

MINUTES OF THE STUDY SESSION OF THE SHOW LOW CITY COUNCIL HELD ON TUESDAY, APRIL 4, 2023, AT 6:30 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 6:33 p.m.

2. Roll Call.

COUNCIL MEMBERS PRESENT: Mayor Leech, Vice Mayor Kakavas, Councilman Adams, Councilman Hatch, Councilman Allsop, and Councilman Judd.

COUNCIL MEMBERS ABSENT: Councilman Clark.

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

GUESTS: None.

3. Discussion of Draft Recommended Budget for Fiscal Year Ending June 30, 2024.

Mr. Johnson said tonight's study session was to present an overview of the recommended budget, including a synopsis of anticipated revenues and expenditures for fiscal year 2024. He said the next meeting for detailed department budget discussions would be on April 6. If needed, another budget review was scheduled for April 20 and April 27. Staff would present an overview of the tentative budget on May 16, including any changes made to the recommended budget per the Council's direction.

Mr. Johnson said the recommended budget for FY2024 was \$132,859,172. He said the \$25.5 million allocated for the Scott Ranch Road project, the \$6.0 million allocated for the event center, and several projects planned for FY2023 that would not be completed and for which the unused funds would be carried forward into FY2024 were the reason for the budget number. Without these items, the budget would be around \$93,500,000.

Mr. Johnson said the sources of the City's operating revenues consisted of the beginning balance of \$49,429,605, which came from savings from prior years and included reserve funds. Other financing sources of \$9,000,000 came from unanticipated funds (the Council's budget authority). Inter-fund transfers came to \$11,314,648, which moved funds from the General Fund into other funds.

Operating revenues of \$80,184,258 would be collected or earned during the year.

Mr. Johnson said that operating revenues of \$80,184,258 came from local taxes (18.9%); utility fees (19.7%); intergovernmental revenues (grants) (33.9%); state-shared revenues (9.6%); charges for services (7.1%); fines and forfeitures (0.2%); and miscellaneous (10.7%), which included donations, interest earned on investments, late fees, and debt proceeds.

Mr. Johnson said that utility fees came to \$9.67 million (\$5.18 million from water, \$3.19 million from wastewater, and \$1.3 million from sanitation). He reminded Council that the City waived the annual water Consumer Price Index (CPI) adjustment for 2023. He said water and wastewater rates could increase January 1, 2024, to account for inflation. The sanitation rate adjustment would go into effect July 1.

Mayor Leech asked if the City would make up the 2023 waived water Consumer Price Index increase in 2024. Mr. Johnson said no, the City would not make up the waived amount by doubling the increase but would only apply the standard CPI increase.

Mr. Johnson said that local sales tax revenues for FY2024 were estimated at \$14.4 million. Currently, collections were about 9.22% ahead of the same period in FY22 and were projected to be \$19.4 million in FY2023. 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 2021 estimate of 12,132 for Show Low's population. The state projected the City would receive \$1,801,501 in sales taxes; \$3,209,144 in income taxes; \$1,102,724 in vehicle license taxes (VLT); and \$2,201,062 in HURF (Highway User Revenue Fund) monies. Again, because of staff's conservative approach, the budget reflected only 95% of the state's estimates, with \$1,711,426 in sales taxes, \$3,048,687 in income taxes, \$1,047,588 in VLT collections, and \$2,091,009 in HURF.

Mr. Johnson said that inter-governmental revenues of \$27.1 million consisted of grant revenue for major crimes apprehension team or MCAT, School Resource Officer (SRO), GIITEM (Gang and Immigration Intelligence Team Enforcement Mission), Qualified Energy Conservation Bond (QECB), Prop 207 Grant Funds, Healthy Forest Initiative, Arizona State Parks, airport grants, library grants, Transit 5311 grant, Scott Ranch Road, and Joe Tank Road. He noted that any new grants the City received would be presented to the Council for approval upon their award.

Mr. Johnson said that congressional funding revenues of \$9.1 million consisted of funds for Woolford Road, Savage Sewer Phase 1, Fawnbrook Realignment, Thornton Low Water Crossing, and Savage Sewer Phase II.

Mr. Johnson said that in terms of expenditures (excluding unanticipated funds and transfers), the City spent its money on personnel (15.17%); capital projects (58.28%); operations (16.73%); reserves (6.93%); contingency and Capital Improvements Program reserves (0.25%); and debt service (2.65%).

Mr. Johnson said personnel costs, including an increase in full-time equivalents (FTE) from 177.9 to 178.7, were estimated at \$18,344,254, including all benefits. This amount was an increase of \$269,976. Contributions to ASRS (Arizona State Retirement System) are up slightly to 12.29%, and the contribution to PSPRS (Public Safety Personnel Retirement System) decreased from 39.74% to 30%. He said the City had been aggressive over the past four to five years with paying the Fund Status; it had improved to 97.8%.

Mr. Johnson said personnel by service area showed Public Safety at 34.30% of the City's employees; Community Services at 14.89%; Utilities at 15.67%; Public Works at 18.47%; General Government at 12.76%; and Planning and Zoning at 3.92%.

Mr. Johnson said capital projects and contingencies totaled \$70.7 million, with \$7,538,115 allocated for General Operations; \$352,500 for Community Services; \$143,000 for Administrative Services; zero for Planning and Zoning; \$2,248,871 for Police; \$38,818,054 for Streets/Engineering; \$99,935 for Public Transportation; \$5,514,207 for Parks/Facilities Maintenance, \$2,723,798 for Airport; \$9,209,880 for Wastewater; \$3,775,811 for Water; and \$300,000 in the Council Contingency budget.

Mr. Johnson said that reserves totaled \$8.4 million, which included three months of operating revenues in reserves in case of an emergency or another economic downturn. The general fund included a \$1.0 million voter-required reserve as part of the permanent base option. He said the water treatment plant reserve increased from \$2,100,000 in FY2023 to \$2,300,000 for FY2024.

Mr. Johnson said total Annual Debt Service included principal and interest payments and did not include Show Low Bluff Community Facilities District. It also included Revenue Tax Obligation 2021 of \$2.1 million and Revenue Tax Obligation Second Series 2021 of \$4.7 million.

Mr. Johnson said General Fund expenditures by service area showed Public Works at 47.62%; Public Safety at 10.2%; Utilities at 19.54%; Community Services at 2.64%; General Government at 18.43%; Debt Service at 1.58%; and Improvement Districts/Show Low Bluff CFD at 0.16%.

Mr. Johnson said General Fund expenditures also were divided by specific departments, which showed Police at 17.1%; Community Services at 3.2%; Manager, Attorney, and Clerk at 1.7%; City Council at .7%; Administrative Services at 3.9%; General Operations at 33.4%; Facilities Maintenance at 7.9%; Aquatic Center at 1.2%; Airport at 6.6%; Debt Service Transfers at 2.7%; Planning and Zoning at 1.3%; Engineering at 1.7%; City Magistrate at 0.2%; and Capital Fund Transfers at 18.4%.

Mr. Johnson said a town hall for public input and a budget study session would be held April 6 and another budget study session, if needed, on April 20 and April 27. Proposed changes to the recommended budget would be presented to the Council on May 16. Tentative budget adoption was scheduled for June 6, with the budget including any adjustments requested by the Council and the majority of carryover funds included. Final budget adoption was scheduled for June 20 (legally required to be done by August), with the secondary property tax levy (for the Street Light Improvement District) planned for July 18.

Councilman Judd asked if there were any updates on the Scott Ranch Road funding. Mr. Johnson said the grant was applied for in March, and staff awaited an update. Staff and the Mayor continued to reach out to Senators Sinema and Kelly about project funding.

Councilman Allsop asked what the \$23.5 million Scott Ranch Road project grant would cover. Mr. Johnson said the grant revenue of \$23.5 million was put in the budget as a placeholder to cover the project's cost. The grant application process required the City to provide \$1.5 million as a contingency amount in case the project ran over budget.

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

4. Adjournment.

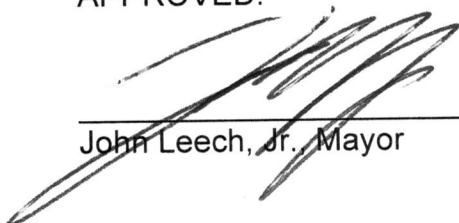
There being no further business to be brought before the Council, **MAYOR LEECH ADJOURNED THE STUDY SESSION OF THE SHOW LOW CITY COUNCIL OF APRIL 4, 2023, AT 6:53 P.M.**

ATTEST:



Rachael Hall, City Clerk

APPROVED:



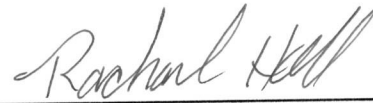
John Leech, Jr., Mayor

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 April 4, 2023. I further certify that the meeting was duly called and held and that a quorum was present.

Dated this 18th day of April, 2023.

(SEAL)



Rachael Hall, City Clerk

