MINUTES OF THE STUDY SESSION
OF THE TOWN COUNCIL OF THE TOWN OF CHINO VALLEY

Thursday, May 17, 2012
6:00 P.M.

The Town Council of the Town of Chino Valley, Arizona met for a Study Session in the Chino Valley Council Chambers, located at 202 N. State Route 89, Chino Valley, Arizona, on Thursday, May 17, 2012.

Mayor Marley called the meeting to order at 6:02 p.m.

Present:	Mayor Chris Marley; Vice-Mayor Carl Tenney; Councilmember Mike Best; Councilmember Darryl Croft; Councilmember Linda Hatch
Absent:	Councilmember Dean Echols; Councilmember Lon Turner
Staff Present:	Interim Town Manager Robert Smith; General Services Director Cecilia Watts; Magistrate John Walker; Town Engineer/Public Works Director Ron Grittman; Town Clerk Jami Lewis (recorder)
Attendees:	Bernie Wiegandt

1) Presentation and discussion regarding the fiscal year 2012/2013 Tentative Budget.

Acronyms used in this item:
AV (Assessed Value)
CDBG (Community Development Block Grant)
FY (Fiscal Year)
GF (General Fund)

Pat Walker with Pat Walker Consulting, Inc.(?) reviewed the Tentative Budget and Town's fiscal condition as follows:

<u>Background</u>

- On May 8, 2012, she presented to the Finance Committee a GF forecast for FYs 2012-2017. The Committee requested that she revise the forecast and present it at this meeting.
- The Committee also asked her to report on the total sales tax and primary property tax rates of the surrounding communities.
- Since she had presented the proposed budget on DATE, she had fine tuned the numbers, but left as much flexibility as possible.

2012-2013 Proposed Budget

- The total proposed budget was $15,260,552, representing less than a 0.50% increase from the prior year.
- Most of the projected revenues came from local taxes and fees (38%) and intergovernmental sources (23%).
- Most of the proposed expenditures were for capital improvements (21%), general government (20%), and public safety (17%). Although the Town might not expend all the proposed capital improvement expenditures, they needed to be built in per home rule regulations.

General Fund Projections

- GF projected revenues: $6,882,384, which represented a 1.51% decrease from last year.
- Proposed expenditures: $6,882,384, which represented a 6.19% increase over last year and demonstrated that the fund balance was being used up.
- Major revenue categories: local sales taxes and fees (38%), state shared revenues (41%), SBA tower lease, transfer from 1% sales tax, and fund balance.
- Local sales taxes: $2.3 million, a slight increase over last year. Major tax categories were retail, restaurant/bar, hotel/motel, and utility.
- State shared revenues: $2.6 million. Major categories were auto lieu tax, state sales tax, and state income tax.
- Interfund transfers: $418,000 and $11,500 from capital improvement and police impound funds.
- Proposed expenditures: Most would come from general government (38%), public safety (34%), and community services (17%).
- One-time expenditure changes: $169,968 for the compensation and classification study, -$129,324 in personnel cost savings from not hiring a position in the Police Department, $57,666 transfers for lease payment and grant match, and $323,047 in contingency reserve.

Special Revenue Funds

- Projected revenues: $762,561 in Highway User Funds, $860,000 in CDBG and other grants, $17,000 in Court funds, and fund balances.
- Anticipated expenditures: Less than $100,000 for street improvement funds—which was significantly less that the $1 million for previous years, $313,000 in CDBG grants, and $545,000 in miscellaneous grants, which had to be built in in order to use the funds.

Capital Project Funds

- Impact fee funds: $2 million for miscellaneous capital improvements use or bonding and $1.4 million in 1% sales tax. These were coming in very slowly, but still had some fund balances.
- Proposed capital project expenditures: $200,000 to fund three Police positions, $219,000 for Aquatic Center expenses, $363,000 transfer to water operating fund, and $577,000 for debt service.
- Issues with the capital project funds: (i) Starting in FY 2015, transfers to the Aquatic fund in the GF will go down by $100,000 and be at $0 from FY 2016 on; (ii) Starting in FY 2016, transfers to Police in the GF will go down by $113,000 and will go up slightly in FY 2017; (iii) The $363,000 transfer to the Water operating fund will stay the same; and (iv) The $577,000 debt service payment will go up to $731,000 by FY 2016.

Enterprise Funds

- Water Fund: $419,000 in operating expenses and $659,000 for debt service, with the fund currently operating off $189,842 in contingency reserves and transfers in. This budget also had no room for the GF to payback the remaining $1.2 million loan. Even with the transfers in, starting in FY 2015, this fund will have a $7,000 deficit that will grow to $233,000 by FY 2017. The Town needed to either raise revenues, decrease expenses, or enact a combination of both.
- Sewer Fund: Debt service will incur a $421,000 increase, operate on savings, and be in deficit by FY 2014.

Next Steps

- Although the proposed FY 2013 budget was balanced, serious decisions needed to be made for the future.
- The Capital Improvement Program was dependent upon how the Town spent the 1% tax.
- The Finance Committee was recommending that Council hold a retreat this summer to discuss future projections.
- Budget calendar: May 22—Tentative Budget; June 26—Final Budget public hearing and adoption; and July—Street Lighting Improvement Districts levy approval.

Council asked how the compensation and classification salary increases would be funded. Ms. Walker stated that Council could move funds from contingency/reserves.

General Fund 5 Year Forecast

- For FY 2013, revenues will not cover expenditures, so the budget was using $387,225 in contingency and reserves. Transfers in to the GF will go down over the next few years due to debt service increases. The Town was obligated first to fund debt service, then the water fund, followed by Police and Aquatic Center.
- A proposed $250,000 in FY 2015 could be used for road maintenance, capital asset replacement, capital projects, grant matches, or to maintain existing service levels.
- Keeping the current budget levels will create a structural deficit of $5.9 million by FY 2017.

Interim Town Manager Robert Smith added that while the GF and enterprise funds were in the red, some positive things were happing, including a user fee study for cost containment and water and sewer fees to be studied in the near future. Having to trim expenses, create some breadth in revenues, and create new revenues due to the state's actions would not be painless, but would be healthy.

Council asked about reinstatement of the 40-hour work week, compensation and classification study implementation, and impact fees. Mr. Smith and Ms. Walker stated that:

- Staff was looking at using $250,000 to reinstate the 40-hour work week at one time, but some positions might not need to go to 40 hours. Council may decide to only increase those providing services to public and/or split the expenditure across two years.
- The compensation and classification study will bring everyone in line with the new pay scale, and although the amount was larger than originally thought, it could still be covered in the budget.
- Impact fees were built in, but very little.

Mayor Marley requested that Ms. Walker provide Council with a copy of her Tuesday presentation before the meeting.

Revenue Enhancement Scenarios

- Scenario A: Primary Property Tax of \$1.86 per \$100/AV would generate \$1,380,085 in FY 2014, but the Town would still be in the red by \$314,870 by FY 2017.
- Scenario B: 1.25% sales tax increase would be as close to what the Town needed to get by, leaving a small deficit of \$102,044 by FY 2017.
- Scenario C: Property tax of \$0.93 per \$100/AV and a 75% sales tax increase would help a lot, but still require using the fund balance.
- Scenario D: 50% sales tax increase would entail a deficit by FY 2015.
- A lot of things should be explored and if the citizens wanted the same level of service, they would have to make adjustments in the future.

Mr. Smith stated that these scenarios assumed very little growth of 2%-3% in revenues and expenses. Council needed to look 10 years out, as another large debt service increase would start in year six. They needed to find some other ways to slow the losses, such as not using the afore-mentioned \$250,000. Ms. Walker added that the Town needed to hope for the best and plan for the worst.

Tax Rate Comparison with Neighboring Cities and Towns

Vice-Mayor Tenney noted that many other communities had the same problems as the Town. Property taxes would require a vote, while sales tax increases would not. Council needed to look out 5-10 years and have a dialogue with the community.

Council asked about staff developing a survey, as discussed at a previous meeting.

Mr. Smith stated that a staff working group reviewed survey results from six surveys conducted in 1993–2004. Staff discovered that the public's opinion was consistent in every survey in that the top items every time were police, water, sewer, and roads, with some recreation. The public's responses on how they preferred to fund those priorities were more evenly split. However, if a survey was not drafted precisely, the resulting data could be somewhat dichotomous, such as in 1989, when water and sewer were among the top five needs, but response percentages for the Town to get into the utility business were very low. Staff was inclined to believe that the public's responses on a new survey would be the roughly the same. Although a community dialogue was needed, staff was not sure a survey was the best way to get it done. Council needed to rethink the survey process and possibly consider workshops and a committee to first educate the public and then solicit feedback.

Council asked how the last survey was done. Town Clerk Jami Lewis stated that it was sent out to registered voters only and then made available at various locations around Town for non-registered voters.

Council believed that the citizens needed to know about the Town's fiscal condition, why the debt service was so onerous, and that a property tax would only keep the Town afloat, not add anything new.

2) ADJOURNMENT

MOVED by Vice-Mayor Carl Tenney, seconded by Councilmember Linda Hatch to adjourn the meeting at 6:59 p.m.

Vote: 5 - 0 PASSED - Unanimously

Chris Marley, Mayor

ATTEST:

Jami C. Lewis, Town Clerk

CERTIFICATION:

I hereby certify that the foregoing minutes are a true and correct copy of the minutes of the Regular Meeting of the Town Council of the Town of Chino Valley, Arizona held on the 17th day of May, 2012. I further certify that the meeting was duly called and held and that a quorum was present.

Dated this 26th day of June, 2012.

Jami C. Lewis, Town Clerk