Lake Havasu City Council Budget Overview Work Session
Police Facility, 2360 McCulloch Boulevard North
Thursday, May 4, 2017, 9:00 a.m.

CALL TO ORDER
Mayor Nexsen called the meeting to order at 9:00 a.m.

PLEDGE OF ALLEGIANCE
The Mayor led in the Pledge of Allegiance.

ROLL CALL
PRESENT: Councilmembers Mark Nexsen, David Lane, Donna McCoy, Jeni Coke, Cal Sheehy, and Michele Lin.
ABSENT: Councilmember Gordon Groat

CALL TO PUBLIC
There were no requests to address the Council.

INTRODUCTION, BUDGET MESSAGE AND OVERVIEW
Administrative Services Director Tabatha Miller reviewed the agenda for Council, and stated that there were two areas that staff was looking for direction from the Council: 1) grant requests, and 2) retiring a lease.

1. Introduction & Budget Message
2. Review Grant Agency Request
3. Budget Overview
    - FY 2017 Estimated Actuals
    - FY 2018 Proposed Budget
        - The Big Picture
        - Sources
        - Uses
4. Trends
5. Expenditure Limitation
6. Council Questions

City Manager Charlie Cassens read the following Budget Message into the record:

> *"We are pleased to present the Budget for Fiscal Year 2017-18. Staff prepared year two of the biennial budget which is built into the five-year financial projections, but not presented here, because as you know, Council may only adopt a single year budget under Arizona State law. Preparing the budget is our most important task of the year. And for elected officials, adopting the coming year's budget supports the City's core services and communicates and establishes the City's priorities and policy direction for another year.*
>
> *As first runner up in the "America's Best Communities" competition, it cannot go without saying that one of the best things our community has going for it is our community-wide commitment to transforming our city's destiny.*
>
> *Here are a few projects already underway that will change our community for the better:*
>
> - *Havasu Riviera development including a new State Park*

- *Downtown Catalyst Project*
- *Vision 20/20 projects such as a new eco-environmental learning center*
- *City's investment in new playing fields and new recreation facilities*
- *Holiday Inn Express and Suites and English Village improvements*

The economy in Lake Havasu City remains strong. Sales tax revenues continue to trend 6% higher than last year, and local employment and labor force figures continue to improve. The number of active business licenses issued by the City increased from 4,756 to 4,818 this year over last (January through March) and the City's assessed property values increased 5.8% this year. New construction accounted for $10 million of this $36 million increase. The number of building permits issued by the City is 3.2% higher than last year (through March) but more significant is the 10% increase in the value those permits represent.

Public Safety Personnel Retirement System (PSPRS)
The City's contribution cost to the PSPRS increased by 40% or more than $1.6 million to $6.0 million annually this next budget year. This challenge is not unique to Lake Havasu City and will continue to be a challenge for our City and other Arizona cities and towns. The City's average unfunded pension liability for fire and police combined increased by $6.4 million last year from $50 million to $56.4 million. Add to the liability this year the cost to reimburse members' excess employee contributions, as a result of the Parker and Hall lawsuits.

Minimum Wage Law Change and Part-time Sick Leave
Proposition 206 passed in Arizona in November, 2016. This raised minimum wage to $10 an hour on January 1, 2017 and will then incrementally increase it to $12 by 2020. Proposition 206 also created a right to paid sick time for all employees. Part-time employees will receive one hour of sick leave for every thirty (30) hours worked. This change in law increased the City's wage and benefits cost by $250,000 annually.

Employee Healthcare
The City through the Northwest Arizona Employee Benefit Trust (NAEBT) has managed the cost of healthcare very effectively since 2012, much better than the healthcare coverage market. Adjustments to benefits and plans have kept the City and the employee's cost of healthcare affordable; but for the first time in three years, the rates charged to the City will increase by an average of 5.8% this next budget year.

Expenditure Limitation
The Expenditure Limitation continues to impede the City's ability to manage the budget and plan for the future. Last year, the City issued $12.2 million in short-term debt in order to accomplish the CIP and stay in compliance with Expenditure Limitation. About half of these funds will carryforward and continue to fund projects. To avoid exceeding the Expenditure Limitation in FY 2017-18, staff recommends issuing debt and prepaying the estimated PSPRS pension contributions for FY 2017-18 and FY 2018-19. This will exclude that expense from the Expenditure Limitation and hopefully allow the City to earn a better return on those funds.

Limited Growth in Revenues
While the local economy is strong, many of the City's revenues remain flat or have limited growth from year to year. The Council has committed to not increasing water or sewer rates. This means that the only increase in water and wastewater utility revenue comes from adding new accounts. This is estimated at less than 1 percent in FY 2017-18.

The Irrigation Drainage District (IDD) $268.85 tax per acre has remained the same since 2012. Similarly, the Council has committed to holding the City's primary property tax levy at the 2009/10 level. The reduced assessed value (the result of the recession) meant that the City's revenue decreased by more than $800,000 that year. Since then the Council has increased the levy for "new construction" only. This means that the Council has banked, or accumulated this growth for possible future levy increases. Consequently, the City has just over $2 million in available revenue capacity should Council decide to return the collection rate to its pre-recession amount."

OUTSIDE AGENCY GRANT FUNDING PRESENTATIONS

The following agencies addressed the Council requesting the following grant funding for Fiscal Years 2017-18 and 2018-19:

1. Mr. Vaclav Zacek, Freestyle Personal Watercraft Association (FPWCA) – $7,000/$10,000
2. Mr. Steve Ahrens, H.A.V.E.N. Family Resource Center - $10,000/$10,000
3. Lieutenant Richard Titus, Lake Havasu Search & Rescue Center - $2,480/$2,480
4. Ms. Nicole Norona, Norona Effect, Inc. - $10,000/$10,000
5. Mr. Michael Eigenbrodt, Social Services Interagency Council of Lake Havasu City - $175,000/$175,000
6. Ms. Catie Sondrol, Somewhere Out of the Box DBA Milemarkers - $59,323.52/$56,120.40
7. Ms. Melinda Kemp, Western Arizona Council of Governments (WACOG) - $5,892/$3,771

Councilmember Sheehy stated that he believed the request from the Freestyle Personal Watercraft Association was more of a tourism related activity and they could possibly find some funding through the Convention & Visitor's Bureau (CVB). He added that he supported $10,000 for H.A.V.E.N. and $2,000 for Lake Havasu Search & Rescue Center. Councilmember Sheehy stated although the Norona Effect, Inc. (Norona) is a great program, he felt funding for the program was a little early and said he would be more apt to support the program to help them get over the finish line to open the center. He stated that Social Services Interagency Council (Interagency) is more of a fee for services that we provide for our residents and would support the requested funds of $175,000. He added that Milemarkers is a fantastic program but did not know if the City could justify the money for the benefit of 12 residents. Councilmember Sheehy stated he would support the WACOG grant fund request if we can meet the budget numbers.

Councilmember Lin stated that she could not make an honest decision without having the information she requested with regard to Interagency. She added that she disagreed with Councilmember Sheehy with regard to Norona as it is a great thing for our community to try and keep families in the community.

Councilmember McCoy stated she agreed with Councilmember Sheehy. She said the one thing that she has the hardest time with is Norona because it is near and dear to Ms. Norona and the council as well. She said if there was an agreement with the hospital it would be different but stated at this point, the gap is still gigantic. Councilmember McCoy stated Milemarkers is incredible but expressed concern over the amount of grant funding requested.

Councilmember Lin expressed concern that Interagency did not provide to the Council a detailed outline of where the $175,000 granting funding request would be spent.

City Attorney Kelly Garry stated that Councilmember Sheehy had mentioned fee for services and said staff has worked really hard over the last couple of years to differentiate between a service agreement and a grant agreement. Ms. Garry explained that service agreements help enhance or provide services to the city; otherwise they are considered grant agreements. Mayor Nexsen asked if the City has a service agreement through Interagency for the courts, to which Ms. Garry stated not specifically for their Veterans services. Mayor Nexsen stated that it could possibly fall under a service agreement because whether Interagency or another agency does the counseling service, it has to be done. Ms. Garry stated that $50,000 would have to come out of the budget somewhere. Mr. Cassens stated that several years ago $50,000 was fronted to Interagency in anticipation of receiving a Substance Abuse and Mental Health Services Association (SAMHSA) grant, and if granted again, $50,000 will be subtracted from what the City pays them. Councilmember Lin stated that she supports the $50,000 going toward the Veterans Court but she would like to see detailed information for the $175,000 and the amount of money they receive in donations and other grants.

Councilmember Lane said that he agreed with Councilmember Lin regarding Interagency and would also like to see their financials and the audit results.

In response to Councilmember Sheehy's question regarding funding for Milemarkers, Ms. Sondrol responded that they would send two therapists to training to get the full benefit of the curriculum, and added that even if they only received a few thousand dollars they would use that to purchase the curriculum.

Councilmember Sheehy revised his recommendation to grant $2,703.12 to Milemarkers and $2,000 for WACOG.

Ms. Miller reiterated the following for Council:

- $10,000 H.A.V.E.N.
- $2,000 Search & Rescue
- $175,000 Interagency (Tentative)
- $2,700 Milemarkers
- $2,000 WACOG

Mayor Nexsen stated he would like to receive more detail from Interagency on how the $175,000 would be allocated, and how grant funding has been spent. Ms. Miller stated she would follow-up with Interagency to provide that information to the Council.

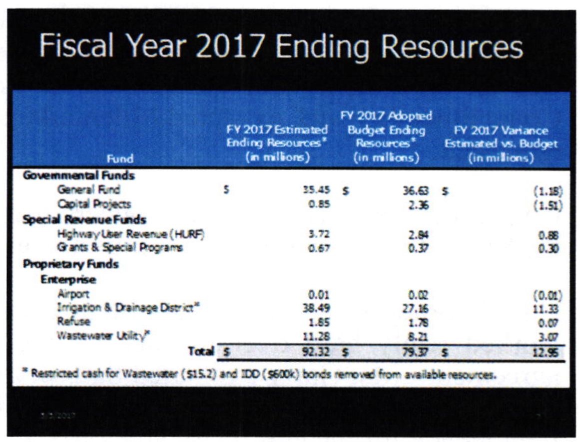
Ms. Miller noted that the budget workbook contains the following sections:

1. Budget Summary
2. Introduction
3. Revenue Highlights (Property Tax Schedules)
4. Expenditure Highlights (Debt Service Schedules and Operating Transfers)
5. Financial Projections – 5 year plan
6. Department Budgets - Details

Ms. Miller and Budget Analyst Cassandra Clow outlined the following in their presentation to Council:

<u>Fiscal Year 2017 – Budget Overview</u>

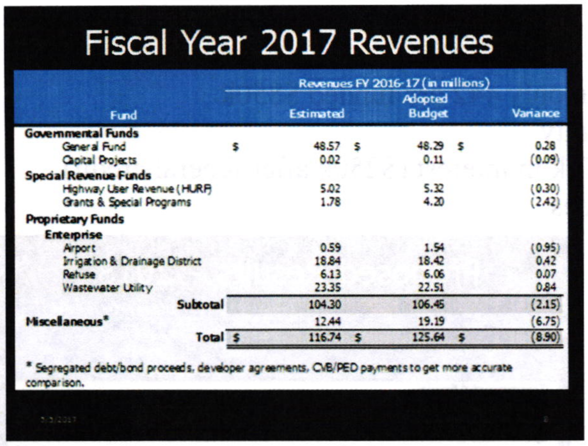
Ms. Miller stated that the ending resources for Fiscal Year (FY) 2017 is the base for how staff budgets for FY 2017-18. Ms. Clow explained that the FY 2017 ending resources compares the fiscal year estimate to the adopted budget, and has an estimated year end of $92.3 million, which is approximately $13 million more than the adopted budget. She said the increase is mainly due to CIP carry-forwards to FY 2017-18.



Fiscal Year 2017 Ending Resources

Fund	FY 2017 Estimated Ending Resources* (in millions)	FY 2017 Adopted Budget Ending Resources* (in millions)	FY 2017 Variance Estimated vs. Budget (in millions)
Governmental Funds			
General Fund	$ 35.45	$ 36.63	$ (1.18)
Capital Projects	0.85	2.36	(1.51)
Special Revenue Funds			
Highway User Revenue (HURF)	3.72	2.84	0.88
Grants & Special Programs	0.67	0.37	0.30
Proprietary Funds			
Enterprise			
Airport	0.01	0.02	(0.01)
Irrigation & Drainage District*	38.49	27.16	11.33
Refuse	1.85	1.78	0.07
Wastewater Utility*	11.28	8.21	3.07
Total	$ 92.32	$ 79.37	$ 12.95

* Restricted cash for Wastewater ($15.2) and IDD ($600k) bonds removed from available resources.



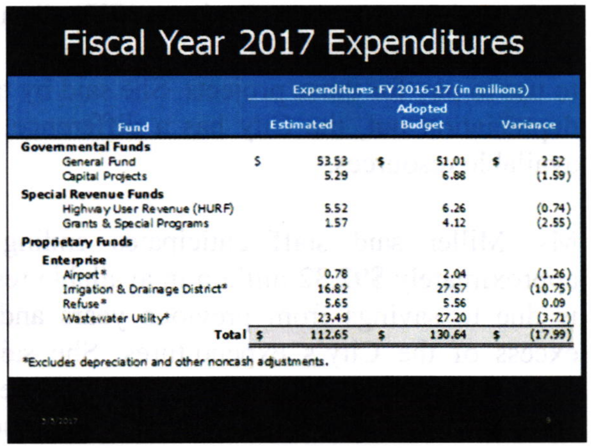
Fiscal Year 2017 Revenues

Fund	Revenues FY 2016-17 (in millions) Estimated	Adopted Budget	Variance
Governmental Funds			
General Fund	$ 48.57	$ 48.29	$ 0.28
Capital Projects	0.02	0.11	(0.09)
Special Revenue Funds			
Highway User Revenue (HURF)	5.02	5.32	(0.30)
Grants & Special Programs	1.78	4.20	(2.42)
Proprietary Funds			
Enterprise			
Airport	0.59	1.54	(0.95)
Irrigation & Drainage District	18.84	18.42	0.42
Refuse	6.13	6.06	0.07
Wastewater Utility	23.35	22.51	0.84
Subtotal	104.30	106.45	(2.15)
Miscellaneous*	12.44	19.19	(6.75)
Total	$ 116.74	$ 125.64	$ (8.90)

* Segregated debt/bond proceeds, developer agreements, CVB/PED payments to get more accurate comparison.

Ms. Clow said the FY 2017 revenues compares the fiscal year estimate to the adopted budget, and has an estimated year end for FY 2017 of $116.74 million, which is $8.9 million under budget. She said the decrease in revenues is mainly due to unused CIP bond proceeds for the ballfields.

Ms. Clow said the FY 2017 expenditures compares the fiscal year estimate to the adopted budget, and has an estimated year end for FY 2017 of $112.7 million, which is approximately $18 million under budget. She said the decrease is mainly due to CIP projects that are being carried forward to the next fiscal year, and added that the General Fund is estimated to be $2.5 million over budget, mainly due to the following two budget amendments that staff plans to bring to the Council in June 2017: 1) pay off the City's Energy Conservation (ECM) lease early, and 2) the tourism and developer agreements. Ms. Miller explained that the ECM lease ends in 2026 and has been identified as having the highest interest rate. She said by paying it off 10 years early it would generate a savings of approximately $677,000 in interest. She said the ECM lease is callable immediately, and although there is a federal subsidy that the City would forego, the City would like to call it during the current fiscal year for the $2.3 million in principal to pay it off.

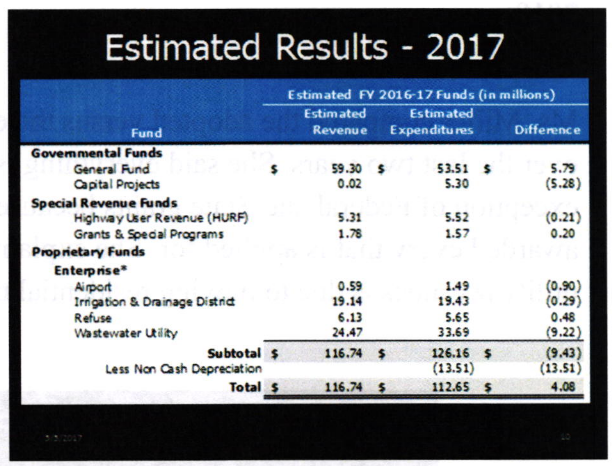


Fiscal Year 2017 Expenditures

Fund	Expenditures FY 2016-17 (in millions) Estimated	Adopted Budget	Variance
Governmental Funds			
General Fund	$ 53.53	$ 51.01	$ 2.52
Capital Projects	5.29	6.88	(1.59)
Special Revenue Funds			
Highway User Revenue (HURF)	5.52	6.26	(0.74)
Grants & Special Programs	1.57	4.12	(2.55)
Proprietary Funds			
Enterprise			
Airport*	0.78	2.04	(1.26)
Irrigation & Drainage District*	16.82	27.57	(10.75)
Refuse*	5.65	5.56	0.09
Wastewater Utility*	23.49	27.20	(3.71)
Total	$ 112.65	$ 130.64	$ (17.99)

*Excludes depreciation and other noncash adjustments.

Ms. Miller said in summary, the City is $4.08 million over budget at the end of FY 2017. She explained that the City's capital assets and enterprise funds are cashed out twice; once when the money is spent on the capital asset, and again when the City depreciates the asset; therefore, there are many cases where staff will adjust that number back out.



Estimated Results - 2017

Fund	Estimated FY 2016-17 Funds (in millions) Estimated Revenue	Estimated Expenditures	Difference
Governmental Funds			
General Fund	$ 59.30	$ 53.51	$ 5.79
Capital Projects	0.02	5.30	(5.28)
Special Revenue Funds			
Highway User Revenue (HURF)	5.31	5.52	(0.21)
Grants & Special Programs	1.78	1.57	0.20
Proprietary Funds			
Enterprise*			
Airport	0.59	1.49	(0.90)
Irrigation & Drainage District	19.14	19.43	(0.29)
Refuse	6.13	5.65	0.48
Wastewater Utility	24.47	33.69	(9.22)
Subtotal	$ 116.74	$ 126.16	$ (9.43)
Less Non Cash Depreciation		(13.51)	(13.51)
Total	$ 116.74	$ 112.65	$ 4.08

<u>Fiscal Year 2018 – Budget Overview</u>

- Pressure from Employee Benefits
  - PSPRS expenditure increasing by $1.6 million
  - PSPRS long-term funding liability remains an outstanding issue
  - $250k impact from Proposition 206 (minimum wage & sick leave)
  - Healthcare premiums increased by an average of 5.8%
  - Merit increases included for FY 2018
- Limited Growth in Revenues
  - City Sales Tax Revenue is projected to increase 5% or $1.1 million
  - Property values improving and new construction increased but increases limited to new construction = 1.5% or $67k
  - State shared revenues increased by 3% in total
  - Utility revenues limited to growth in new accounts
- Department Reductions for FY 2017-18
  - $177k from Meetings, Travel, and Training

- Postponed City Hall Refresh $450k
- $1.25 million in supplies and services
- Authorized positions increase from 450 to 452 but only 442 are funded $850k
- Transition sponsoring Teen Break to the Community
- Payoff energy conservation financing to save $677k in interest ($250k after federal credit)
- Delayed vehicle, furniture and equipment purchases

Ms. Miller said for FY 2017-18, the City has $148.5 million in proposed expenditures and $118.38 million in proposed revenues, which means that the expenditures are outcharging the revenues by $30.12 million. She noted that this is the same amount as identified in Capital Improvement Projects (CIP) discussed a week ago and are identified as the available resources that the City is projecting to use to pay for those projects. She said by taking $13.6 million in depreciation out, the City has a difference of -$16.52 million in available resources.

Proposed Results – 2018

Fund	Proposed FY 2017-18 Funds (in millions) Proposed Budget Revenue	Proposed Budget Expenditures	Difference
Governmental Funds			
General Fund	$ 61.91	$ 57.80	$ 4.11
Capital Projects	0.00	9.39	(9.39)
Special Revenue Funds			
Highway User Revenue (HURF)	5.16	8.68	(3.52)
Grants & Special Programs	2.50	2.44	0.06
Proprietary Funds			
Enterprise			
Airport	1.72	2.84	(1.12)
Irrigation & Drainage District	19.84	27.57	(7.73)
Refuse	3.87	3.50	0.37
Wastewater Utility	23.38	36.28	(12.90)
Subtotal	$ 118.38	$ 148.50	$ (30.12)
Less Non Cash Depreciation		(13.60)	
Total*	$ 118.38	$ 134.90	$ (16.52)

Ms. Miller said staff anticipates ending FY 2016-17 with approximately $92.32 million in available resources. She said this is due to savings from previous years and all of the funds in excess of the City's expenditures. She said after a change of approximately -$16.52 million in available resources, the City will have approximately $75.8 million in ending resources in FY 2018.

Budget Overview – FY 2018

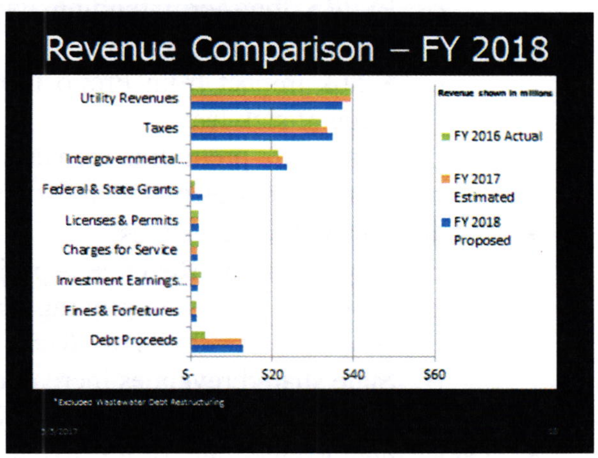
Fund	Available Resources (in millions) FY 2017 Estimated Ending Resources	Change in Available Resources	FY 2018 Adopted Budget Estimated Ending Resources
Governmental Funds			
General Fund	$ 35.45	$ (1.37)	$ 34.08
Capital Projects	0.85	(0.61)	0.24
Special Revenue Funds			
Highway User Revenue (HURF)	3.72	(2.16)	1.56
Grants & Special Programs	0.67	(0.03)	0.64
Proprietary Funds			
Enterprise			
Airport	0.01	-	0.01
Irrigation & Drainage District	38.49	(8.22)	30.27
Refuse	1.85	(1.85)	-
Wastewater Utility	11.28	(2.28)	9.00
Total	$ 92.32	$ (16.52)	$ 75.80

Ms. Miller compared the adopted versus the estimated budget over the last two years. She said everything is positive with exception of Federal and State grants because the City is not awarded every that is applied for. She explained the decrease in utility revenues is due to moving residential trash service, which equates to approximately -$2.2 million.

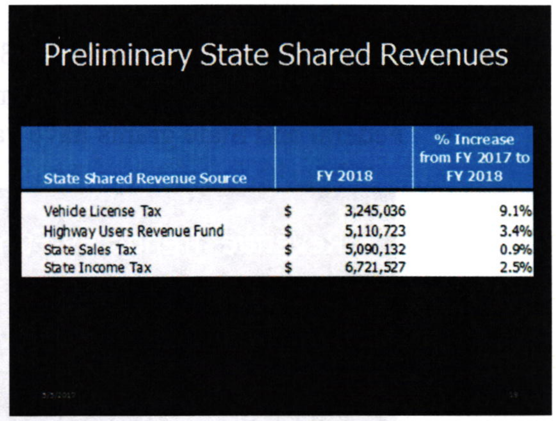
Revenue Comparison – FY 2018

Revenue Source	Revenues (in millions) Adopted FY 2017	Estimated FY 2017	% Variance	Proposed FY 2018	% Variance
Utility Revenues	$ 38.43	$ 39.42	2.6%	$ 37.39	-5.1%
Local Taxes	30.62	33.79	10.4%	34.94	3.4%
Intergovernmental Revenues	22.42	22.94	2.3%	23.59	2.8%
Federal & State Grants	4.78	1.00	-79.1%	2.78	178.0%
License & Permits	2.05	2.08	1.5%	1.98	-4.8%
Charges for Services	1.77	1.79	1.1%	1.73	-3.4%
Investment Earnings & Misc.	1.47	1.91	29.9%	1.79	-6.3%
Fines & Forfeitures	1.20	1.36	13.3%	1.38	1.5%
Subtotal	102.74	104.3	1.5%	105.58	1.2%
Miscellaneous*	22.90	12.45		12.80	
Total	$ 125.64	$ 116.74	N/A	$ 118.38	N/A

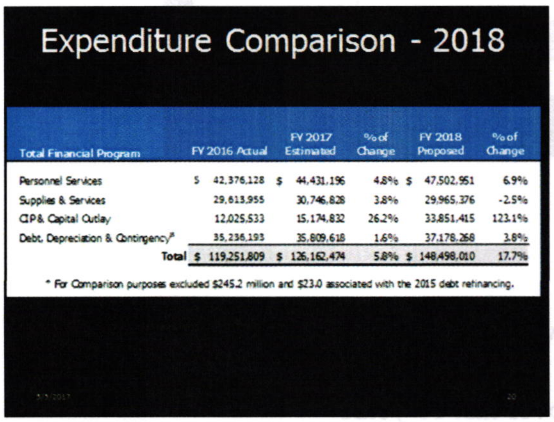
* Segregated debt/bond proceeds, developer agreements, and CVB/PED payments to get more accurate comparison.



Ms. Miller reviewed the City's preliminary state shared revenue projections which are provided by the Arizona League of Cities and Towns from the State's budget and based on their current projected allocation. She said the projections have not been updated for population figures, and will increase or decrease according to the City's census numbers. Ms. Miller added that the City received an additional $190,000 last year from HURF, and said the State has budgeted this "one-time" amount for the upcoming and following budget year.

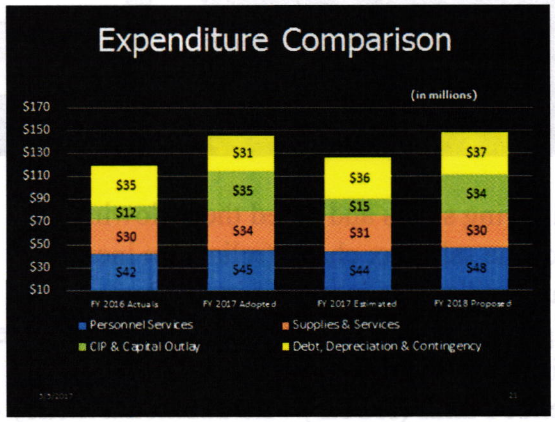


State Shared Revenue Source		FY 2018	% Increase from FY 2017 to FY 2018
Vehicle License Tax	$	3,245,036	9.1%
Highway Users Revenue Fund	$	5,110,723	3.4%
State Sales Tax	$	5,090,132	0.9%
State Income Tax	$	6,721,527	2.5%



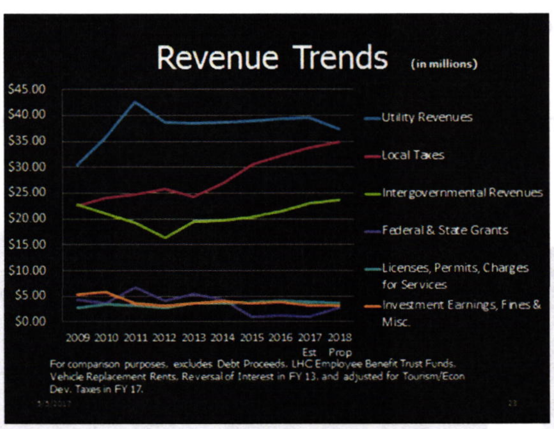
Total Financial Program	FY 2016 Actual	FY 2017 Estimated	% of Change	FY 2018 Proposed	% of Change
Personnel Services	$ 42,376,128	$ 44,431,196	4.8%	$ 47,502,951	6.9%
Supplies & Services	29,613,955	30,746,828	3.8%	29,965,376	-2.5%
CIP & Capital Outlay	12,025,533	15,174,832	26.2%	33,851,415	123.1%
Debt, Depreciation & Contingency*	35,236,193	35,809,618	1.6%	37,178,268	3.8%
Total	$ 119,251,809	$ 126,162,474	5.8%	$ 148,498,010	17.7%

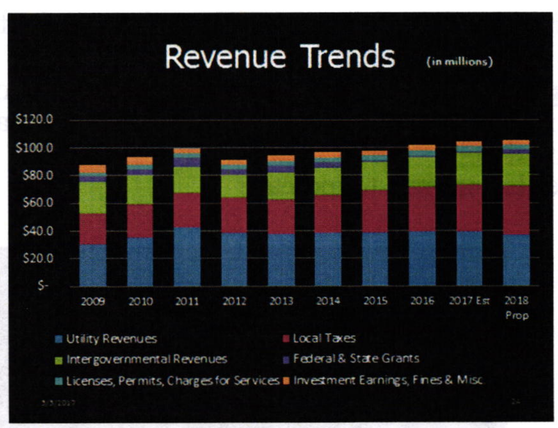
* For Comparison purposes excluded $245.2 million and $23.0 associated with the 2015 debt refinancing.



Ms. Clow compared the expenditures for FY 2015-16 actuals, FY 2016-17 estimated, and FY 2017-18 proposed. She said the proposed personnel services budget is $47.5 million or $3 million over FY 2016-17, mainly due to the Public Safety Personnel Retirement System (PSPRS), as well as merit increases, vacant positions, and medical and dental increases. She said the proposed FY 2017-18 supplies and services budget is approximately $30 million, which has been reduced to FY 2015-16 actuals. She said the proposed CIP & capital outlay budget is $33.9 million, which is more than double the FY 2016-17 estimate due to approximately $14 million in CIP carry-forwards, and added that the proposed debt, depreciation, and contingency budget is $37.2 million. Ms. Clow noted that the proposed budget includes financing PSPRS for two years in order to reduce costs for the Expenditure Limitation. She said overall the City's FY 2017-18 total proposed budget is $148.5 million.

<u>Fiscal Year 2018 – Budget Trends</u>

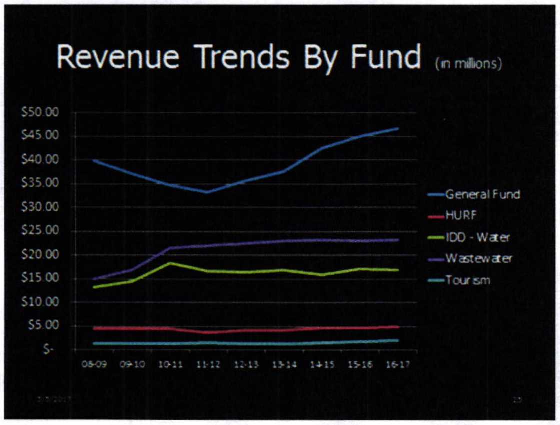


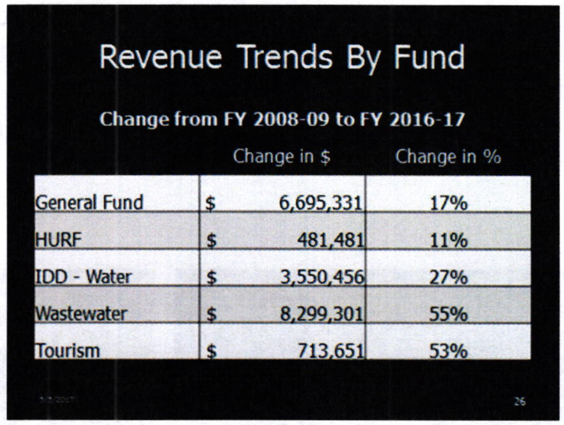


Ms. Miller reviewed the following slides and noted the following:

- Wastewater and water utility rate increases in 2010
- Trash service revenue and expenditure reporting changes in 2011

- Local sales tax increase in 2013
- Small increases in Intergovernmental revenues
- Federal and State grants have varied over the last few years





Revenue Trends By Fund

Change from FY 2008-09 to FY 2016-17

	Change in $		Change in %
General Fund	$	6,695,331	17%
HURF	$	481,481	11%
IDD - Water	$	3,550,456	27%
Wastewater	$	8,299,301	55%
Tourism	$	713,651	53%

Ms. Miller reviewed the following slides and noted the following:

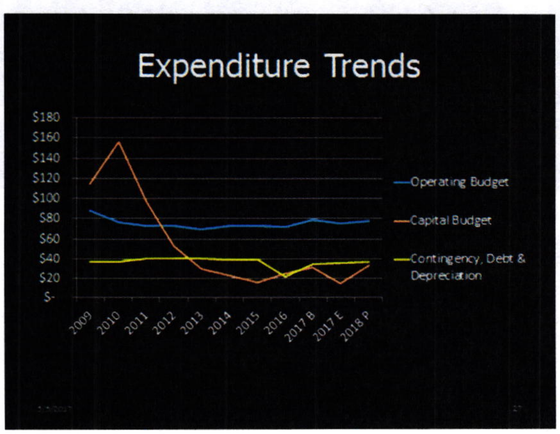
- General Fund mimics the sales tax charts (reliant on increases)
- Wastewater and Water utility rate increases in 2010
- Irrigation & Drainage District (IDD) tax - only a portion of revenues come from utility services and the City does not benefit from growth
- Highway User Revenue Funds (HURF) – no additional money over last 10 years

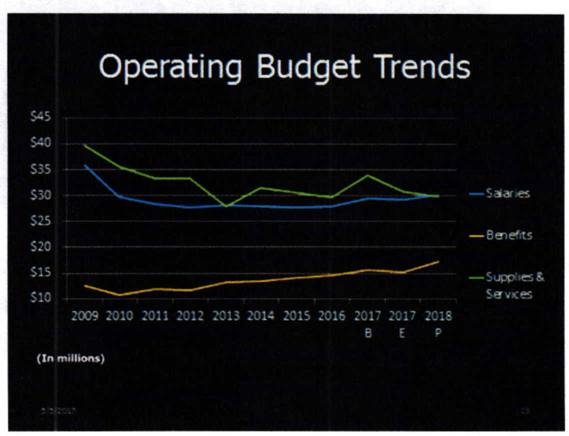
Ms. Miller noted that Wastewater and Tourism are two areas that have drop well. She explained that Tourism is the 3 percent accommodation tax and 1 percent bar and restaurant tax that is given back to the Convention and Visitors Bureau (CVB) and Partnership of Economic Development (PED).

Ms. Miller stated that the operating budget is lower today than almost 10 years ago, and added that the capital budget has the most volatility from year to year, with contingency, debt and depreciation remaining flat. She noted that the dip in 2016 is due to the refunding of the sewer debt, which delayed one of the big principal payments for one year.

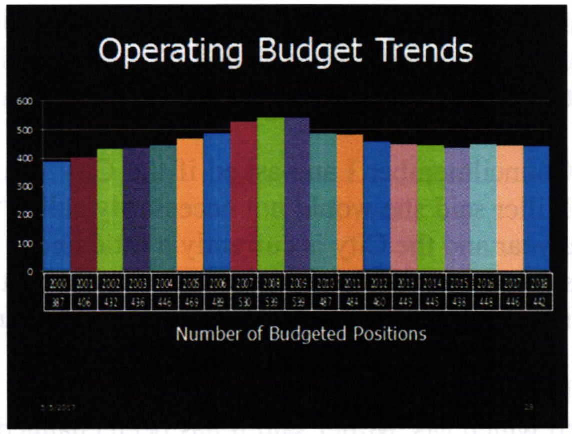
Ms. Miller reviewed the following slide and noted the following:

- Supplies and services are lower today than almost 10 years ago
- Salaries are also lower than 10 years ago, with a gradual increase over the last few years to keep up with the market
- Benefits continue to increase





Ms. Miller reviewed the number of budgeted positions, and stated that the City is proposing to fund 442 of the 452 authorized positions.



Fiscal Year 2018 – Expenditure Limitation
Ms. Miller briefly summarized the history of the expenditure limitation. She said in the summer of 1980, the State Legislature referred a constitutional amendment to the voters designed to limit the annual expenditures of all Arizona cities and towns by a formula based on full-time resident population and inflation. She added that the Arizona Expenditure Limitation (AEL) is incorporated into the State Constitution and Arizona Revised Statutes (A.R.S.).

Fiscal Year 2017-18 Budget Solutions

- Issue debt to prepay PSPRS contributions eliminates $6 million of Expenditures for Expenditure Limitation Report (ELR)
- Utility remaining funds from 2016 Excise Tax to pay for CIP – eliminates approximately $6 million from ELR
- Plan for additional debt issuance to fund remaining CIP expenditures – eliminates up to $16.6 million from ELR

Councilmember Sheehy asked if the City could go back to how the trash service was previously reported a few years ago, to which Ms. Miller said the City proposed that to the auditors and were told they could not.

Councilmember Sheehy said the trash service and the new trash bins are going to be troublesome until the residents get used to it, but he believes it is a better solution for the City to try and find the $2 million somewhere in the budget to keep the billing in-house.

Ms. Miller said one temporary solution is that the City could issue debt to cover the expenses if that is something that the Council wants to consider. She noted that it only buys the City time and there will be interest, but agreed that there are a lot of changes with trash and the City does not necessarily need to add more changes if there are other options to consider.

Councilmember Sheehy asked if the City would issue debt to pay the treash fee that we are collecting, to which Ms. Miller said staff would determine where it would fit appropriately in the budget. She said the Expenditure Limitation is based on a total number so it may be that the City decides to issue debt to cover another expense and keep the trash billing as it is today.

Councilmember Sheehy said if the Expenditure Limitation is approved by the voters in 2018, would it go into effect the next day, to which Ms. Miller replied no, and explained that it would go into effect the following year and would not have the impact until FY 2019-20.

Councilmember Sheehy said he would like to explore other options, to which Councilmember Lane agreed.

Ms. Miller said staff will bring forward other options at the budget work session on May 16th.

There was discussion regarding the cost to residents if the billing was handled in-house versus by Republic Services.

Councilmember Lane said the proposed budget is $145.5 million and asked what the City's Expenditure Limitation is set at, to which Ms. Miller said for the next year it is $57.6 million, and noted that City issued debt, along with the Irrigation & Drainage District (IDD), and about a half dozen other items, including grants and other programs, are excluded. She said preliminary numbers indicate that if the City issues debt for PSPRS and the CIP, we will be under the Expenditure Limitation.

Councilmember Lane asked if the City would also save money by paying its unfunded liability, to which Ms. Miller said she would not necessarily call it "saving" but because the PSPRS projected rate is 7.5 percent interest a year and the City is currently a little under 1.5 percent, the City is hoping to get closer to 7.5 percent. Ms. Miller said she remains cautious because the City does not have control over PSPRS and cannot guarantee their investment policy; however, the idea is to fund it to get a better rate.

Mayor Nexsen referred to Page 3, and asked why the accounting over the years is different for the CVB and PED, to which Ms. Miller said it has been changed every year for the past four years so the numbers do not necessarily line up. She explained that the City's auditors require that the funds go through revenues and expenses; therefore, the FY 2016-17 estimates are reflected as it is in the books. She added that the City sales tax for FY 2016-17 includes the $1.2 million the City will pay in developer agreements and the restaurant and bar tax is a separate line item.

Mayor Nexsen asked when the developer agreements are due to expire, to which Ms. Miller said the City made an adjustment to the mall developer agreement last year. She explained that the agreement allocated a 6.125 percent interest rate that the City was paying on top of the task payments, and when staff looked closely it basically said that the City is going to reimburse the developer for our interests, and what we were actually doing was paying the bank that assumed the loan interest but they were not paying it out. She said the City challenged that and stopped paying it, and has not heard anything from them. She said if there are no issues with excluding the interest it will be paid off in 2021, which is two years early. Ms. Miller noted that the Anderson Toyota developer agreement will expire in 2022.

Mayor Nexsen referred to Page 29, and asked why the projected revenues for Wastewater-User Fees decrease in FY 2017-18, to which Ms. Miller said the decrease is due to decreases in effluent rates which lowered the projected revenues by $350,000. She said the Council will notice a difference in available resources after reserves because the City pulled out $15.2 million for next year's prepayment, which is currently sitting with an escrow agent.

Councilmember Sheehy said the presentation mentioned transitioning Teen Break to the community and asked for more information, to which Recreation Services Manager Mike Keane said the City is currently working with the Christian Youth Workers Roundtable, who were instrumental in starting Teen Break a number of years ago, to run the program.

Councilmember Lane asked about Teen Break's registration figures, to which Mr. Keane said the numbers have decreased over the years which is why the City is looking to run a day camp for the younger kids during spring break because it gives the community more to do. He said in 2015 there were 926 registered for Teen Break, in 2016 there were 839, and in 2017 there were 802.

Councilmember Sheehy referred to Page 5, and asked what was accounted for under Debt Proceeds for FY 2016-17, to which Ms. Miller explained that of the $12 million that was originally budgeted the City had allocated $3.6 million to the Wastewater Fund and discovered that, to date, it has spent more in the General Fund, so those numbers are shifting as they spend the money.

Councilmember Sheehy referred to Page 11, Schedule of Authorized Full Time Positions by Department, and asked if the staffing level for Plans Examiners is adequate to meet the demand, to which Community Investment Director Greg Froslie said CID feels that they have enough positions. He said they are preparing for the increase in development by cross-training and have hired a part-time position to evaluate if the development will continue. He noted that commercial projects and single family residential houses are on the rise, and added they are currently experiencing a two week delay in what is typically a four-week turnaround. Mr. Froslie stated that they feel this is temporary and is something that they will be evaluating every month.

Mayor Nexsen asked if there is ability for the City to outsource plan reviews, to which Mr. Froslie said they discussed this with local consultants in town; however, the issue is that it still takes a tremendous amount of staff time to review the plans and the comments that are issued to the contractor. He said it does not necessarily reduce staff time, and they have not found it to be very efficient in the past. Mayor Nexsen asked if with some additional training if staff felt outsourcing could be beneficial because he does not think this will be a temporary problem with many large projects on the horizon. Mayor Nexsen wondered if the other two cities, Kingman and Bullhead City, had anyone that could assist and take on some excess capacity to help out for a while.

Mr. Cassens said the Tri-Cities addressed this subject a few years ago but it was not pursued; however, he said he would reopen that discussion.

Councilmember Sheehy referred to Page 12, Schedule of Authorized Full Time Positions by Department, and asked if the staffing level for Fire Prevention is adequate, to which Fire Chief Brian Davis said there is a need for additional help in fire prevention; however, with the issue of the budget and Expenditure Limitation they are able to make do. Councilmember Sheehy asked if the Fire Department is able to fulfill the current needs of inspection, to which Chief Davis said they are experiencing some delays as well with one person but are also working with CID to possibly streamline the inspection process.

Councilmember Sheehy referred to Page 16, Capital Outlay Summary, and asked about the line item for the Police Department Fuel Management System, to which Police Chief Dan Doyle explained that the Police Department has their own fuel station with in ground fuel tanks. He said the Police Department has wanted to put in a fuel management system for years because they do not have a software system to report how much is being pumped, or which vehicles are consuming the most fuel or how often. Chief Doyle said the Fuel Management System will track the fleet, the miles per gallon, and how much fuel is used per officer, per shift.

Councilmember Sheehy asked if the Western Arizona Law Enforcement Training Academy (WALETA) steel building would be a shared cost and whether the $400,000 is the entire cost or only Lake Havasu City's portion,

to which Chief Doyle said Lake Havasu City is only the fiduciary for WALETA and there is funding from other sources to pay for the building.

Councilmember Sheehy referred to Page 18, Debt Service Schedule, and asked why the outstanding amount on the Wastewater Utility 2015 B Revenue Bonds is not decreasing, to which Ms. Miller explained that it is not decreasing because the City is currently only paying interest. She said when the City refinanced in 2015 there are three issues: GO Bonds A, GO Revenue Bonds B, and a small portion of a WIFA loan, and added that it is scheduled so that the City pays principal on the GO Bonds first and the Revenue Bonds second.

Councilmember Sheehy referred to Page 30, Administrative Services Department, and asked what falls under the category of Professional Services under Operation & Maintenance, to which Ms. Miller explained that the bulk of that line item is the Information Technology (IT) service agreements.

Councilmember Sheehy referred to Page 32, City Clerk, and asked what falls under the category of Professional Services under Operations & Maintenance, to which Ms. Miller explained that the variance from year to year is due to election services.

Councilmember Sheehy asked why the City has budgeted contingency at $1.8 or $1.9 million, to which Ms. Miller explained that $1.8 million is included in contingency for next year, which is typical of what the City has done in the past. She said they did cut a small amount out of the General Fund from $750,000 to $500,000, and said from a budgetary standpoint that is how the City has done it to have those funds available. She reminded the Council that they must approve the use of contingency funds, and added that they do tie up resources but are helpful to have available in the event of emergencies or issues that are not included in the budget. Ms. Miller said the Council can reduce the amounts in contingency, especially with the CIP budget being so high, as there is usually a lot of budget capacity there that could be used to reduce those amounts.

Councilmember Sheehy referred to Page 5, Refuse Enterprise Fund, and asked about the reserve for the landfill, to which Ms. Miller said the reserve is based on the City's current projections that have been in place for at least 10 years. She said when the City receives the study on the landfill they will reevaluate whether the City is reserving enough and whether or not the City needs to increase the reserve and how to pay for it.

Councilmember Sheehy referred to Page 53, Miscellaneous Grant Funds FY 2017-18, and asked if the $300,000 in Non-Specific City-Wide Grants was already budgeted, to which Ms. Miller said yes, and added that it is essentially a placeholder for grants that may become available.

Mayor Nexsen said he would like to explore expanding Havasu Mobility to five days a week, from 8:00 a.m. to 5:00 p.m. He said he continually gets requests to expand this service and hears that ridership has increased. Mr. Cassens said the mission of Havasu Mobility is to provide public transit service to those people who truly need it and the City has done a very good job of crafting a program that accomplishes that goal.

Havasu Mobility Supervisor Patrick Cipres said ridership has increased steadily over the last 20 months. He said they have molded their riders to ride between 8:00 a.m. and 2:00 p.m. but they are now running at maximum capacity with three drivers every day and still not meeting the demand. He said it is difficult to find another provider in town that provides this same service. Mr. Cipres said they do have it in their budget this year and next year to expand service from 8:00 a.m. to 5:00 p.m., Monday through Friday, and also run the senior bus to the Senior Center on Fridays. He said this would result in an increase of approximately $30,000 each year.

Mayor Nexsen said he thought the expense would be much higher and was in favor of expanding service to 5:00 p.m. Monday through Friday, and adding a bus route to the Senior Center on Fridays.

Councilmember Lane said he also receives requests from residents that would like Havasu Mobility to add a route that goes to the mall one day a week. Mr. Cipres said they conducted a survey and the top three requests were to extend the hours to 5:00 p.m., add a senior bus on Fridays, and add a trip to the mall.

There was discussion regarding the bus route to the Senior Center on Fridays.

Ms. Miller stated that there is capacity in the City's current property tax because the Council in 2010 decided to hold the levy due to property values decreasing which essentially resulted in a $800,000 revenue decrease to the City, and since 2010 the City has not taken advantage of the 2 percent per year that we are allowed to increase property tax. Ms. Miller noted that the City does not lose the capacity but rather banks it, which means at any point in time the City can increase the property tax without a vote to the maximum amount, which is approximately $2 million above where the City is today. She said with pressure on revenues it should be considered and would help the City with our dependency on sales tax, which is more volatile. Ms. Miller said the City has benefited from sales tax over the last several years, but there are concerns going forward about creating more stable General Fund revenues, and the $2 million in property tax revenue stream could be used as a contribution to debt, to pay down PSPRS which is the area that has ability to make an impact on the future using those funds to help fund the $56.4 million deficit.

Ms. Miller said staff is not asking the Council to make any changes today, but to remain aware of it because it is within the capacity of the City.

Mr. Cassens added that the Council years ago, in an effort to help those suffering from diminishing property values, decided to hold the rate which was calculated against lesser property values so essentially it was a net $800,000 reduction in tax revenues to the City. He said in the years since, the Council has opted to hold that levy flat which has imposed our own expenditure limitation rule; however, the rate was established years ago. Mr. Cassens added that while the City has the capacity, staff is not proposing to make that change now but only begin the discussion appropriateness since property values are back to prerecession levels and the city has recovered from that condition that prompted us to make the change. He added that it may be time to put it back so that the City has that revenue to pay off debt, or address the PSPRS issue since it is a community wide issue.

Ms. Miller added that the City's portion on the property tax bill is approximately 9 percent, and when they assessed the impact using the maximum amount it would increase the City's portion of the property tax bill to 12 percent, which is a very small piece that does not have a big impact to the property tax.

Ms. Miller referred to Page 6, Property Tax Levies and Rates, and reviewed the history of the property tax levy from 2007 to current, where the property tax levy dropped between FY 2009-10 and FY 2010-11.

Mayor Nexsen noted that the City is still $500,000 below the FY 2009-10 property tax levy figures.

Councilmember Lane said the City is already at the maximum that it can spend due to the Expenditure Limitation and asked what the purpose would be for raising the property tax levy if the City cannot spend more money, to which Ms. Miller said the City could pay off debt, but would need to do so running it through as debt in order to spend the additional $2 million. Ms. Miller noted that this is assuming the sales tax stays strong; however, if it decreases, then an increase in the property tax would be a replacement for that.

Mayor Nexsen said this could be used specifically for paying the PSPRS debt off because public safety is two-thirds of the budget so everyone benefits from it. Mayor Nexsen asked what the tax levy would be today if the City would have done nothing back in the day, to which Ms. Miller replied $6 million, and noted that the City is currently collecting $4.4 million. Mayor Nexsen noted that at that time while everyone else increased their taxes, the City was the only one that made an effort to lower the taxes.

Ms. Miller explained that the City has made the required payments to PSPRS and only has an unfunded liability because those that manage the PSPRS money have not set the rates reasonably and have not updated the actuarial reports correctly or met their projected investment rates. Mayor Nexsen added that PSPRS has also had recent litigation and the legislature continues to add more benefits which are not in the City's control. He said one of those benefits is the Permanent Benefit Increase (PBI). Ms. Miller added that the PBI and the drop-program actuarial did not account for them correctly in the early years which added a liability that did not get recognized for a number of years.

Councilmember Sheehy asked if the City anticipates future increases to employee health benefits, to which Mr. Cassens said it is dependent on claims and performance which is reconciled annually.

Councilmember Lin referred to Page 43, Operations Airport, and asked about the increase between FY 2016-17 and FY 2017-18 for Professional Services under Operations & Maintenance, to which Airport Supervisor Steve Johnston said the increase is due to the Airport Master Plan Study, which is largely grant funded through State and Federal grants.

Councilmember Lane asked what percentage level the City will be funded through PSPRS when everything is funded, to which Ms. Miller said based on the most recent actuarial through PSPRS, if the City were to fund $10 million each for Fire and Police, the City would go from 44 percent funded to 65 percent funded. Ms. Miller said she was hesitant to give out any final numbers because of the *Parker* and *Hall* lawsuits, which basically reimburses members for employee contributions from 2011, and added that it is a liability that she does not believe has been built in to any of the actual numbers so they could shift. She said she would like to see the City closer to 85 percent. Councilmember Lane said he would like to see the City around 70 percent because the City is not a private entity and does not need to be 100 percent funded. Ms. Miller stated that at least at 65 percent the City is gaining ground and much closer than where we are today.

There was discussion regarding the *Parker* and *Hall* lawsuits.

Ms. Miller asked for a consensus from the Council on whether to call the Energy Conservation (ECM) lease payments to save the City in interest. The Council was in favor of calling the ECM lease early.

Ms. Miller reviewed the list of items that staff would bring back at the May 16th budget meeting:

- Current report, audit, and line items for Social Services Interagency Council of Lake Havasu City
- Options to keep trash collection fees in-house

ADJOURN

Upon motion by Councilmember McCoy and seconded, the meeting adjourned at 12:11 p.m.

CERTIFICATION

I hereby certify that the foregoing is a full and true copy of the Budget Overview Work Session Minutes of the Lake Havasu City Council held on the 4th day of May, 2017. I further certify that the meeting was duly called and posted, and that a quorum was present.

____

Kelly Williams, City Clerk/CMC