

**MINUTES OF THE STUDY SESSION OF THE SHOW LOW CITY COUNCIL HELD ON TUESDAY, APRIL 3, 2018 AT 6:00 P.M. IN THE CITY COUNCIL CHAMBERS, 181 NORTH 9TH STREET, SHOW LOW, NAVAJO COUNTY, ARIZONA**

1. Call to Order.

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

2. Roll Call.

**COUNCIL MEMBERS PRESENT:** Vice Mayor Brent Hatch; Council members Michael Allsop, Rennie Crittenden, John Leech, Jr., Connie Kakavas, and Gene Kelley (arrived at 6:01 p.m.).

**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; Jay Brimhall, Community Services Director; Bill Kopp, Public Works Director; and Ann Kurasaki, City Clerk.

**GUESTS:** None.

3. Discussion of Draft Recommended Budget for Fiscal Year Ending June 30, 2019.

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 2019. He said the next meeting was on Thursday, April 5, for a budget town hall for public input, followed by detailed department budget discussions on April 5 and April 19. On April 5, budgets for Public Works and Special Revenue Funds would be discussed. On April 19, discussions would resume with the Magistrate Court, Police, Planning and Zoning, Administrative Services, Community Services, and Administration. If needed, another budget review was scheduled for April 26. Staff would present an overview of the tentative budget on May 15, including any changes made to the recommended budget per the Council's direction.

Mr. Johnson said the recommended budget for FY2019 was \$52,897,285. He said some projects that had been planned for FY2018 wouldn't be completed and unused funds would be carried forward into FY2019. Therefore, the recommended budget amount would change after carryover funds were added. Staff estimated that actual expenses in FY2018 would be approximately \$37.5 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 FY2018 was high because staff had projected completing all projects, but it appeared several wouldn't be done. Therefore, the final amount would be lower.

Mr. Johnson said the sources of the City's revenues consisted of the beginning balance of \$19,130,523 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 \$4,205,790, which moved funds from the General Fund into other funds. Operating revenues of \$35,174,809 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 \$35,174,809 came from local taxes (32.3%), utility fees (24.2%), intergovernmental revenues (grants) (17.3%), state-shared revenues (12.9%), charges for services (11.4%), fines and forfeitures (0.4%), and miscellaneous (1.6%), which included donations, interest earned on investments, late fees, and debt proceeds.

Mr. Johnson said that utility fees came to about \$8.4 million (\$4.5 million from water, \$2.9 million from wastewater, and \$1.0 million from refuse). He said water and wastewater rates could increase in January 1, 2019, 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 tax revenues for FY2019 were estimated at \$10.5 million, calculated by staff based on 95% of the estimated sales taxes collections in FY2018 of \$11.1 million. Collections were 9.62% ahead of the same period in FY2017, and staff estimated they were on pace to reach \$11.6 million in FY2018.

Councilman Crittenden asked why sales tax collections were so high this year. Mr. Johnson said monthly increases were seen in all sectors, with construction activity probably showing the highest increase. Councilman Crittenden said he had heard comments that the lack of snow prevented visitors from traveling to the region, yet the economy was doing well. Mr. Muder concurred there was no snow, but seasonal residents never left because of the mild weather. Mr. Johnson said about 4,500 local businesses contributed sales taxes and the majority of them seemed to be doing well.

Mr. Johnson said state-shared revenues would be distributed based on the state's 2017 estimate of 11,377 for Show Low's population. The state projected the City would receive \$1,101,268 in sales taxes, \$1,362,155 in income taxes, \$738,175 in vehicle license taxes (VLT), and \$1,504,263 in HURF (Highway User

Revenue Fund) monies. He noted that state-shared revenue budget estimates received for FY2019 increased slightly (\$148,515 or 2.6%) over FY2018 state estimates. Again, because of staff's conservative approach, the budget reflected only 95% of the state's estimates, with \$1,046,205 in sales taxes, \$1,294,047 in income taxes, \$701,266 in VLT collections, and \$1,484,050 in HURF. He added that the City received \$57,557 in one-time HURF funds in FY2018, but the state had not notified staff if one-time HURF funds would be received again in FY2019.

Mr. Johnson said that inter-governmental revenues of \$6.09 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), animal control (for animal licenses), QECB (or Qualified Energy Conservation Bond, the rebate for the energy-savings projects), airport grants (for the runway 6/24 milling and rehabilitation construction project), library grants (estimated at \$46,500 in FY2019), the transit system (the 5311 grant from the Arizona Department of Transportation), Scott Ranch Road (there was still \$1.28 million set aside to complete the project, which was estimated to cost about \$10 million), and GIITEM (Gang and Immigration Intelligence Team Enforcement Mission), a position the Council approved in October 2015. 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 (34.3%), capital projects (29.6%), operations (21.5%), reserves (9.6%), contingency and Capital Improvements Program reserves (0.5%), and debt service (4.4%). He said 12% of reserves were to cover unbudgeted operating reserves, such as the water treatment plant of \$1.3 million. He said debt service was remaining steady.

Mr. Johnson said personnel costs were estimated at \$16,953,988, including all benefits, covering 158.5 FTEs (full-time equivalents). This amount was a decrease of \$126,312, attributed to staff turnover in several departments (which didn't include the \$3.0 million of additional Public Safety Personnel Retirement System payments). The City was estimating a 2% base pay increase and a one-time bonus in the second half of the year, depending on revenues collected. Additional increases consisted of \$34,215 in contributions to ASRS (Arizona State Retirement System), with 11.8% contributed equally by the City and the employee, and a net decrease of \$4,699 to PSPRS. PSPRS was revised to include a three-tiered contribution plan structure consisting of a 41.7% employee/City split for Tiers 1 and 2, and a 39.64% employee/City split for Tier 3. He reiterated that this decrease didn't include the City's \$3.0 million one-time payment toward the unfunded liability plus the annual retirement amount paid in a lump sum in July 2018. The City had a \$7.8 million deficit in PSPRS, and the additional \$3.0 million payment would increase the City's funding percentage in the plan from 53% to the low 70-percentile.

Councilman Crittenden asked what would happen if the City defaulted. Mr. Johnson said if the City didn't pay its contributions, employees in the PSPRS system wouldn't be funded when they retired. Mr. Muder explained that the state managed the system, but each agency was responsible for the unfunded liability. Over ten years ago, the City's share was 100% funded but with the actions of the state legislature, the fund floundered. The average funding percentage statewide was 50%; Show Low's was currently 53%. He said contribution rates increased if contributions lagged, so the City was taking steps to decrease its contribution rate. Unfortunately, there were some cities that weren't meeting their obligations and no one knew how that could affect the fund overall.

Mr. Johnson said five of 230 participating jurisdictions opted for a 30-year plan instead of 20 years (Show Low chose 20 years). Show Low's recommended rate over 20 years was 44%; the City would fall further behind if the payments were spread over 30 years. If the City made another aggressive payment in a few years, the contributions could increase its share to 80% funded. He felt with the City receiving such strong revenues, it was the best time to make a \$3 million payment. Doing so would put Show Low in the top 20% of agencies in the state that were edging toward being fully funded.

Councilman Crittenden asked how much the City owed to the fund. Mr. Johnson said \$7.81 million although the valuation of assets had increased.

Mr. Johnson explained the breakdown of personnel by service area in percentages, with public safety at 31%, community services at 21%, 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 \$14.8 million, with \$609,900 allocated for General Operations; \$603,500 for Community Services; \$15,000 for Administrative Services; \$261,102 for Public Transportation; \$501,000 for Police; \$3,551,855 for Streets/Engineering; \$4,391,030 for Airport; \$2,393,000 for Wastewater; \$2,312,000 for Water; and \$250,000 in the Council Contingency budget. He noted that carryover projects from FY2018 were not included in the totals.

Councilman Leech asked how much of the airport's allocation of \$4.4 million was for the runway rehabilitation project. Mr. Johnson said the project was estimated to cost \$3.7 million. Mr. Muder added that 97.5% of that amount would be reimbursed.

Mr. Johnson said that reserves were \$3.2 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 \$2.0 million in the General Fund, \$750,000 for water operations, and \$485,000 for wastewater operations. There was also a water treatment plant reserve of \$1.3 million, an increase from the \$1.2 million allocated in FY2018. He said full operating wastewater reserves would be achieved in FY2019 and \$850,000 in General Fund reserves would be put toward the PSPRS liability.

Councilman Leech asked if there was a set goal or timeframe to fund the water treatment plant. Mr. Johnson said the estimated cost for a water treatment plant was \$4 million. The two options were to build a new well (a less-expensive option) or a treatment plant.

Councilman Leech asked if the City would ever be able to fund it by setting aside \$100,000 a year. Mr. Johnson said the goal was to save enough money to match grant funds, secure a WIFA (Water Infrastructure Finance Authority of Arizona) loan, or cut back on projects for a couple years. Mr. Muder said the Council 13 years ago decided to set aside \$100,000 a year toward a water treatment plant. As Mr. Johnson said, staff could reallocate project money but also was able to use capacity fee money to build it. Ms. Bilbie said there was \$738,000 in the capacity fee fund.

Councilman Leech asked if there was a rush to build a treatment plant, especially as it appeared the City couldn't ever save enough to fund it fully. Mr. Muder said staff could increase the amount put toward the treatment plant. Mr. Johnson agreed and said maybe \$200,000 a year should be put toward it. He said staff would review the budget and bring back a more aggressive contribution plan.

Mr. Johnson said debt service was a small percentage of the total budget. It included both principal and interest payments and didn't include the Show Low Bluff Community Facilities District.

Mr. Johnson said General Fund expenditures by service area showed Public Works at 26%; Public Safety at 24%; Utilities at 26%; Community Services at 10%; General Government at 10%; Debt Service at 3%; and Improvement Districts/Show Low Bluff CFD at 1%.

Mr. Johnson said General Fund expenditures also were divided by specific departments, which showed Police at 46%; Community Services at 14%; Manager, Attorney, and Clerk at 5%; City Council at 2%; Administrative Services at 5%; General Operations at 7%; Community Service Transfers at 3%; Public Works, Streets and Airport Transfers at 6%; Debt Service Transfers at 4%; Planning and Zoning at 3%; Engineering at 3%; City Magistrate at 1%; and Capital Fund Transfers at 1%.

Mr. Johnson said tentative budget adoption was scheduled for June 5, with the budget including any adjustments requested by the Council and the majority of carryover funds included. Final budget adoption was scheduled for June 19 (legally required to be done by August), with the secondary property tax levy (for the Street Light Improvement District) planned for July 17. The Show Low Bluff Community Facilities District budget and levy would follow the same timeline.

Mr. Johnson asked if there were any final questions. Councilman Allsop thought the City was setting aside funds for the Scott Ranch Road bridge crossing. Mr. Muder said there was \$1.236 million in budget for that project, with some of the monies coming from Navajo County. He said the county's commitment only applied if a bridge was built. The project was shown in the Streets budget. About \$10 million was needed to fund the entire extension project.

Councilman Leech asked why there was such a big decrease in personnel costs. Mr. Johnson said it was mainly attributed to under-filled positions, which meant more entry-level employees were hired to fill vacant positions.

4. Adjournment.

There being no further business to be brought before the Council, **VICE MAYOR HATCH ADJOURNED THE STUDY SESSION OF THE SHOW LOW CITY COUNCIL OF APRIL 3, 2018 AT 6:32 P.M.**

ATTEST:

APPROVED:

\_\_\_\_\_  
Ann Kurasaki, City Clerk

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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 April 3, 2018. I further certify that the meeting was duly called and held and that a quorum was present.

Dated this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_.

(SEAL)

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Ann Kurasaki, City Clerk