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

MONDAY, AUGUST 6, 2012
8:00 A.M.

The Town Council of the Town of Chino Valley, Arizona, met for a Study Session in the Days Inn Motel Conference Room, located at 688 Fletcher Court, Chino Valley, Arizona, on Monday, August 6, 2012.

Present:	Mayor Chris Marley; Vice-Mayor Carl Tenney; Councilmember Mike Best; Councilmember Darryl Croft; Councilmember Dean Echols; Councilmember Linda Hatch; Councilmember Lon Turner
Staff Present:	Interim Town Manager Robert Smith; General Services Director Cecilia Watts; Finance Director Joe Duffy; Police Chief Chuck Wynn; Magistrate John Walker; Town Engineer/Public Works Director Ron Grittman; Town Clerk Jami Lewis (recorder)
Attendees:	Human Resources Analyst Tiffany Resendez; Pat Walker, Consultant

1) CALL TO ORDER; ROLL CALL

Mayor Marley called the meeting to order at 8:10 a.m.

Councilmember Lon Turner arrived at 11:20 a.m.

2) Presentation by staff and consultant and discussion regarding the development of a Strategic Financial Plan. (Robert Smith, Town Manager; Pat Walker, Pat Walker Consulting LLC)

Mayor Marley and Town Manager Robert Smith reported that this study session was for the purpose of reviewing the Town's current financial challenges, and developing a scope of work for a strategic financial plan.

Pat Walker, with Walker Consulting, spoke about her role as facilitator, Council focusing on policies and jointly deciding next steps. She then led discussions on the following topics.

Town investments. If Council had $10 million to spend on something for the Town, they would spend it on:

- Infrastructure on State Route 89;
- Improved activities for youth, including skate parks and an enclosure over the pool for year-round use;
- Roads and streets construction and maintenance;
- Forming a private non-profit organization to offer all the above as needed and to use as a match for grant money;
- Water and sewer and taking over the wastewater treatment plant;
- All types of infrastructure; and
- Revenue generating enterprises, such as power plant or prison.

To summarize, the above list consisted of economic development matters, quality of life, and ways to make money.

Development of a strategic financial plan

- Its goal is to eliminate structural deficits in the general fund, capital improvement, HURF, and enterprise funds, often caused by one time revenues funding on-going expenditures.
- It should be comprehensive, balanced, and fair to encompass the necessary public services to Chino Valley citizens.
- It should cover 3-5 years.
- It should involve the community, Council, and Town staff.
- It should be developed over the next 12 months and implemented within 24 months.

Elements of a strategic financial plan

- Develop a long term plan to sustain the Town's financial health and eliminate structural deficits.
- Include 'high priority' areas that reflect the will of the community.
- Develop a work plan by defining goals and strategies to achieve over the next 12 months.
- Evaluate the impact of policy decisions on future fiscal health, including actions taken and policies implemented.
- Focus on mutual agreement between councilmembers on how to sustain financial stability while maintaining quality services to citizens; the plan should be something to be used by future councils and not set in stone.

Council asked staff and consultants to provide dollar amounts and scenarios for the ideas discussed.

Using a strategic financial plan

- Develop a 5-year plan with a 10-year vision.
- Develop a 12-month work plan with goals and objections, work them into the budget process, and implement within 24 months.
- Evaluate results through performance review by way of the Town's annual audit.
- Finance Director to lead budget workshops to help Council understand what the taxpayers were getting for their money.

Items to evaluate

- Opportunities to improve cost-efficiency of municipal services by: (i) outsourcing services or bringing something in-house that was currently contracted; (ii) regionalizing services with other entities; (ii) analyzing and minimizing liability risks; and (iv) consolidating and increasing sharing of personnel resources among municipal divisions.
- Review programs and services to get the biggest bang for the Town's buck by: (i) analyzing relative costs and benefits to the Town, both in short term and long term, of services, programs, and operating expenses not directly related to legal mandate or obligation, public safety, public health or accreditation; (ii) substituting a vacant position with one with a lower classification and reducing the associated duties as appropriate; and (iii) benchmarking staffing/unit of service in comparison with other municipalities, making sure to compare apples to apples and recognizing the Town's unique situation.

Mr. Smith added that staff will be changing the Town's financial reporting by using a program budget so that Council could see the various trends.

Budget history

- State sales tax revenues decreased from $3.8 million in FY 2009 to $2.5 million in FY 2012 due to a reduced census count and the economic downturn.
- Economic impacts: sales tax reductions from retail, construction, and bed tax; revenue reductions in building permits and fees; foreclosures; and expenditure increases in consumer price index, benefits costs, mandated costs, and fuel and utilities.
- Budget impacts: LTAF for transit funding eliminated; HURF reductions from $1.1 million four years ago to $85,000 now; inability to maintain roads after large annexations; grant funding reductions; no investments in assets; facilities maintenance not kept up, especially the Aquatic Center; and no investment in economic development;
- Budget adjustments made: reduced workforce from 125.75 in FY 2007 to 85 in FY 2013, but did not reduce level of service; reduced hourly employees to 36 hour work week; reduced administrative employee salaries by 10%; reduced employee benefits; delayed recruitment for vacant positions creating one time savings; very little employee development, training, and education; outsourced dispatch; reduced or eliminated all Town events except one; eliminated three school resource officers, school programs and neighborhood watch; reduced department expenditures; and doing more with less each year for four years in a row.

Mr. Smith stated that per the Town's recent fees study, some fees might be reduced, but that could spur some additional activity. Also, there will be another hit in the next budget when some employees were moved up from Step 1 of the pay plan.

Ms. Walker added that:

- Delaying recruitment for vacant positions only created a bridge and the employee structure will fall in if those positions were not replaced; and the Town needed to evaluate the risk/reward of hiring versus outsourcing.
- The Town needed to fix the employee work week, retain high quality people, stop requiring more with less, and invest in streets.
- The Town also needed to determine the dollar amounts it needed to maintain existing service levels, bring them up to previous levels, and improve the levels.

Council asked about the status of the transit system. Ms. Walker and Mr. Smith stated that the system must be self-sustaining and out of the Town's organization by FY 2013-2014. The Arizona Department of Transportation did not object to the system being under its own agency.

Council asked about getting sales tax, bonds, or property tax on a ballot and economic development. Ms. Walker stated that:

- Sales taxes did not require an election and a secondary property tax could only be used for debt service. She spoke about the small town she came from, which wanted to be a bedroom community, but went through this same process and determined that it could not survive without a diversified tax base.
- In order to get community buy-in, the Town needed citizen committees and involve civic organizations. It would take study, creative thinking, and willingness to make changes.
- Council may want to also develop a strategic economic development plan that could work with the financial plan.

Mr. Smith added that if the Town expanded its infrastructure, it would result in increased economic development activity. Also, Prescott's water pricing had stalled economic development growth, and he believed the citizens would support the Town taking over that system. The public needed to understand that its former vision of being a bedroom community without economic development was not sustainable.

Council and staff discussed the General Plan Committee's emphasis on jobs and employment; getting infrastructure and access to Old Home Manor to develop industry; citizens wanting more shopping and a second grocery store; and infrastructure being the key to open up available property along the highway.

Council asked staff to provide the number of renters vs. owners who were registered to vote.

Council recessed from 9:50 to 10:10 am.

Current financial condition

- General Fund: This was existing on transfers in and a $380,000 carryforward.
- CIP (1% TPT): This was existing on a lot of carryforward and had $781,00 in transfers out to Aquatic Center, Police, and water operations, and $542,000 to debt service. Decreased sales taxes resulted in decreased 1%.
- HURF: This was not using carryforward or fund balance, which was good, but there was no money for street maintenance.
- Water operating fund: This was existing on transfers in and carryforward from the CIP 1%. The Town was to initiate another rate study soon, and expanding the system would create more ratepayers.
- Sewer operating fund: This was existing on carryforward and transfers in, and was short $800,000.

Next 10 years if the Town did nothing now

- General Fund: The budget will have a $382,000 one time deficit in FY 2013, which would grow to a cumulative $5.9 million deficit by FY 2017.
- Water fund: This will have an ongoing deficit by FY 2016 with a total deficit of $122,000 by FY 2017, and will be supported by transfers from CIP fund and carryforward.
- Sewer fund: This will have an ongoing deficit of $534,000 with no fund balance by FY 2014, and a total deficit of $2.8 million by FY 2017.
- Water and Sewer: These funds were using $616,000 in fund balance to balance their budgets in FY 2013, and will need more in FY 2014 resulting in the deficits.
- CIP fund: Transfers to Aquatic Center, Police and Water will start decreasing in FY 2015 as the Town was not taking in enough revenues to support the transfers out. By FY 2016, transfers to Aquatics will be gone and those to Police will be reduced, due to debt service increases in FY 2016. Council will have to decide to take funding from the general fund or someplace else.

Mr. Smith stated that next year's gap might be reduced by how the Town spent money on programs this year while working on long-term solutions. Currently, staff was pursuing every grant it could identify, including NACOG funds for Old Home Manor improvements. Unfortunately, the Town had already lost two grants due to right-of-way problems.

Potential Solutions and Timelines

Expenditure reductions: Ms. Walker gave three examples of program costs for Aquatics, Library and Recreation, with FY 2012 actual revenues, expenditures, net result, and subsidies, if applicable.

- Council needed to know the actual cost of doing business, then determine what activities to fund.
- It was not unusual for municipalities to subsidize certain programs, such as the pool, due to quality of life issues, matching values, and overall vision.
- Recreation, for example, included program expenses, in-kind donations, cash revenues, direct and indirect costs, and internal expenses. Conversely, some departments provided mostly services and did not recoop any of their expenses.

Revenue enhancements:

- Sales tax increase: There were restrictions on categories of sales tax and a 60-day notification period required before any such tax could be effective. An increase to be effective on March 1, 2013 would need to be posted to the Town website by October 12.
- Primary property tax: This could only go to the voters in May of any year. It could be done for 2013, but would have to be fast-tracked.
- Secondary property tax: This was based on bonding capacity and required an election, which was limited to November of any year. It could fund infrastructure and a CIP would had to be developed. There was not enough time for a 2012 election.
- User fee increases.
- Any combination of the above.

Council suggested having an overview of all Town programs available for review by the community, and they asked what would happen to the three police officers if the 1% was gone. General Services Director Cecilia Watts stated that the Police Department was already at minimum staffing now due to attrition, and had been forced to use overtime to cover for any officer on leave.

Mr. Smith added that the upcoming utility rate study will include ways to develop operating capital. The current rate model barely covered operating expenses, so Utilities will need another funding source for capital. Ms. Walker added that the Town also needed to expand its customer base and increase infrastructure, which related to the bond matter. It all tied in together.

Council suggested doing nothing before the November 2012 election, and if the state's extra 1% sales tax was voted down, the Town could then consider increasing its local tax. Council also asked staff to provide a list of what was required for each of the above enhancements.

Issues to address

- Structure for financial plan;
- Activity levels in programs;
- User fee structure;
- Transit funding in June–October and possibly forming an ad hoc committee;
- Infrastructure investments to increase taxpayers and users;
- Lack of investment in economic development;
- Bond election;

- Getting control of economics with regard to water;
- Water and sewer rate study;
- Home Rule;
- Bedroom community versus diversified tax base, and educating the community on the difference;
- Development of Old Home Manor;
- Develop inventory.

Work plan process

- Develop plan over the next 12 months, with a 24-month implementation.
- Develop potential solutions and get community involvement.
- Form public committees and use existing committees to address certain matters.
- Forward details to Council regarding review of progress, setting next year's plan, budget, reports on public education, and evaluating progress.

Mr. Smith stated that Council should have a way to set short term and long term priorities, and review and adjust the work plan each year. This would be part of the budget process and would involve evaluating people and programs, determining funding sources, then educating the public and Town staff. Once accomplished, Council could evaluate their progress half way into the fiscal year.

Council asked Mr. Smith to put together a work plan for Council and staff to provide a list of decisions needing to be made, along with a timeline.

Mayor Marley requested that Council focus on the work plan in the remaining two hours.

Ms. Walker stated that committees needed to be formed to review the various aspects for the work plan. Council determined that four committees would work on this plan: the current Council Finance and Economic Development Committees, the Mayor's Ad Hoc Revenue Options Committee, and a new Program Review Committee.

Council recessed for lunch at 11:38 a.m.-1:51 p.m.

Council and staff then discussed the four committees.

Program Review Committee

- Purpose: Review all Town programs; general fund performance, gather data, prioritize programs; develop revenue goals to cover expenses, review cost recovery percentages, and make a variety of short-term and long-term recommendations and alternatives for deliverables. Forward data to the Finance Committee, then to Council.
- Outcomes: Communication plan; review of all programs and general fund performance; prioritize programs and provide alternatives; revenue goals to cover expenses; percentage covered policy.
- Timeframe: Hold first meeting on August 9.
- Members: Councilmembers Turner (Chair), Best, and Croft; Robert Smith (liaison) and other staff to be determined.

Revenue Options Committee

- Purpose: Consider revenue options aside from property and sales taxes, and expense cuts.
- Outcomes: Raise revenues outside of taxing and/or expenditure cuts; and involve the Economic Development and Finance Committees.
- Timeframe: Adopt Charter at next Council meeting; hold first meeting within a month or two.
- Members: Mayor Marley (Chair) and four community business members; Finance Director and Town Manager.

Council Finance Committee

- Purpose: Review potential revenue sources such as sales tax and property tax issues, user fees, bonding and Home Rule; obtain assessed valuation of Town; review enterprise fund and Fann Contract issues; prepare one and two-year work plans for taxes; and review Home Rule assumptions.
- Outcomes: Communication plan; sales tax exceptions; property tax combined calendar; community involvement through Chamber mixers, newspaper, progress reports at Council meetings; include Revenue Options Committee; define outcomes and deliverables; and place alternatives in priority order to solve structural deficit.
- Timeframe: Meet August 21, and September 4 and 18.
- Members: Vice-Mayor Tenney (Chair), Mayor Marley, and Councilmember Hatch; Town Manager and Finance Director (liaison).

Council Economic Development Committee

- Purpose: Study Old Home Manor industrial park and feasibility of developing with more than the current candidate; job creation, infrastructure expansion, business support; benefit analysis to determine incentives; impact sampling; and outreach to Chamber, NACOG, and local and regional agencies.
- Outcomes: Communication plan, timelines for economic development projects, feasibility of economic development project, infrastructure analysis, impact on business development; town attorney involvement; strategic recommendations; community involvement from organizations and Chamber.
- Timeframe: Not specified.
- Members: Councilmembers Echols (Chair), Best, and Croft.

Councilmember Hatch stated that the Magistrate Evaluation Committee, comprised of Mayor Marley, and Councilmembers Croft and herself, will review the Magistrate Department, and Councilmember Croft will report to the Program Review Committee.

Council asked staff to present timeframes for approval of sales and property taxes at their August 14 meeting and to provide a report on the status of impact fee issues.

Council noted that Steve Whisenhunt had disclosed that he was working with someone to transfer the Senior Center to a non-profit and the Program Review Committee should communicate with him.

Financial policies. Ms. Walker stated that the Town needed to review its financial policies, determine if it had followed them, and develop a plan to recover from policy deviations. These were especially important when bonding. Vice-Mayor Tenney noted that the Finance Committee had started reviewing those and had gotten half-way through.

Timeframes for committees

- Council approve committees at its next meeting.
- Develop timelines.
- Develop communication plan; involve other current committees and Library volunteers.
- Develop community involvement plan; involve Friends of the Library, Senior Center, Recreation, Transit, Chamber, community clubs and organizations; use news releases to give information; and give progress reports. Inform citizens on the scope of the budget challenges and deficits; provide opportunity for them to participate in the decision-making process; solicit new ideas for cost reductions and/or revenue enhancements; develop trust in difficult decisions.
- Once the committees were done gathering and reviewing data, they needed to put it all together.

Mayor Marley stated that he would speak about these committees in his next Mayor's Report.

Closing thoughts

Ms. Walker told Council that they had a tough road ahead, but they were entrusted by the citizens to address the issues.

Mr. Smith urged Council and staff to work as a team and leave personalities aside. He also disclosed a legal matter regarding his performance in San Juan Bautista over 10 years ago in case anyone heard about it and he offered to speak with anyone who had questions.

Mayor Marley encouraged Council and staff to be open and honest with one another as they embarked on this process.

3) ADJOURNMENT

Mayor Marley adjourned the meeting at 12:56 p.m.

Chris Marley, Mayor

ATTEST:

Jami C. Lewis

Jamy 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 6th day of August, 2012. I further certify that the meeting was duly called and held and that a quorum was present.

Dated this 13th day of November, 2012.

Jami C. Lewis

Jami C. Lewis, Town Clerk