining three months of operating reserves for the general fund and wastewater and water funds. Mr. Johnson shared that the funding status improved to 97.8% for the City's Public Safety Retirement liability and had the potential to be fully funded in fiscal year 2023.

Mayor Leech asked if staff was still maintaining three months of operating reserves. Mr. Johnson said yes, it was a moving target based on prior years' numbers; it depends on the total budget for a particular fund. He felt three months was a good target number.

Mr. Johnson said citizen involvement was a vital part of the budget process. It included a CIP (Capital Improvements Plan) committee, which had met several times and had forwarded recommendations for a five-year CIP project (projects valued over \$50,000) list, which the Council adopted in December, and two town hall-style meetings for public input (January 17 and April 6). Staff would present a recommended budget to the Council at the regular meeting on April 4, plus hold several budget study sessions in April with the Council. The public was

invited to participate in any or all these meetings, which would follow the budget calendar adopted by the Council in December.

Mr. Muder said the findings from Sports Facility Advisory, LLC (SFA) showed there was a need for a sports and event center, but there was no clear financial commitment from potential partners, capital funding opportunity, or commitment from potential tenants of upper-level leased space. SFA recommended waiting for construction costs to normalize post-pandemic, as costs were 55% higher today than earlier in the pandemic. Construction costs should normalize over the next eight to 12 months. Staff would continue to search for grants and other state and federal funding sources. The City could also consider a scaled-down or phased-in approach if additional funding sources did not materialize.

Mr. Johnson said that for fiscal year 2023, there was \$4,000,000 budgeted for the event center. Additional undesignated funds could be applied to the project, \$3,676,817 from ARPA, and \$788,057 from Arizona Coronavirus Aid Relief and Economic Security Act (AZ CARES) funds, for a total amount of \$8,464,884.

Councilman Judd asked if the ARPA and AZ CARES funds would be available for the next fiscal year. Mr. Johnson said no, these funds were a one-time contribution.

Mr. Johnson presented the historical tax revenue from hotels and rentals for fiscal years 2013 through 2022. He said the increased tax revenue was due in part to increased tourism and vacation home rental tax revenue that was now included in the numbers.

Mr. Johnson said staff recommended adding a two to three percent bed tax as a source of additional revenue for the event center funding and presented current bed tax rates from surrounding White Mountain communities.

Mr. Muder said meetings were held with hoteliers, and they were okay with a bed tax if it was designated for a specific purpose. He said the bed tax should be added to the City Council agenda for consideration, and it would take six of the seven sitting Council members to pass a new tax.

Mayor Leech asked if any surrounding communities with a bed tax had a sunset clause. Mr. Johnson said he did not ask and was unaware of any surrounding communities having a sunset clause.

Mr. Johnson said visitors would pay this tax rather than the citizens of Show Low. He said it was now standard practice in most cities to charge a bed tax.

Councilman Allsop asked if there was evidence that Show Low benefited from not having a bed tax. Mr. Johnson said no; he did not believe Show Low

benefited from not having a bed tax. The bed tax was an excellent dedicated revenue source for the event center.

Mr. Johnson reviewed several bond issue scenarios, which provided visual references of debt service rates and interest totals over the life of the bond.

Mr. Muder said he did not advise a sales tax increase to fund the event center as Show Low was competitive with its rates and attracted a lot of business. If, in the future, the Council decided to do a slight sales tax increase to build this facility, Mr. Muder recommended that the citizens vote on it, and a sunset clause should be included.

Mr. Muder said there were different options for funding the event center, allowing time for construction costs and interest rates to adjust, continuing to build up revenues, and with the Public Safety Retirement liability payoff, some funds could be dedicated to debt service.

Councilman Judd asked if sponsorships for the facility were explored. Mr. Muder said all the local car dealerships and Northland Pioneer College were invited to the meetings. However, no one was ready to commit anything until the City was committed to building the facility.

Councilman Clark asked if it was decided to build a scaled-down model, would the facility still break even. Mr. Muder said the specifics of that detail were not explored.

Mr. Muder said there would be more conversations with the Council members in upcoming budget meetings to discuss the direction to take, and staff would continue to look for grant funds.

4. Adjournment.

There being no further discussion, **MAYOR LEECH ADJOURNED THE STUDY SESSION OF THE SHOW LOW CITY COUNCIL OF JANUARY 17, 2023 AT 6:48 P.M.**

ATTEST:

APPROVED:

Rachael Hall, City Clerk

John Leech, Jr., Mayor

CERTIFICATION

I hereby certify that the foregoing minutes are a true and correct copy of the minutes of the **STUDY SESSION** of the City Council of Show Low held on January 17, 2023. I further certify that the meeting was duly called and held and that a quorum was present.

Dated this _____ day of _____, 20____.

(SEAL)

Rachael Hall, City Clerk