

MINUTES OF THE BUDGET TOWN HALL AND STUDY SESSION OF THE SHOW LOW CITY COUNCIL HELD ON THURSDAY, APRIL 5, 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; and Council members Mike Allsop, Rennie Crittenden, John Leech, Jr., Connie Kakavas, and Gene Kelley (arrived at 6:02 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; Bill Kopp, Public Works Director (left the meeting at 6:52 p.m.); Rick Austin, Public Works Operations Manager (left the meeting at 6:52 p.m.); Shane Hemesath, City Engineer (left the meeting at 6:52 p.m.); Tom Bahr, Airport Manager (left the meeting at 6:07 p.m.); and Ann Kurasaki, City Clerk.

GUESTS: None.

3. Invocation.

Councilman Crittenden gave the invocation.

4. Pledge of Allegiance.

Councilman Allsop led the Council and audience in the pledge of allegiance.

5. Budget Town Hall Session for Public Comments.

No citizens were in attendance.

6. Short Recess.

None taken.

7. Discussion by the Show Low City Council of the Draft Recommended Budget for Fiscal Year Ending June 30, 2019.

Mr. Johnson said that tonight's meeting would begin in-depth discussions of the budget for the Public Works department (Airport, Engineering, Streets/Highway User Revenue Fund, Water Services, and Wastewater) and Special Revenue Funds. He said the next study session scheduled for April 19 would consist of detailed discussions of budgets for the Magistrate Court, Police, Planning and Zoning, Administrative Services, Community Services, and Administration (including General Operations).. If needed, a study session on April 26 would be held to complete discussions.

Mr. Johnson began with the Public Works department. He said the first division was the Airport budget of \$5,570,053, a 142.1% increase over the FY2018 budget or an 8.7% decrease when adjusted for capital projects. There were 5.5 FTEs. Cost drivers were fuel for resale (with offsetting revenues) and contractual services. The budget included capital expenditures of \$4,391,030 for a milling and rehabilitation construction project for runway 6/24 for \$3,725,000, a de-icing facility for \$300,000 (carried over from FY2018), updating the Airport Master Plan for \$337,780, and a generator for \$28,250. The airport would receive a General Fund subsidy of \$171,877.

Councilman Crittenden asked if there were any plans to expand or enlarge the airport terminal. Mr. Bahr said if there was more demand for passenger flow, then staff would consider increasing the terminal's size but he didn't envision that need for the foreseeable future.

Councilman Allsop asked if staff was still pursuing recruiting a snack shop or restaurant. Mr. Bahr said yes, they were open to the idea. Tom Cedarblade had talked to him a month ago about opening a small restaurant at the airport. Mr. Cedarblade told him he'd develop a proposal but he hadn't received anything yet.

Discussion moved to the Engineering budget of \$777,547, a 13.2% increase over FY2018 or a 0.09% increase when adjusted for capital. There were 6.0 FTEs, with the majority of the increase attributed to a capital purchase for aerial mapping.

Mr. Bahr left the meeting at this time.

Councilman Hatch asked if staff had thought about using drone technology for aerial mapping. Mr. Hemesath said staff had purchased a small drone that could fly for 40 minutes to do smaller-scale projects, such as topographical surveys. Larger drones could fly longer. But for full aerial mapping, a full-sized aircraft was required. The good news was that costs were decreasing; the last time mapping was done the City paid \$185,000.

Councilman Kelley asked if the City sold aerial maps to recoup a small percentage from developers. Mr. Muder knew that in the past the City had sold

actual photos to different entities but was unaware if there was any recent activity. Mr. Hemesath thought hospital staff had purchased some in preparation for its expansion project. Mr. Muder said there was more activity when there were more initial developments, but developers were redeveloping areas now. Mr. Kopp added that the most recent mapping was done in 2006, so the new developer for Eagle Mountain couldn't use the information since it was outdated. Mr. Hemesath noted that in 2006, about two-thirds of the City was mapped. The upcoming project was to get imagery, not large swaths of topography, which could be done with the new drone in undeveloped areas.

Discussion turned to the Streets/HURF (Highway User Revenue Fund) budget of \$4,590,662, a 9.37% increase from FY2018 or a 16.4% decrease when adjusted for capital (from paying off the debt for the motor grader purchase). There were 11.0 FTEs. Operational increases included other contractual services (for weed control), sign maintenance, and repairs and maintenance for street lights. Capital expenditures of \$3,461,855 included the R&R (rehabilitation and rejuvenation, such as slurry sealing) program of \$475,000, Scott Ranch Road (\$1,235,800), Westwood subdivision improvements (\$150,000), a sidewalk on South Central (\$110,055), lights on lowered power lines (\$100,000), milling and overlaying East Thornton (\$415,000), downtown parking on East Cooley (\$60,000), extending East Thornton from Central Avenue to 6th Avenue (\$535,000), general improvements (\$90,000), a front-deck mower (\$20,000), a loader for a total cost of \$420,000 (with \$210,000 from Streets and \$105,000 each from the Water and Wastewater divisions), a tractor for a total cost of \$88,000 (with \$29,000 each from the Streets and Wastewater divisions and \$30,000 from the Water division), and a mechanic truck for a total cost of \$96,000 (with \$32,000 each from the Streets, Wastewater, and Water divisions). There was a General Fund subsidy of \$1,241,875.

Mr. Johnson said it had been a goal to match or get close to matching what the City received from the (HURF) highway user tax.

Councilman Crittenden asked who made the final decision on the TIGER grant (with funds requested for the Scott Ranch Road extension project). Mr. Johnson said the U.S. Department of Transportation. This year there was about \$500 million available and only two grant requests were awarded in Arizona, one for the Arizona Department of Transportation (ADOT) and one for the City of Phoenix. The City had been submitting an application every year for the past eight years but it was a very competitive national process. Mr. Kopp noted there had been eight TIGER grants awarded over the years, five of which went to ADOT, so the grants definitely went to larger agencies.

Councilman Leech asked for clarification about funding for a "sidewalk on South Central." Mr. Hemesath said it would be built on Central from the McNeil intersection south to tie into the Pine Haven subdivision. Mr. Muder said staff

was also looking at doing 16th Avenue and was exploring grants to see if both could be built.

Councilman Leech suggested discussing storage needs for Public Works and Parks and Facilities Maintenance at the next Council retreat. The racquetball court that was converted to storage for Parks and Facilities Maintenance was too small. Mr. Muder agreed it was a good idea to discuss developing a plan. The existing animal control facility (managed by Pet Allies) was part of the master plan to take care of storage needs for Public Works and Parks.

Councilman Kelley asked if \$210,000 was the total price for the loader. Mr. Johnson said no, the cost was split across three divisions. Councilwoman Kakavas asked if the mechanic's truck cost \$96,000. Mr. Austin said yes, the truck was designed and equipped to repair both trucks and heavy equipment in the field.

Discussion turned to the Water Services fund of \$5,225,234, a 6.9% decrease from FY2018 or a 2.1% decrease when adjusted for capital. There were 14.0 FTEs. Rate revenue was estimated at \$4,228,099, with a \$1.3 million reserve for a future water treatment plant (he noted that Councilman Leech suggested we increase money set aside for water treatment plant) and \$750,000 in two months' operating revenues. Capital expenditures of \$2,312,000 included general improvements (\$200,000), SCADA (monitoring software) upgrades (\$190,000), water storage tank maintenance (\$250,000), backup generators (\$100,000), new well design (with \$70,000 transferred from water development fees to the Water fund to cover design costs), Fairway Park phase IV water project (\$830,000), improvements to Mills from Owens to 6th Place (\$140,000), and improvements to McNeil from South 5th Place to the Deuce of Clubs (\$300,000). Equipment purchases included a loader for \$105,000 (with the total cost split with Streets and Wastewater), a tractor for \$30,000 (with the total cost split with Streets and Wastewater), a mechanic truck for \$32,000 (with the total cost split with Streets and Wastewater), and a Ford F-350 4x4 or equivalent for \$65,000.

Councilman Allsop referred to funding a "new well design" and asked if staff was planning to install a new well. Mr. Kopp said staff was still trying to decide whether to build a new well or a surface water treatment plant. The preference was to have surface water plant for redundancy and it was a responsible way to manage the system.

Councilman Kelley asked if funding a new well design for \$70,000 meant the City was still focused on a single producer. Mr. Kopp said no, a majority of the City's wells were producing 500 gallons per minute (gpm) or more and a new well could produce 500 to 700 gpm. He said 90% of the wells were working well.

Mr. Johnson said water capacity fees (one-time fees the City charged for new development to increase capacity) included revenue projections of \$35,000 and reserves of \$738,211 for future capacity projects. The funds could be used for a new well because it would add capacity, and couldn't be used for operations.

Discussion turned to the Wastewater fund of \$4,633,956, a 21.71% decrease over FY2018 (mainly attributed to a reduction in capital, since the wwtp upgrade project was completed) or a 0.45% increase when adjusted for capital. There were 12.0 FTEs. Rate revenue was estimated at \$2,901,643. Capital expenditures of \$2,393,000 included the manhole replacement program (\$200,000), general improvements (\$300,000), Show Low South land exchange (\$15,000), south lagoon clean-up and closure (\$200,000), backup generators (\$50,000), West Cooley sewer improvements (\$692,000), improvements to McNeil from 4th to 8th (\$550,000), and improvements on South White Mountain Road involving Fawn Brook connections (\$220,000). Equipment purchases for the Wastewater division included a loader for \$105,000 (with the total cost split with Streets and Water), a tractor for \$29,000 (with the total cost split with Streets and Water), and a mechanic truck for \$32,000 (with the total cost split with Streets and Water).

Councilman Leech asked for clarification about "south lagoon clean-up and closure" and whether it meant the polishing pond was being eliminated. Mr. Kopp explained that originally there were the north and south lagoons but the north lagoon was closed following upgrading the wastewater treatment plant. Staff kept the south lagoon to handle capacity to attenuate flows in case the treatment plant malfunctioned. The plan was to pump out the biosolids and water, fill in a portion of it, and retain the rest as storage in case of an emergency. Councilman Leech asked if it would have to be done every year. Mr. Kopp said no, it was a one-time expense, ending up with a third or a quarter of the lagoon as overflow storage. Mr. Muder clarified that most of the cost was to remove the sludge in the pond.

Councilman Allsop asked how long it might be before the City needed another wastewater treatment plant. Mr. Kopp said the new plant should handle capacity for the next 25 years. Even if the population doubled, the current plant could handle capacity. The City's population could quadruple and staff could construct another Biolac basin.

Mr. Muder asked for the treatment plant's current capacity. Mr. Kopp said the plant processed about 800,000 gallons of sewage a day; full capacity was 2.4 million gallons a day.

Councilman Allsop referred to the "manhole replacement program" and asked if the project was nearing its end. It had been ongoing for 13 years. Mr. Kopp said the gases eat the concrete all the way down. Most of those being replaced were

in the worst shape and being replaced with polymer manholes, a new product that the City had been using for about three years. The polymers were designed to last 50 years. Mr. Hemesath added that the majority of the replaced manholes were because of corrosion issues and some had problems with root damage.

Councilwoman Kakavas saw an increase in the number of Technician 1s vs. 2s and 3s. Mr. Kopp said that trend began last year. Staff preferred having two Technician 1s and two Technician 2s because a Technician 1 had to be accompanied to every job by a Technician 2. Councilwoman Kakavas hoped staff was budgeting sufficient dollars to increase their skills. Mr. Kopp said many of the Technician 4s were nearing retirement and, in response, Mr. Austin was implementing a succession (promotion) program with designed steps for a Technician 1 to follow. All promotions were based on qualifications. Mr. Muder said staff would review the budgets to see if adjustments were needed to accommodate Technician 1s and 2s. Mr. Kopp said they encouraged junior employees to increase their skill sets by providing in-house training and allowing them to practice on equipment.

Mr. Johnson said for Wastewater Capacity/Impact Fees, staff anticipated \$150,000 in revenue from fees and a fund balance of \$491,825 for future projects.

Councilman Kelley asked why the City didn't spend the fund balance on the treatment plant. Mr. Muder said all the development fee funds and some capacity fees were used to fund the wastewater treatment plant upgrade. What was shown in the budget was to build up the fund following the treatment plant project's completion.

Councilman Crittenden asked if the City's salary structure was enticing enough to recruit employees from surrounding communities. Mr. Kopp said he knew Human Resources Manager Stephanie McQuillan spent a lot of time conducting salary surveys to make sure the City's wages were competitive and were restructured as needed.

Messrs. Kopp, Hemesath, and Austin left the meeting at this time.

Discussion turned to Special Revenue Funds, beginning with the Debt Service Fund of \$1,204,606, a 20.27% decrease from FY2018, mainly due to refinancing the debt for the 2006 GADA (Greater Arizona Development Authority) bonds. The General Fund subsidy (transfer) would contribute \$1,049,715 and transportation development impact fees would transfer in \$150,000. Outstanding debt showed a continuing decrease, with the debt for Improvement District Nos. 6 and 7 retired in FY2018.

Discussion moved to the Self-Insurance Fund (for medical and dental insurance) of \$1,846,700, a 1.68% increase over the FY2018 budget. Cost drivers were a slight increase in the cost of premiums, but savings in medical expenses covered the overage in premiums, and the wellness program for employees. The fund was fully funded. He noted that the budget had not been adjusted since FY2014.

Councilwoman Kakavas noticed that the cost of premiums showed \$1,633 a month per employee. Mr. Johnson said the amount included medical, dental, and vision coverage per family. It was the same amount budgeted since he began with the City. Councilwoman Kakavas thought the Tel-A-Doc program was an additional cost. Mr. Johnson said he didn't know and would ask Ms. McQuillan for an explanation.

Discussion moved to the Cemetery budget of \$85,000, compared to \$15,000 in FY2018 (no capital projects had been proposed last fiscal year). The major cost driver was \$70,000 for a cemetery expansion project in FY2019. Direct revenues were estimated at \$32,275 and a maintenance reserve fund of \$137,363.

Mr. Johnson said staff started tracking the cemetery's maintenance reserve and held it in a separate account. The funds could be used for projects, expansions, etc. and didn't pay for operations.

Discussion moved to the Sanitation budget of \$903,500, a 1.69% increase over FY2018. The increase was attributed to additional funds set aside for Project Clean Sweep. The CPI (Consumer Price Index) rate adjustment in July allowed for an adjustment in monthly fees, and staff anticipated receiving CPI information from Waste Management. The monthly FY2018 rate was \$14.18, which included an administrative fee of \$1.48. Rate revenue was estimated at \$1,001,158 from 5,748 refuse customers.

Councilman Allsop asked if the monthly rate would be increased in July. Mr. Johnson wasn't certain since staff was still waiting for information from Waste Management, but he anticipated it would be about a 2% increase. He thought, however, there was enough in the budget to cover the increase. Mr. Muder said staff would make a recommendation on May 15 whether to increase the fee or not, depending on what Waste Management provided.

Councilman Kelley asked if staff audited Waste Management's rates. Mr. Muder said the Finance Department received a monthly report. Ms. Bilbie said Waste Management billed the City per resident and staff checked Waste Management's fees against what each resident was billed. Every once in a while, an adjustment was needed but the numbers were consistently within a couple hundred dollars. Mr. Johnson said staff also audited the CPI adjustment.

Mr. Johnson said when looking at trash vs. recycling tonnage, the trend for recycling was increasing. Staff still fielded many calls about what could and couldn't be recycled.

Councilman Crittenden asked if recycling in 2018 was predicted to increase. Mr. Johnson said the trend suggested it would increase but not significantly, especially given the number of customers remained about the same.

Councilman Leech asked when the contract with Waste Management would expire. Mr. Brown said it would be 2025 with all the options, noting that the City entered into a five-year contract in 2013 but Waste Management's rates were really reasonable so there were another five years and two more one-year options. Councilman Leech didn't think the City received consistently good service with long-term contracts and felt Waste Management's services had decreased. He complained Waste Management employees didn't stop to pick up the polycart when it fell over after being dumped or pick up the trash that spilled out.

Mr. Muder expressed surprise and said the City actually received compliments from customers thanking Waste Management employees for picking up trash. Mr. Johnson advised him to call staff and they would send Waste Management to go back out. Ms. Bilbie said staff also kept track of any complaint calls.

Discussion moved to the Show Low Bluff Community Facilities District (CFD), a legally separate unit of government with its own budget. The CFD included two funds, one for the special assessment bond and the other for the general obligation bond/operations.

Mr. Johnson said the special assessment bond was issued in 2007 for \$2,014,000. Assessment billings were sent by the City to all property owners in the CFD in June (for principal and interest) and December (for interest only). The FY2019 budget was \$173,680, with an annual debt service payment of \$150,080 covering 227 parcels (of which Show Low Bluff Development owned 136 parcels, 60% of all parcels). All assessments were current for the CFD.

Mr. Johnson said general obligation bonds were issued in 2007 for \$480,000 and in 2011 for \$450,000. The general obligation bond portion was billed through property taxes, with the assessment billings sent by the county. The FY2019 budget was \$104,059, with an annual debt service payment of \$95,859. The tax rate of \$3.55 per \$100 of assessed valuation included \$3.25 for debt service and \$0.30 for maintenance and operations. He noted that assessed valuations increased 17.4% in FY2018, a 67.8% decrease since 2010. There were reserves of \$515,944. He said the developer committed to pay the difference of \$51,859 to cover debt in FY2019, adding that the developer had paid the shortfall

in FY2017 and FY2018. Staff was continuing to work with the developer to pay off the debt to entice buyers.

Mr. Muder said the developer wouldn't have to pay the shortfall if staff used some of the reserve balance to pay off the debt. It would help the real estate market.

Discussion turned to the Street Light Improvement District budget of \$235,000, a district that covered the entire City to pay for utility costs for street lights and park lights (it couldn't be used for maintenance). The maximum allowable tax rate was \$1.20 per \$100 of assessed valuation per state law. With increased valuations, staff recommended no rate increase, keeping it at \$0.1401 per \$100 of assessed valuation. This equated to about \$17.86 a year for a home valued at \$150,000. The Street Light District was budgeted to be subsidized by \$15,000 from the General Fund.

Discussion moved to the Projects Fund (for capital projects and grants) of \$4,435,964, with \$4.0 million in unanticipated revenues and expenditures. This fund included a General Fund subsidy of \$289,156 for a range of capital projects, \$30,000 for the Court and \$256,400 for Community Services (library grants and open space preservation).

Mr. Johnson reiterated that the next meeting on April 19 would cover all the other departments. He said a review of the changes to the budget based on the Council's discussions would be presented May 15. Adopting the tentative budget was scheduled for June 5 and the final budget at the June 19 meeting.

Mr. Johnson asked if there was anything else they wished to discuss. Councilman Leech commended staff for their high-quality work on the budget.

9. Adjournment.

There being no further discussion, **VICE MAYOR HATCH ADJOURNED THE BUDGET TOWN HALL AND STUDY SESSION OF THE SHOW LOW CITY COUNCIL OF APRIL 5, 2018 AT 7:14 P.M.**

ATTEST:

APPROVED:

Ann Kurasaki, City Clerk

Daryl Seymore, Mayor

CERTIFICATION

I hereby certify that the foregoing minutes are a true and correct copy of the minutes of the **BUDGET TOWN HALL AND STUDY SESSION** of the City Council of Show Low held on April 5, 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