

MINUTES OF THE STUDY SESSION OF THE SHOW LOW CITY COUNCIL HELD ON TUESDAY, JANUARY 16, 2018 AT 6:00 P.M. AT THE CITY COUNCIL CHAMBERS, 181 NORTH 9TH STREET, SHOW LOW, NAVAJO COUNTY, ARIZONA

1. Call to Order.

Mayor Seymore called the meeting to order at 6:00 p.m.

2. Roll Call.

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

COUNCIL MEMBERS ABSENT: None.

STAFF PRESENT: Ed Muder, City Manager; F. Morgan Brown, City Attorney; Justin Johnson, Administrative Services Director; Cari Bilbie, Administrative Services Analyst; and Ann Kurasaki, City Clerk.

GUESTS: None.

3. Discussion of Fiscal Year 2019 Budget Process and Overview.

Mr. Johnson said planning had begun for the fiscal year 2019 budget (July 1, 2018, through June 30, 2019). The goals of the budget process were to provide opportunities for citizen input during the budget process, provide a method to allocate funding throughout the organization based on priorities and projected revenues, maintain existing levels of service where appropriate, provide a sustainable method to reduce the PSPRS (Public Safety Personnel Retirement System) liability, 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 estimated costs associated with providing current levels of service 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 any increases. 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 30. The budget would be balanced and would include 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 explained that “infrastructure,” with spending levels similar to the past year, encompassed preserving and maintaining existing assets including appearances (i.e., presenting a positive image through the appearance of the City’s vehicles, facilities, parks, streets, etc.), protecting investments (such as facilities and parks, maintaining infrastructure, and ensuring that the water and sewer systems were financially self-sustaining), maintaining standards (such as parks maintenance and following a replacement program), and reserves (i.e., maintaining a safety net).

Mr. Johnson said “quality of life” included community (volunteerism and community service, focusing on family needs in the parks, maintaining a year-round trail system, beautifying public and private properties, and creating community gathering places), information and education (promoting and marketing the City, providing a calendar of events, providing updated information via Show Low TV and the City website, using social media, and providing quarterly newsletters), downtown development (expanding on existing development, encouraging retail development, and providing more parking and pedestrian opportunities), and community safety (street design, speed warning signs, and cameras and security systems in City facilities).

Mr. Johnson said “economic/community development” consisted of recreation as an economic development tool (sports tournaments, ongoing events, facility enhancement, and natural/cultural resources), retail/commercial expansion (retail, dining, jobs), implementing and following through on the Focused Future II process (residential and commercial development) and pursuing educational opportunities, and community partnerships (Chamber of Commerce, motel/hotel owners, and promoting tourism).

Mr. Johnson said “organization” included current strategic and master plans (plan implementation and maximizing technology), employees (attracting, retaining, and training quality employees, with quality service, communication, and safety in mind), emergency preparedness (ensuring balance between the City’s services and public needs and focusing on communication), and community partnerships (pursuing regional cooperation and leadership). The budget would match dollar amounts to these different priorities and programs.

Mr. Johnson said in terms of an economic forecast for 2018, indicators predicted similar slow growth as in 2017. Unemployment nationwide was expected to show continued improvement, with unemployment percentages at 4.4% in 2017, 4.85% in 2016, and 5.26% in 2015. Unemployment in Arizona was trending downward, with 2017 down 0.4% from 2016 figures. He said experts were predicting 2.5% growth in 2018 in GDP (gross domestic product), with the third

quarter of 2017 posting 3.2% growth. Arizona's GDP increased in 2017, with a 3.1% increase in the second quarter of 2017 (ranked 16th in the U.S.). The Federal Reserve Bank issued a rate increase of 25 basis points to 1.5%, with a rate increase of 75 basis points since December 2016 when the rate increased to 0.75%. Consumer confidence (how the public felt about the economy) was at its highest level since 2000, showing 95.9 in December and 98.5 in November. Expectations were for a 2 to 3% growth in the economy. He cautioned, however, it was important to not rely only on a single economic indicator.

Mr. Johnson reviewed and compared the City's annual budgets from fiscal years 2014 through projections for 2019, which didn't include carryovers and new capital projects. Fiscal year 2018's adopted budget was \$48.2 million and the estimated budget for fiscal year 2019 was \$35.4 million, which included all capital improvement projects. This number would likely change as the budget process progressed, which lessened carryover amounts. He said the City continued to underspend its budget, adding that the Council always adopted a balanced budget but never exceeded the adopted total.

Councilman Crittenden asked why fiscal year 2019 projections were so low. Mr. Johnson said no carryovers had been built into it.

Mr. Johnson said estimated operating revenues for all funds for fiscal year 2019 came to \$29,161,550, attributed to local sales taxes (36.3%), utility fees (25.7%), state-shared revenues (14.8%), charges for services (13.0%); inter-governmental funds (7.8%), fines and forfeitures 0.5%), and miscellaneous (1.8%). He noted that preliminary estimates were lower than estimates for fiscal year 2018 because of reduced grant revenue resulting from projects being completed. These figures weren't finalized since state projections hadn't been received yet and they would be revised further along in the budget process.

Mr. Johnson said City sales tax collections (a 2% tax rate) comprised the City's primary revenue generator. Looking at trends, fiscal year 2018 results to date showed a 4.2% decrease from fiscal year 2017. Local sales tax projections for fiscal year 2018 remained conservative, similar to the previous year's projections. Staff estimated local sales tax collections would be about \$10 million.

Mr. Johnson said projections for state-shared revenues—distributions from sales taxes collected by the state, income taxes, HURF (Highway User Revenue Fund), and vehicle license taxes—remained the same as fiscal year 2018 because the City had not yet received any estimates from the state. For use fees, projections were based on the January 2018 rate increase and the number of customers as of December 30, 2017.

Mr. Johnson said expenditures for all funds in fiscal year 2019 were projected to include 27% for operational costs, 37% for personnel, 20% in unbudgeted

reserves (fund balance), 8% for debt service, 7% for capital projects, and 1% in Council Contingency and Capital Improvements Program reserves. In the general fund (the City's main operating account), which didn't include enterprise funds, the money was spent on streets and airport (32%), police (30%); community services (14%); general operations (8%); administrative services (4%); manager, attorney, and clerk's offices (4%); engineering (3%); planning and zoning (2%); city council (2%); and city magistrate (1%).

Mr. Johnson said planned budget items included conservatively projecting 95% of prior-year actuals (or less if there were unknowns, possibly as low as 90%) for revenue; maintaining a Council Contingency budget of at least \$250,000 (the Council could increase that amount); continually monitoring debt service seeking opportunities to pay down or pay off debt when funds were available; a salary increase for employees, depending on revenues collected; maintaining two months of operating reserves for the general fund and wastewater and water funds; and budgeting additional funds to decrease the City's PSPRS liability.

Mr. Johnson said citizen involvement was a key 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 was adopted by the Council in December, and two town hall-style meetings for public input (January 18 and April 5). Staff would present a recommended budget to the Council at the regular meeting on April 3 plus hold several budget study sessions with the Council. The public was invited to participate in any or all of these meetings, which would follow the budget calendar adopted by the Council in December. In addition, a budget worksheet for citizens to submit suggested projects or programs was available online and at city hall.

Mr. Muder noted that Council members weren't required to attend the budget town hall meetings, but were welcome if they wished to do so. He said Mr. Johnson would present the same presentation he gave tonight if anyone showed up on Thursday.

Councilman Crittenden referred to PSPRS and asked if the liability was paid off, whether the liability would build back up to \$7 million. Mr. Johnson explained that the PSPRS board provided a minimum rate and a recommended rate, and the City paid the recommended rate to stay ahead of the liability and avoid future problems. He said the problems with PSPRS were the result of poor management, projecting higher returns than were realized, and mandated, guaranteed annual increases despite the Great Recession. Consequently, when the fund faltered badly and the liability soared, the state legislature intervened to provide greater oversight. Mayor Seymore added that paying down this unfunded liability didn't mean the City might face an unfunded liability in the future because it was being funded and managed much better than it had been.

Mr. Muder clarified that the City was making larger contributions through an annual lump-sum payment to reduce the liability. The one-time payment earned greater interest compared to spreading out payments over the year. Staff's goal for this year's budget was to lower the PSPRS liability to a manageable level.

4. Adjournment.

There being no further discussion, **MAYOR SEYMORE ADJOURNED THE STUDY SESSION OF THE SHOW LOW CITY COUNCIL OF JANUARY 16, 2018, AT 6:21 P.M.**

ATTEST:

APPROVED:

Ann Kurasaki, City Clerk

Daryl Seymore, Mayor

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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 16, 2018. I further certify that the meeting was duly called and held and that a quorum was present.

Dated this _____ day of _____, 20____.

(SEAL)

Ann Kurasaki, City Clerk