

Lake Havasu City Council Budget Work Session
Police Facility, 2360 McCulloch Boulevard North
Tuesday, May 16, 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, Jeni Coke, Michele Lin, Cal Sheehy, David Lane, and Gordon Groat.

ABSENT: Councilmember Donna McCoy.

CALL TO PUBLIC

There were no requests to address the Council.

CONTINUATION OF BUDGET DISCUSSION FOR FISCAL YEAR 2017-18

City Manager Charlie Cassens welcomed the Council to the fourth in a series of budget work sessions.

Administrative Services Director Tabatha Miller stated this session is scheduled to wrap-up information or additional thoughts that the Council had requested before staff brings the budget back to Council in June for tentative and final approval.

Senior Budget Analyst Cassandra Clow stated the budget adjustments illustrate budget changes since the last budget session. She said items #1 through #3 are carry-forwards from the FY 2016-17 budget and are estimated to be completed in FY 2017-18. Ms. Clow stated item #4 is the Community Investment Program (CIP) proceeds that allow the City to exclude the CIP from the expenditure limitation. She said items #5 and #6 are CIP increases, and items #7 and #8 are Public Safety Personnel Retirement System (PSPRS) adjustments due to updated information that staff recently received from PSPRS. She added item #9 is a refuse adjustment which Ms. Miller will explain in more detail. Ms. Clow stated the total changes since the last budget work session is an increase of \$18.5 million in revenues and a little over \$4 million in expenditures.

Mayor Nexsen stated that one of the requests Council had made was to change the hours from 8:00 a.m. to 5:00 p.m., Monday through Friday for Havasu Mobility and asked if that was factored in the budget. Ms. Miller stated yes, and explained because it is such a small dollar amount and if in fact it does impact the Havasu Mobility budget, staff can figure out how to include that within the operating budget to keep that program going into the next year. Mayor Nexsen asked when that schedule would be implemented, to which Havasu Mobility Supervisor Patrick Cipres stated that due to staffing, it would probably be sometime in July or early August. He said staff has already added the senior bus route on Fridays.

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Agenda

1. Budget Adjustments and Changes
2. Banked Property Tax Levy
3. The Impact of Retaining Residential Trash Billing
4. Grant Agencies – Follow up
5. Contract for Services for Veteran's Court with Interagency
6. Priority Based Budgeting – What is Happening?

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Budget Adjustments

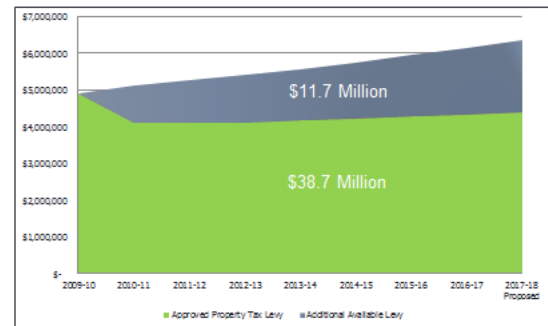
| FY 2017-18 REVENUE AND EXPENDITURES SUMMARY OF CHANGES AFTER 5-4-2017 | | |
|--|----------------|----------------|
| | REVENUES | EXPENDITURES |
| TOTAL FY 2017-18 PROPOSED BUDGET | \$118,379,521 | \$148,495,710 |
| Changes after 5-4-2017: | | |
| 1. Carry forward CIP Project #WT3080 Water Main Replacement | | 870,000 |
| 2. Carry forward fire station alarm system installation fee | | 10,434 |
| 3. Carry forward Telestaff upgrade (Time shift scheduling software) | | 20,000 |
| 4. CIP Bond Proceeds (Maximum Amount) | 16,000,000 | |
| 5. Increase CIP Project #SS2970 - Water Conservation Implementation | | 276,027 |
| 6. Increase CIP Project #ST3280 McCulloch from Smokefree to Acoma | | 200,000 |
| 7. PSPRS adjustment - change 5 employees from Tier 2 to Tier 1 | | (9,426) |
| 8. PSPRS adjustment for Tier 3 adding in unfunded liability rate 39.39% | | 101,812 |
| 9. Refuse payment processing will continue to be done by City | 2,522,000 | 2,572,100 |
| Total Changes since 5-4-2017 Work Session: | 18,522,000 | 4,040,947 |
| TOTAL FY 2017-18 PROPOSED BUDGET | \$ 136,901,521 | \$ 152,536,657 |

Ms. Miller stated staff spoke to Council previously regarding the banked property tax levy revenue that is potentially available. She said staff is not asking Council to take any action at this time but wanted to make sure the Council understands how much money is available. She reviewed the graph for Council and stated the potential levy in the FY 2017-18 budget, if the City were to maximize the legal capacity, would be \$1,947,000 of additional revenue that is potentially available. Ms. Miller stated that may be something the Council would want to talk about in the future as far as pledging it to PSPRS or another specific use.

Mayor Nexsen stated that he did not think there is an appreciation in the community of what property taxes could have been. He said the Council decided not to collect almost \$12 million in taxes yet were able to balance the budget and build the City's reserves. Mayor Nexsen stated that most of the other communities in Arizona are using the highest level of property tax allowed by law and yet are still struggling to figure out how to balance their budget. Mr. Cassens stated the graph is a good illustration of exactly what the City did back in the depths of the recession when assessed property values were going down. He said many other communities were adopting the two percent tax levy and adding new construction to try maximizing whatever property tax they could get. Mr. Cassens said at the same time the City Council voted to hold the rate and has held the levy at that level with the only adjustment being new construction. He stated that money could be put back to work in the community and since we are at the tail end of the recession, this may be something to look at and bring back that levy so that we can offset things like the PSPRS obligation or for another targeted purpose. He added staff would not propose to put it back because we can, it would need to have a targeted purpose. Mayor Nexsen stated during the great recession many people in the community said the City needs to be run like a business. He said in business, during the recession, the demand for their services goes down because no one wants to spend money so you cut costs to meet that demand. He added in a municipality the opposite is true, you have less revenue but the demand for services goes up. Mayor Nexsen stated that it was painful at the time but it has now amounted to almost \$12 million that we chose not to collect from the community.

Ms. Miller stated the Refuse Enterprise Fund is where staff accounts for the residential trash fees. She said in the proposed budget, staff has increased the residential trash fees revenue and the operation and maintenance expenditures. Ms. Miller stated that is basically an offset because if the City takes on the billing, at the current rate that Republic Services (Republic) is charging their customers, less the one dollar fee, the City would bring in the same amount of revenue that would be paid to Republic. Ms. Miller stated there is a small impact between FY 2017-18 and FY 2018-19 for interest and miscellaneous revenues. She stated that interest and miscellaneous revenue includes fees in FY 2017-18 that the City receives from Republic currently for doing the billing as well as some administrative fees and additional fees that are added to the trash service. Ms. Miller stated if there is a straight pass-through of what Republic charges the City to our customers and collects that eliminates those fees from the cost. She said one dollar is what Republic is willing to give the City credit for on each account per month for those additional fees. Ms. Miller pointed out that there is a dip in interest and miscellaneous revenues and it is staff's intention to incorporate and increase those fees when the landfill contract is re-written. Ms. Miller stated, strategically, what staff is focusing on right now is the life of

Lake Havasu City Allowable Property Tax Levy



FINANCIAL PROJECTIONS - REFUSE ENTERPRISE FUND

| Financial Projections | Budget FY 16-17 | Estimate FY 16-17 | Proposed FY 17-18 | Projections | |
|---------------------------------------|-----------------------|-----------------------|-----------------------|---------------------|---------------------|
| | | | | FY 18-19 | FY 19-20 |
| Revenues | | | | | |
| Residential Trash Fees | \$ 3,300,000 | \$ 3,322,000 | \$ 3,530,000 | \$ 5,717,000 | \$ 5,889,000 |
| Interest & Miscellaneous | 421,000 | 450,000 | 230,000 | 55,000 | 56,000 |
| Landfill Disposal Fees | 339,000 | 360,000 | 615,000 | 750,000 | 765,000 |
| Total Revenues | \$ 3,960,000 | \$ 4,132,000 | \$ 4,375,000 | \$ 6,522,000 | \$ 6,710,000 |
| Expenditures | | | | | |
| Operation & Maintenance (O&M) | \$ 4,844,826 | \$ 4,958,000 | \$ 5,380,000 | \$ 5,717,000 | \$ 5,889,000 |
| Contingency | - | - | 100,000 | 100,000 | 100,000 |
| Interfund Cost Allocation | 589,630 | 590,000 | 268,000 | 275,000 | 281,000 |
| Landfill Closure Reserve | 124,618 | 125,000 | 127,000 | 128,000 | 131,000 |
| Total Expenditures | \$ 5,559,074 | \$ 5,673,000 | \$ 6,075,000 | \$ 6,220,000 | \$ 6,401,000 |
| CURRENT YEAR RESOURCES | \$ 900,926 | \$ 479,000 | \$ 319,000 | \$ 302,000 | \$ 309,000 |
| Beginning Available Resources* | \$ 2,662,616 | \$ 2,674,705 | \$ 1,853,705 | \$ (48,295) | \$ 3,705 |
| Transfers In/(Out) | (1,384,031) | (1,300,000) | (2,221,000) | (250,000) | (250,000) |
| Total Transfers In/(Out) | \$ (1,384,031) | \$ (1,300,000) | \$ (2,221,000) | \$ (250,000) | \$ (250,000) |
| ENDING AVAILABLE RESOURCES | \$ 1,779,511 | \$ 1,853,705 | \$ (48,295) | \$ 3,705 | \$ 62,705 |

*Beginning Available Resources excludes the Landfill closure reserve of \$3.1 million

the landfill and the potential liability and cost to close it and possibly open another landfill. She said staff feels that those fees should be collected and reserved for those liabilities so staff can plan for the future.

Ms. Miller stated if the City takes on the billing it will be a pass-through and resources would drop a little but the City is providing a service to our customers by providing the billing and tying it to their water bill which is an easy enforcement mechanism for non-payment. She said bottom line, the City really cannot afford to do that. She stated there is a bit of a negative in FY 2017-18 but added one of the reasons for that is that staff is taking some of the reserves and has allocated those reserves to the Havasu 280 CIP project for some of the infrastructure. Ms. Miller stated that staff would take care of the -\$48,000 but did not want to hide that from Council.

Ms. Miller stated there is approximately \$3.1 million set aside for closure of the landfill and approximately \$125,000 a year is put into that fund. She noted that it is not shown as an available resource but is separate and accounted for. Councilmember Sheehy asked why refuse fund monies would be used for the Havasu 280 infrastructure project. Ms. Miller explained that part of the funding received over the years on residential trash is for a beautification fund. She said those have built up over time and staff felt those funds were appropriate to use for the City's part of that project.

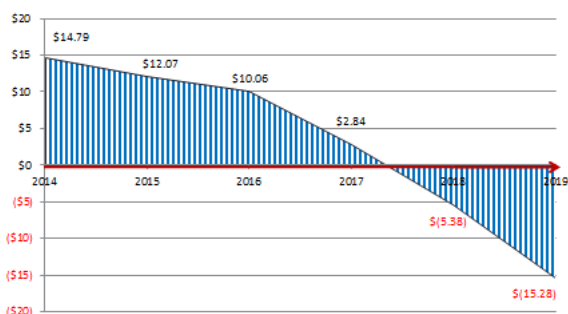
Ms. Miller stated the biggest issue with continuing the residential trash billing was not how it would impact the fund but how it would impact the expenditure limitation assumptions. She said to manage the expenditure limitation next year the City will issue debt for two separate purposes. She said the first thing is to issue debt to cover the PSPRS employer contributions for FY 2017-18 and FY 2018-19. She added that it has to be taxable so the interest rate will be a bit higher; however, the plan is to pay that off in a couple of years and would be a short term turnaround.

Ms. Miller stated, additionally, once the current 2016 debt proceeds are expended for capital projects and capital outlay, staff would issue \$16 million in additional CIP debt sometime next year. She said between those two, there is enough capacity built into the expenditure limitation to accommodate the additional increase or ongoing increase for at least the next two years. She added that she has already spoken with Republic to keep the option in the contract to be able to turn the billing and all of the financial piece back over to them should the time come the City needs to use that as an out.

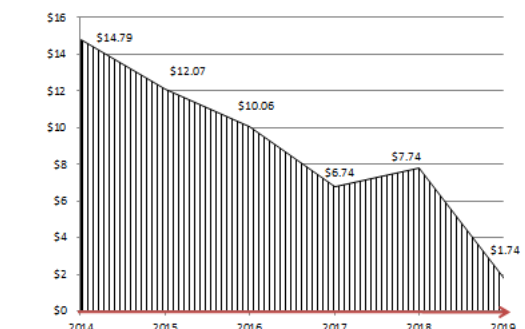
Expenditure Limitation Assumptions

- City issues \$12+ million in taxable debt to prepay 2017-18 and 2018-19 Public Safety Personnel Retirement System (PSPRS) employer contributions
- Capital project and capital outlay will be funded with tax exempt debt
 - Remaining 2016 debt proceeds
 - Additional issuance, when needed
- City will continue to bill and account for Residential Trash Service but contractually retain right to turn over to Republic, if necessary

Estimated 3-31-17
Expenditure Limitation Carry Forward
(in millions)



Estimated 5-15-17
Expenditure Limitation Carry Forward
(in millions)



Ms. Miller stated that the estimated March 31, 2017, graph shows the projections if staff did nothing to manage the expenditure limitation. She added the carry forward would move into the negative next year. Ms. Miller stated the estimated May 15, 2017 graph is based on the assumptions previously discussed and shows that the City would end up just under \$2 million in carry forward at the end of 2019.

Mayor Nexsen stated that he thought the new trash service would begin on July 1, 2017, instead of January 1, 2018. Mr. Cassens stated that he believed that is due to the lead time on the new equipment, and added that has to be a flexible date. Ms. Miller explained the contract with Republic was amended to extend the existing contract six months.

Mayor Nexsen stated he had asked the courts to do an analysis of the counseling services that were provided for non-combat veterans through Interagency because the City gives them \$50,000 a year to provide those services along with rent assistance, utility assistance, etc. He said he was dismayed to see that they had not counseled a single veteran and unless they can show that the information is incorrect, he strongly suggested that the \$50,000 be excluded from their contract and that next year they provide veterans counseling services for no additional cost. He stated there are three options; drop the \$50,000 from the contract this year, provide services at no additional costs, or they should write a check back to the taxpayers for \$50,000.

Contract For Services

- Transition Veteran's Court Services agreement with Social Service Interagency Council
- More detailed tracking of services provided and cost of individual services
- Separate out expenditure from grant allocations
 - Remains a General Fund Expenditure

Mr. Cassens stated that several years ago the \$50,000 was put into the budget as a grant because it was in anticipation of award of a Substance Abuse and Mental Health Services (SAMHSA) grant. He said while the grant has been applied for each subsequent year they were not successful in acquiring that grant so the \$50,000 has morphed into being in the grant package for Interagency. Mr. Cassens stated that he agreed it would be appropriate as a separate contract for service because it is something that can be tracked and invoiced, and the City can pay for it when those services are provided. He stated in his opinion, the City should get out of the grant business, and said he is not aware of many other communities in Arizona that are in the grant award business. Mr. Cassens stated the City is here to provide essential public services and if we are awarding grants for what would otherwise be considered essential public services then we should contract for those services and pay for them as they are provided. He stated that it would bring a higher level of accountability for how we spend the taxpayer's money and would get the City out of the grant business. Mr. Cassens proposed that staff inform those grant agencies that are used to receiving grants from the City that at the end of this biennial budget cycle the City will not be issuing any grants but if there are services that the City needs, they can be contracted out separately.

Mayor Nexsen stated he would go one step further and say this should be the last year and would prefer that for FY 2018-19, staff go out for Request for Proposals (RFP) and contract out those services. He said he was incredibly disappointed with the pushback the Council received from some of the agencies and the fighting amongst non-profit groups. He added he has had too many tax payers say if they want to make a donation, they will make the donation but do not make donations with their tax dollars. Mayor Nexsen added that he felt it would be inappropriate to end it this year because it is too late in the budget process.

Councilmember Sheehy asked if the City would issue an RFP for Haven Family Resource Center and Search and Rescue because those are very essential to our community. City Attorney Kelly Garry explained that because those are specialized services, the City would not enter into an RFP but would have a direct agreement with those agencies. Ms. Garry stated in analyzing the other services, staff would go through whatever method is appropriate to analyze those services. Councilmember Sheehy asked how that would work with Search and Rescue where it is mostly volunteer based but is an essential service to the City. Ms. Garry replied that staff would determine the best way to handle paying for those types of services.

Mr. Cassens stated the City could have a readiness contract or something to that effect wherein they would bill the City for their service. Mr. Cassens stated part of the contention, as far as the grants are concerned, is that there are multiple providers in town so that is when it is appropriate to do an RFP then you can set the scope of work and you know exactly what it is you are negotiating with and what it is going to cost. He added performance measures are involved so if they are not fulfilling the need then we either get somebody else or we do not provide that service anymore.

Mayor Nexsen stated this is not to say that the non-profit agencies are not doing good work for the community but that it should not be tax funded, it should be individual contributions. He added that is how non-profit agencies are supposed to work unless there is a contract for service. Mayor Nexsen stated that is a perfect situation of how that should work in the future but again, there needs to be some consensus from Council.

Councilmember Lane stated it gives the City better control over the taxpayer's money instead of giving it to an agency where there is no control over how that money is spent. He said by doing an RFP for essential services the City can pick and choose what services truly are essential and what services the City should be assisting and the City will probably end up saving money in the long run.

Councilmember Sheehy stated he agreed and felt it was the most prudent way to go. He said to take it one step further, he wondered if \$125,000 could be included in the budget but go out for an RFP for the additional services that they offer and have a competitive bidding process. Mr. Cassens stated what he was hearing from Council is this will be the last year of the grant proceeds and Interagency will get the \$125,000 but the \$50,000 will be under a separate contract. He said before this time next year, staff can solicit RFP's for those services but will need to discuss with Council what types of services qualify for grant funds. Councilmember Sheehy asked if it was too late for Interagency to go through the RFP process this year, to which Mr. Cassens replied yes. Ms. Garry stated staff is not prepared to analyze what those services might be and determine whether or not they fall under a service. Councilmember Sheehy stated that it is disappointing the way the information flowed to the Council and the lack of information provided from Interagency to allocate that kind of money. Mayor Nexsen stated that he did not disagree but said they are providing other essential services to the community. He added that he agreed with Councilmember Lane that more accountability is appropriate but did want to make it clear that he does not want to issue a contract for an additional \$50,000 this year. Mayor Nexsen stated either they provide one additional year of service for veterans counseling or issue the City a check for \$50,000. Mr. Cassens stated that is one example why the City should move in the direction of an RFP.

Councilmember Sheehy asked if the City would receive quarterly reports from the agencies, and added the information that the City receives looks like they are doing good work so the perception might be that the Council is overlooking the reports but they are read each quarter.

Mayor Nexsen said Interagency was using City funding for leveraging grants because many of the grants would not allow them to have administrative services as part of that grant but if they had another way to pay for that they were able to get additional grants. He added at this point the City has asked all of the agencies for many years that it is time to move away from that dependence. Mayor Nexsen requested staff to obtain from Interagency, statistics on what grants were awarded using City funding to receive any additional funding because those are paybacks on taxpayer dollars. Mr. Cassens asked if the Mayor was looking for additional or greater detail on exactly how the City funding is allocated or used. Mayor Nexsen said he would like to see greater detail showing how that \$125,000 was leveraged. Ms. Miller stated that she had looked through the contracts and they are meeting what the City requires of them for their quarterly financial reports. She stated there is not enough detail in the contract to get that information but staff could add that to the contracts if the Council goes in that direction next year.

Councilmember Groat stated non-profit organizations are supposed to be able to stand on their own with contributions from the community and their own business model, but there are times of need for matching funds or partnership allocation funds. He said the City may be able to establish some kind of a mechanism or a fund that we would be able to respond to that if something like that were to happen within a fiscal year. He stated what he is hearing is very logical that the City does need to have greater transparency and accountability.

Mayor Nexsen stated that may not be a bad idea but the City would only write a check assuming they were successful on the grant. Councilmember Sheehy said that he would not be a fan of that idea and added that these are essential services that the government needs to provide and stated, in his opinion, the City does not need to be in the business of helping non-profits leverage dollars. Mayor Nexsen stated to some degree that could get out of control, and asked for staff to at least look at that option to see if it can function. Mr. Cassens stated health and human services are actually a county function so it could be an obligation or responsibility of the county to deal more in these things if we deem it is an essential public service.

Mr. Cassens asked if there was a consensus from the Council that this be the last year that the City issues grants. Councilmember Lane stated that he felt they need to make sure all the essential services are covered but added there needs to be better accountability from the different agencies.

Vice Mayor Coke asked if staff knew why no counseling services were provided for Veterans Court and wondered if the veterans were offered those services and declined the services or if they were never asked for the service. Mr. Cassens stated those counseling services are deemed to be necessary for those veterans that may not be eligible for VA benefits. He said Veterans Court made the decision to accept all veterans so staff wanted to provide the same services for those veterans not eligible for VA benefits. Mayor Nexsen stated that the City provides counseling services for non-combat veterans but for some reason it shows that Interagency did not participate. He said that is why he would like them to participate at no additional cost.

Mr. Cassens stated from what he heard, the City is going to pull \$50,000 from Interagency and they will receive \$125,000 but this will be the last year. Mayor Nexsen asked if there was a consensus of the Council.

Councilmember Lane stated that he agreed.

Councilmember Lin stated that she has a hard time giving Interagency any money because they did not provide the Council with the information on two items. She said that she agrees to pull the \$50,000 because they were not held accountable. She stated that she understands that they provide other services but there are other agencies that provide those same services.

Councilmember Sheehy stated he agreed with pulling the \$50,000 but stated he was concerned with the \$125,000 as well just because of the information provided to council. He added he would like specific information on the quarterly reports that shows how many total people they did assist for each program.

Ms. Miller stated that staff can be very specific about what services are funded. She added the other option is instead of giving administrative dollars, it can be very specific that the funding is used for a particular purpose or expense and receive specific reporting on that service.

Councilmember Sheehy stated it is a large amount of money for the City to restrict at this level when they have had the past experience of us not being that way. Mayor Nexsen stated that Ms. Miller said they have actually met the terms of their contract. Ms. Miller stated that was correct and added that the difference would be in the new agreement if the Council would choose to give them \$125,000, be very specific how that money would be spent. Mayor Nexsen suggested that they have to meet the requirements on a quarterly basis and if they do not meet the requirements, they do not receive the next installment.

Mr. Cassens suggested that staff put together a questionnaire or a form with very specific pointed questions and then each contract will be consistent and will give Council a clear indication exactly what those funds are going towards.

Councilmember Lin stated with the additional information provided by Ms. Miller, Interagency is not just receiving \$125,000 from Lake Havasu City, they show \$1.7 million in cash donations. She said when you look through their budget and goals it does not say that they ever reached those goals. She said information is missing, and added that, for the record, she has been asking for information from Interagency for two years. Mayor Nexsen stated that he would expect they would receive other grants, contracts and donations. Councilmember Lin said what she was saying is they are receiving \$1.7 million which does not include the food bank contributions. She stated they also received \$75,000 in cash donations for the food bank and \$1.7 million in in-kind for the foodbank.

Councilmember Sheehy stated with the \$125,000 to Interagency there are some services that the City would have to provide such as domestic violence services. Councilmember Lin stated that Interagency is not the only one who can provide that service, and added that she would like to see more detail of where the money is going.

Ms. Garry pointed out that over the years, staff has been eliminating services that are in contrast to what a grant is and what is left is what staff feels are the truly essential services that are necessary for staff to do their job. She added that essential services are required by some sort of law, contract, or rule to provide those services. Ms. Garry stated that is part of the in-depth analysis that staff will do with Interagency, and that is to determine what services are truly, if any, essential services that the City would have to provide or the City would have to pay to provide those services. She said at this time what is being paid to Interagency has not been deemed as an essential service. Mayor Nexsen stated that he did not disagree and added that is where the heartburn will come from some of the non-profits next year. He added that Search and Rescue and some of the services that Haven provides to the Police Department are definitely essential services.

Mr. Cassens stated he agreed with Ms. Garry and said staff can look at the total package of each of the grants and carve out those things that the City could potentially be expected to provide. He said if there are multiple agencies that provide a service; the City will do an RFP. Mr. Cassens stated, in the end, the City will end up with more accountability and hopefully better service to the community.

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Community/Governance Results

1. Safe and Secure Community
2. Well-Planned, Sustainable Growth and Development
3. Reliable Infrastructure and Effective Mobility
4. Clean, Sustainable Environment and Preservation of Natural Resources
5. Great Community to Live, Work and Play
6. Well Governed and Administered City

Department Use of PBB

- Inventory of what services Departments provide
- Reallocation of Resources
 - Should it be done by some other entity
 - Should it be done cheaper
 - Should it be done at all

Ms. Miller stated that more accountability and better service to the community is the principal of Priority Based Budgeting (PBB). She said PBB is about looking at the City's priorities, what they are, what should be funded, being accountable, and trying to figure out the true cost of doing business. Ms. Miller stated it is really looking at value when spending taxpayer dollars.

Ms. Miller stated the community results were refined by the Council at the Council Retreat and principle #6, "Provide Transparency of Community Priorities", is how we govern ourselves and operate as a City. Ms. Miller reviewed the eight principles of Priority-Driven Budgeting, and added that is what staff based the process on as they rated their programs.

Ms. Miller stated when staff identified what programs and services each department provides, they also looked at the basic program attributes and whether they are applicable today and whether the City has a legal requirement to provide that service. She said the second thing staff looked at is reliance on the City to provide the service and if the City is the right organization to provide that service or if someone else can provide that service. Ms. Miller stated the third thing was demand, which identified whether the need for that service is increasing or decreasing. She said cost is whether the City receives revenues that offset part of the cost or the entire cost. She stated the last thing staff looked at is how many people in the community are served by the program. Ms. Miller stated that while there are a lot of important programs, there are a small number of people who benefit from them.

Ms. Miller explained that staff evaluated and scored the programs or services in Quartile 1 or 2, and felt they met those results and those basic attributes and were important and provided good value for the City. She said in Quartile 3, the departments looked at those programs or services to determine if they were being done well and looked at the spending and if there was a different way to do it.

Ms. Miller stated Quartile 4 shows \$4.4 million in expenditures but is less because staff has gone through and evaluated those services. She added they are very important but are services that are provided to a smaller portion of the community and may be vital to the people that are served; however, when you compare those to the community results and whether the City is mandated to provide that service or there is true value or demand, they did not necessarily rate.

Ms. Miller noted that Quartile 4 is where the departments have spent the last few months evaluating what we do, whether or not we are doing it right, and if we are spending the right amount of money on those services. She said in some cases in Quartile 4, staff found things that were mandated but did not add value to the community at the level that staff would have liked. Ms. Miller stated the Quartile 4 programs are sorted by department and focus on things that provide service to a small group and in some cases do not add community value. She said they may be important and in some cases a required service but it may not be something that when you rate it against those other community values is as high as staff would like it to be.

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Principles of Priority-Driven Budgeting

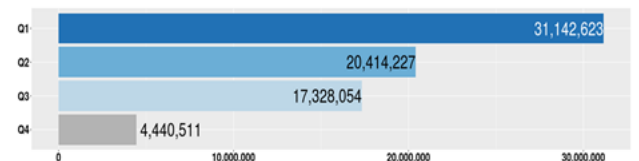
1. Prioritize Services
2. Do the Important Things Well
3. Question Past Patterns of Spending
4. Spend Within the Organization's Means
5. Know the True Cost of Doing Business
6. Provide Transparency of Community Priorities
7. Provide Transparency of Service Impact
8. Demand Accountability for Results

Basic Program Attribute

1. Mandated to Provide Program
2. Reliance on City to Provide Program
3. Change in Demand for Program
4. Cost Recovery of Program
5. Portion of Community Served by Program

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Priority Based Budgeting



| Org | Quartiles Total | Quartiles % | Comm/Gen % | # of Programs | Admin Costs |
|------------------|-----------------|-------------|-------------|---------------|-------------|
| Lake Havasu City | 73,325,415 | 100% | 87.6%/12.4% | 401 | 0 |

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4th Quartile Programs

Final Scores for Upload

You may adjust the quartiles before upload.
For example, programs set quartile cut-off may be pushed up or down based on your discretion.
For further information on scoring, include detailed report in download.

| Type | Program # | Department | Program |
|------------|-----------|-------------------------|---|
| Government | 9080 | Administrative Services | Comprehensive Annual Financial Report Preparation |
| Government | 9084 | Administrative Services | IT Application Self-Support Resource Development |
| Government | 9087 | Administrative Services | New Application Training |
| Government | 9088 | Administrative Services | Print Services Management |
| Government | 9084 | Administrative Services | Special Program Support |
| Government | 9085 | City Attorney | Participate and Secure Management |
| Government | 9089 | City Attorney | Victim's Court |
| Government | 9089 | City Attorney | Victim Advocate Program |
| Government | 9089 | City Clerk | Legal Process Services Management |
| Government | 9412 | City Manager | Commutal Board and Public Appearance |
| Government | 9413 | City Manager | Channel 4 - Administration and Support |
| Government | 9413 | City Manager | Channel 4 - Board, Commissions and Meetings |
| Government | 9414 | City Manager | Channel 4 - Council Meetings |
| Government | 9410 | City Manager | Proclamation Administration |
| Government | 7012 | Community Investment | Business License Enforcement |
| Government | 7020 | Community Investment | City Maintenance |
| Government | 7016 | Community Investment | Land Lease Agreement Management |
| Government | 6108 | Community Services | Park Fun Fair |
| Government | 6108 | Community Services | Free Community Dinner |
| Government | 6110 | Community Services | Free Concerts in the Park |
| Government | 6111 | Community Services | Fundraising |
| Government | 6112 | Community Services | Junior Lifeguards |

Ms. Miller said staff also reviewed Quartile 3 over the last few months to look at what we do, what it costs, and whether or not we should reallocate these sources. She said as an example, Human Resources/Risk Management Division outsourced the workers compensation first response, Triage Now. Ms. Miller noted the budget book and Teen Break as two other cost saving programs. She pointed out that it is not because these services are not important and not valued, but they do not meet the level of community wide support. Ms. Miller said moving forward with Priority Based Budgeting is something that staff will continue to refine and evaluate. She added staff would like to bring it back to Council and continue to evaluate and look at those priorities and also make sure where the City stands which may include some outreach to our citizenry on what is important in their city.

Mr. Cassens stated in 2010 staff had some tough decisions to make as an organization. He said staff essentially re-crafted the organization from the ground up and used a system very similar to the priority based budgeting model and methodology basically looking at all the functions of the organization and the value of those functions. Mr. Cassens stated there are many valuable programs in Quartile 4 that they City is not throwing away because they bring great value to the city, and added that this program verifies that staff did a good job in 2010 carving out the non-essential programs. Mr. Cassens added that he is very pleased with the results of the exercise and that staff has been doing the right thing for the organization.

Mayor Nexsen asked what the plan was for the Quartile 4 list. Ms. Miller stated that staff has reviewed Quartiles 3 and 4 and looked at changes which will be reflected in the new budget numbers. She added when staff reallocates the costs, some will go down and some will be eliminated. She said there are programs that cannot be cut because they are still important to our community but what staff is doing with some of those programs is making sure they are serving our community at a lesser price. Ms. Miller added that Boulder, Colorado, has been doing this for ten years and have only moved \$1 million from the Quartile 4 to the Quartile 3. She said the idea is to continually monitor the programs and figure out how staff can continually reduce the cost of those items.

Councilmember Sheehy asked how the numbers were determined because some of the costs seemed a bit out of line, to which Ms. Miller explained that some of the programs crossed departments and added that every department identified their programs and allocated it based on the total cost. She said the next step took every staff member in the department and allocated their time in increments of five percent so the employee costs plus benefits were allocated out and that is where staff came up with the total cost.

Councilmember Sheehy stated there are a lot of great programs and wondered how the conversation would happen so that all of the items do not just disappear. Ms. Miller said at this point, she did not believe any of the programs were on the chopping block. She stated there would be Council involvement and interest and would be an ongoing process. Mr. Cassens stated it would be impossible to get to a zero number of programs in Quartile 4 and staff would not propose to do that.

Councilmember Groat said he would like to see a spreadsheet showing how all the programs ranked.

Councilmember Sheehy clarified that the City would not have direct involvement with Teen Break but it would be a community event and added, the City would be offering the normal after school program during spring break. He said it is important for the community to know that the City is still supporting Teen Break. Councilmember Sheehy stated he would like to fund a Plans Examiner I position in the budget. He said with all the priorities the Council has set and the projects that have already been approved the Council will not do justice for those programs by not having a Plans Examiner to move forward through the process. Mayor Nexsen stated that Councilmember Sheehy was correct and by advocating and advancing businesses and the economy, everything would get bottlenecked because the City did not go one step further and hire another Plans Examiner.

Mayor Nexsen asked where staff stands on contacting the other cities for help. Mr. Cassens stated that was duly noted and staff will address that. Ms. Miller stated that staff would look at that in light of the few savings that were found.

ADJOURN

Upon motion by Vice Mayor Coke and seconded, the meeting adjourned at 10:11 a.m.

CERTIFICATION

I hereby certify that the foregoing is a full and true copy of the Budget Work Session Minutes of the Lake Havasu City Council held on the 16th 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

Prepared By:

Sacia Graber, City Clerk Assistant/CMC