

MINUTES OF THE STUDY SESSION OF THE SHOW LOW CITY COUNCIL HELD ON TUESDAY, APRIL 2, 2019 AT 6:30 P.M. IN THE CITY COUNCIL CHAMBERS, 181 NORTH 9TH STREET, SHOW LOW, NAVAJO COUNTY, ARIZONA

1. Call to Order.

Vice Mayor Allsop called the meeting to order at 6:30 p.m.

2. Roll Call.

COUNCIL MEMBERS PRESENT: Vice Mayor Mike Allsop; Council members Brent Hatch, Rennie Crittenden, John Leech, Jr., Connie Kakavas, and Gene Kelley.

COUNCIL MEMBERS ABSENT: Mayor Daryl Seymore.

STAFF PRESENT: Ed Muder, City Manager; F. Morgan Brown, City Attorney; Justin Johnson, Administrative Services Director; Cari Bilbie, Accountant; Bill Kopp, Public Works Director; Brad Provost, Police Commander; and Tamra Reidhead, City Clerk.

GUESTS: Curtis Fernau.

3. Discussion of Draft Recommended Budget for Fiscal Year Ending June 30, 2020.

Mr. Johnson said tonight's study session was to present an overview of the recommended budget, including an overview of anticipated revenues and expenditures, for fiscal year 2020. He said the next meeting was on Thursday, April 4, for a budget town hall for public input, followed by detailed department budget discussions on April 4 and April 18. On April 4, budgets for Public Works, Special Revenue Funds, Administrative Services, and Administration would be discussed. On April 18, discussions would resume with the Magistrate Court, Planning and Zoning, Community Services, and Police. If needed, another budget review was scheduled for April 25. Staff would present an overview of the tentative budget on May 21, including any changes made to the recommended budget per the Council's direction.

Mr. Johnson said the recommended budget for FY2020 was \$48,497,100. Some projects that had been planned for FY2019 wouldn't be completed and unused funds would be carried forward into FY2020. Therefore, the recommended budget amount would change after carryover funds were added. Staff had estimated that actual expenses in FY2019 would be approximately \$58.6 million, but typically some of those funds wouldn't be spent by June 30 and the budget would be adjusted downward accordingly. The estimate in FY2019 was high because staff had projected completing all projects, but it appeared several wouldn't be done. Therefore, the final amount would be lower.

Councilman Leech asked about the building in the Industrial Park that the City sold to Pet Allies and where the funds were allocated. Mr. Muder said the City purchased the building on 16th for \$282,000 and sold it for \$282,000 to Pet Allies. The City had been paying Pet Allies so much per year for taking care of animal control, so that payment would be reduced until the building was paid off in ten years. Mr. Johnson added Pet Allies' main reason for purchasing the building was because they could qualify for more grant money if the building wasn't owned by the City.

Mr. Johnson said the sources of the City's operating revenues consisted of the beginning balance of \$18,216,626 which came from savings from prior years and included reserve funds. Other financing sources of \$4,000,000 came from unanticipated funds (the Council's budget authority). Inter-fund transfers came to \$3,919,687, which moved funds from the General Fund into other funds. Operating revenues of \$33,543,956 were revenues that would be collected or earned during the year.

Mr. Johnson explained that inter-fund transfers included transfers to and/or from HURF (Highway User Revenue Fund), Public Transportation, Airport, Aquatic Center, Debt Service, Capital Projects/Grants Fund, Parks and Recreation Development Fees, Improvement Districts, Show Low Bluff Community Facilities District, Water, Wastewater, and Refuse.

Mr. Johnson said that operating revenues of \$33,543,956 came from local taxes (34.6%), utility fees (26.8%), intergovernmental revenues (grants) (7.7%), state-shared revenues (14.4%), charges for services (13.3%), fines and forfeitures (0.5%), and miscellaneous (3.7%), which included donations, interest earned on investments, late fees, and debt proceeds.

Mr. Johnson said that utility fees came to about \$9.0 million (\$4.8 million from water, \$3.0 million from wastewater, and \$1.1 million from sanitation). He said water and wastewater rates could increase in January 1, 2020, to account for inflation (Consumer Price Index). The sanitation rate adjustment would go into effect July 1; staff was expecting to receive the CPI adjustment figure from Waste Management by the end of this month.

Mr. Johnson said that local sales tax revenues for FY2020 were estimated at \$10.5 million. Currently, collections were about 5.86% ahead of the same period in FY18 and were on pace to be \$12 million in FY2019, which was about \$430,000 ahead of FY18. Staff preferred to estimate conservatively in case of unexpected drops in revenue.

Mr. Johnson said state-shared revenues would be distributed based on the state's 2018 estimate of 11,098 for Show Low's population. The state projected

the City would receive \$1,166,266 in sales taxes, \$1,468,906 in income taxes, \$796,961 in vehicle license taxes (VLT), and \$1,654,297 in HURF (Highway User Revenue Fund) monies. He noted that state shared revenue budget estimates received for FY2020 increased \$380,569 or 8.09% over FY2019 state estimates. Again, because of staff's conservative approach, the budget reflected only 95% of the state's estimates, with \$1,107,953 in sales taxes, \$1,395,461 in income taxes, \$757,113 in VLT collections, and \$1,571,582 in HURF. He added that the City received \$57,557 in one-time HURF funds in FY19, but the state had not notified staff if one-time funds for HURF will be received again in FY20.

Mr. Johnson said that inter-governmental revenues of \$2.59 million consisted of grant revenue for the major crimes apprehension team or MCAT (the City contributed one sergeant to the team and was paid back for his salary), Joe Tank Road, QECB (or Qualified Energy Conservation Bond, the rebate for the energy-savings projects), airport grants, library grants, the transit system (the 5311 grant from the Arizona Department of Transportation), Scott Ranch Road, and GIITEM (Gang and Immigration Intelligence Team Enforcement Mission). He noted that any new grants the City received would be presented to the Council for approval upon their award.

Mr. Johnson said in terms of expenditures (excluding unanticipated funds and transfers), the City spent its money on personnel (32.9%), capital projects (24.1%), operations (25.4%), reserves (12.0%), contingency and Capital Improvements Program reserves (0.5%), and debt service (5.0%). He said 12% of reserves were to cover unbudgeted operating reserves. He said the water treatment plant (\$1.5 million) was in unbudgeted reserves.

Mr. Johnson said personnel costs were estimated at \$15,157,838, including all benefits, covering 164.5 FTEs (full-time equivalents). This amount was a decrease of \$1,952,361, but was an increase of \$347,639 when additional PSPRS (Public Safety Personnel Retirement System) payment of \$700,000 was factored in. The City was estimating a 2% base pay increase and a one-time 1% lump sum in the second half of the year, depending on revenues collected. Additional increases consisted of \$62,584 in contributions to ASRS (Arizona State Retirement System), with 12.11% contributed equally by the City and the employee, and a net decrease of \$31,128 to PSPRS. PSPRS was revised to include a three-tiered contribution plan structure consisting of 41.7% for Tiers 1 and 2, and a 39.64% for Tier 3. He reiterated that this decrease to PSPRS didn't include the City's \$700,000 one-time payment toward the debt.

Mr. Johnson said personnel by service area showed Public Safety at 34%, Community Services at 20%, Utilities at 16%, Public Works at 14%, General Government at 13%, and Planning and Zoning at 3%.

Mr. Johnson said that capital projects and contingencies came in at \$11.3 million, with \$609,900 allocated for General Operations; \$430,000 for Community Services; \$52,000 for Administrative Services; \$263,200 for Public Transportation; \$783,000 for Police; \$3,979,800 for Streets/Engineering; \$793,500 for Parks/Facilities Maintenance, \$705,000 for Airport; \$841,000 for Wastewater; \$2,671,000 for Water; and \$250,000 in the Council Contingency budget. He noted that carryover projects from FY2019 were not included in the totals.

Mr. Johnson said that reserves were \$4.04 million, and included two months of operating revenue in reserves in case of an emergency or another economic downturn (and a \$1 million reserve voter requirement as part of the permanent base option). He said staff set aside \$2.9 million in the General Fund, \$800,000 for water operations, and \$344,111 for wastewater operations. There was also a water treatment plant reserve of \$1.5 million, an increase from the \$1.3 million allocated in FY2019.

Councilman Leech asked what projects were included in wastewater. Mr. Muder said the main project was the wastewater treatment plant for which the City spent \$7.5 million from reserves. Mr. Johnson added that the 24th Drive and Sierra Vista sewer lines were two other large projects. When the City was focusing on completing the wastewater treatment plant, not many other projects were completed.

Mr. Johnson said total outstanding Debt Service included both principal and interest payments and did not include Show Low Bluff Community Facilities District. The City's debt service would be fairly consistent over the next nine to ten years.

Mr. Johnson said General Fund expenditures by service area showed Public Works at 23%; Public Safety at 25%; Utilities at 28%; Community Services at 14%; General Government at 6%; Debt Service at 4%; and Improvement Districts/Show Low Bluff CFD at 0%.

Mr. Johnson said General Fund expenditures also were divided by specific departments, which showed Police at 38.6%; Community Services at 10.3%; Manager, Attorney, and Clerk at 4.8%; City Council at 1.7%; Administrative Services at 5.1%; General Operations at 9%; Facilities Maintenance at 6.8%; Aquatic Center at 2.7%; Airport Transfers at 9.3%; Debt Service Transfers at 4.3%; Planning and Zoning at 2.7%; Engineering at 3.3%; City Magistrate at 0.4%; and Capital Fund Transfers at 0.8%.

Mr. Johnson said a town hall for public input and a budget study session would be held April 4 and another budget study session on April 18. Proposed changes to the recommended budget would be presented to the Council on May 21.

Tentative budget adoption was scheduled for June 4, with the budget including any adjustments requested by the Council and the majority of carryover funds included. Final budget adoption was scheduled for June 18 (legally required to be done by August), with the secondary property tax levy (for the Street Light Improvement District) planned for July 16. The Show Low Bluff Community Facilities District budget and levy would follow the same timeline.

Mr. Johnson thanked staff for their help in preparing a balanced budget.

4. Adjournment.

There being no further business to be brought before the Council, **VICE MAYOR ALLSOP ADJOURNED THE STUDY SESSION OF THE SHOW LOW CITY COUNCIL OF APRIL 2, 2019 AT 6:50 P.M.**

ATTEST:

APPROVED:

Tamra Reidhead, City Clerk

Daryl Seymore, Mayor

T\doc\c040219b

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 April 2, 2019. I further certify that the meeting was duly called and held and that a quorum was present.

Dated this _____ day of _____, 20____.

(SEAL)

Tamra Reidhead, City Clerk