



**Lake Havasu City Council Budget Work Session
Police Facility Meeting Room
Lake Havasu City, Arizona 86403
Minutes**

Thursday, May 16, 2019

9:00 AM

CALL TO ORDER

Mayor Sheehy called the meeting to order at 9:13 a.m.

PLEDGE OF ALLEGIANCE

The Mayor led in the Pledge of Allegiance.

ROLL CALL

PRESENT: Councilmembers Cal Sheehy, David Lane, Donna McCoy, Gordon Groat, Jeni Coke, Jim Dolan, and Michele Lin.

CALL TO PUBLIC

There were no requests to address the Council.

PUBLIC HEARING

Presentation, Discussion, and Potential Direction to Staff on the Budget for Fiscal Year 2018/19 (Year-End Estimates), Fiscal Year 2019-20 Annual Budget, and the Five-Year Capital Improvement Plan

City Manager Jess Knudson said the City Council held a Capital Improvement Plan (CIP) work session on April 25, 2019, and today's work session will discuss the budget that impacts the ongoing day-to-day functions of the City. He said the City Council will adopt the tentative budget on June 11, 2019, and adopt the final budget on June 25, 2019.

Mr. Knudson presented a video from the League of Arizona Cities and Towns that outlined the budget process.

Mr. Knudson outlined the following in his presentation:

Fiscal Year (FY) 2018-19 Accomplishments

- Proposition 409 Passed
- Fully funded CIP
- Excellence in Financial Reporting for CAFR
- 40th Anniversary of the City's Incorporation and 50th Anniversary of the Purchase of the London Bridge
- Provided Space for Local Food Bank
- Resurrection of Teen Break
- Launched New City Website
- Infrastructure Improvements:
 - Havasu Riviera Roadway, Utility, and Intersection
 - Rotary and London Bridge Beach Restroom
 - Lake Havasu Avenue

- Water Master Plan

Mr. Knudson stated that Proposition 409 (Prop 409) passed in August 2018, and since that time there have been many questions and confusion on Prop 409. Mr. Knudson explained that Prop 409 did not give the City any additional funds, it simply removed the restriction or the cap that limited the City's ability to spend the money that is collected. He added that we are still bound by the resources that the City collects which means the City cannot spend more than is received. He noted that had Prop 409 failed, there would have been significant cuts in services, and a large reduction in workforce. Mr. Knudson said with the passing of Prop 409 it allowed the City to continue providing the same level of service to the community. He added that the 76 percent approval rating from the voters goes to show that residents trust the City to do the right thing.

Mr. Knudson noted the lease of the property on Kiowa Boulevard to the Havasu Community Health Foundation to operate the Food Bank, and continue to provide services that are needed in the community.

Mr. Knudson stated that Teen Break was brought back with much appreciation from residents with a lot of positive feedback.

Mr. Knudson noted a new City website was implemented and easier to use.

Mr. Knudson stated the City has been working hard on the infrastructure improvements including the road improvements on Lake Havasu Avenue, the road leading into the Havasu Riviera Project, and the restroom improvements at Rotary Park and London Bridge Beach to help sustain larger crowds.

Administrative Services Director Jill Olsen advised that she will be reviewing the expenditure budgets overall for all City departments, and the significant increase or decreases, including the expenditures that affected those departments (including personnel).

Ms. Olsen outlined the following in her presentation:

Expenditure Budget Overview

Personnel

- 3.4% increase over prior budget
- Employee step increases on evaluation date
- Healthcare
 - Overall employer share of rates increased by 7.6%
 - Overall budget dollar amount of employer share increased by \$600k
- Pension
 - ASRS – Rates increased from 11.8% to 12.11% or (\$114k)
 - PSPRS – 6.3% decrease or (\$414k)

Ms. Olsen said in order to accommodate potential step and merit increases the City included a 3.4 percent increase in personnel over the prior year's budget. She stated there was an increase in healthcare with rates increasing at 7.6 percent which equates to approximately \$600,000. Ms. Olsen said the rates for Arizona State Retirement System (ASRS) are increasing, and are decreasing for the Public Safety Personnel Retirement System (PSPRS) due to the pre-payments for funding two years of PSPRS, and said the City is anticipating next year an increase in that category and not a continued decrease.

New Full-Time Budgeted Positions

- Replace Events Coordinator position with Assistant to the City Manager position to include Responsibilities:

- Public Information Officer
- Intergovernmental Issues
- Events Coordinator
- Bring janitorial services in-house
 - Maintenance Technician (2 positions – PT to FT)
 - Custodian I (2 positions)
 - Custodian II (1 position)
- Water Superintendent

Ms. Olsen said there are several changes in the new full-time budgeted positions in the budget draft. She said the changes are not increases in total FTEs but are increases to the numbers that are budgeted. She said the Events Coordinator position would be replaced with an Assistant to the City Manager position and those responsibilities would include events coordination, inter-governmental issues, and public information officer duties. She said staff is also proposing to bring janitorial duties in-house, moving the expenditures for contracted janitorial to in-house services, resulting in the positions listed, and added that in-house janitorial services would include the restrooms in the parks.

Services

- 7.1% or \$1.1 million increase over prior budget
- Position Analysis Study - \$100k
- Water & Wastewater Rate Study - \$125k
- Additional training and leadership development - \$164k
- IT maintenance agreements and equipment - \$338k
- School district tennis court maintenance - \$60k
- Additional street repair contractual services (Swanson and Smoketree) - \$140k
- Additional wastewater repair & maintenance service - \$310k
- Decrease in election costs, every other year – (\$105k)

Ms. Olsen outlined main items in services that contributed to an increase over the prior budget year, and noted that two items that are not listed but are included in the proposed budget include funding for the 2020 Census and a citizen's survey.

Supplies

- 11.4% or \$728k increase over prior budget
- Fire Department Supplies: hose replacements - \$42k; turnout replacement - \$33k
- Police Department Supplies: fuel increase - \$34k; public safety supplies - \$44k
- Parks & Recreation Supplies: sign replacement in parks - \$15k
- Increase in employee recognition - \$14k
- Airport pavement and repair supplies for tie-down areas and connecting roads - \$35k
- Increase to Wastewater chemicals - \$32k; maintenance/operational supplies - \$270k
- Increase in Water system supplies - \$120k; equipment - \$73k
- Maintenance Service Supplies: west wing floor remodel - \$15k; park over-seed/fertilizer - \$15k; holiday decorations - \$35k
- Decrease in IT supplies and equipment – (\$205k)

Ms. Olsen noted that the items under supplies is only a partial list and not comprehensive.

Councilmember Groat asked if the above-ground fuel tank at the Police Department was included in the budget, to which Ms. Olsen replied that it is a project identified in the CIP.

Other Expenditures

- 11.7% or \$1.3 million increase over prior budget
- Growth in tourism revenue & development agreements - \$257k*
 - PED
 - CVB
 - Developer Agreements
- County jail costs increase in the budget (not actual) - \$200k
- WAHS animal control contract decrease of at least \$50k
- CDBG/Home grant additional rehab - \$585k (placeholder)*
- Trash service cost increase - \$325k*

*Expense has offsetting revenues

Ms. Olsen said there is an approximate 11.7 percent or \$1.3 million increase in expenditures over prior budget, including an increase in the revenue for tourism and development agreements. She said the county jail cost increase reflects the amount that is already being spent; therefore, the City was under-budgeted for Fiscal Year (FY) 2018-19, and this increase is to made that correction to more closely match the expenditures for jail costs. Ms. Olsen added that there is a potential contract decrease of at least \$50,000 in the animal control contract with the Western Arizona Humane Society, and an increase in grants and trash services. Ms. Olsen noted that some of the grants and contracts have offsetting revenues so there is a cost and revenue increase.

Councilmember Groat asked about the trash service cost increase and the status of recycling, to which Mr. Knudson said the City has held discussions with Republic Services regarding the recycling market which has changed nationwide. He said many cities are removing recycling services from their community; however, Lake Havasu City is not looking to make any changes to recycling.

Capital Outlay

- FY 2019-20 budget = \$2.7 million
- 4.2% or \$110k increase over prior budget
- FY 2019-20 Capital Outlay Budget includes:
 - Fire Department – 3 Replacement Vehicles
 - Police Department – 5 Replacement Vehicles
 - Park Improvements - \$150k
 - Irrigation systems - \$60k
 - Information Technology equipment and systems - \$194k
 - Utility system upgrades and replacements - \$1.5 million

Ms. Olsen noted that a full list for Capital Outlay can be found in the budget book, and added that these are one-time items funded with one-time revenues. She said the total Capital Outlay for FY 2019-20 is \$2.7 million, a \$110,000 increase over prior budget. Ms. Olsen noted that as part of the budget discussions at the last work session it was proposed to dedicate \$150,000 to the budget every other year for park improvements.

Contingency

- FY 2019-20 Budget = \$2.2 million (all funds)
 - Included in budget for unfunded critical items

Ms. Olsen said \$2.2 million has been budgeted for Contingency in FY 2019-20 for unfunded critical items, and explained that of the \$2.2 million, \$500,000 is allocated in the General Fund, \$1 million for wastewater, \$500,000 for water or Irrigation & Drainage District (IDD), and the remaining portions are in smaller accounts.

Debt

- 34.1% or \$10.7 million decrease from prior budget
- Decrease in budgeted debt is due to the passing of the expenditure limitation increase
- Last PSPRS debt payment in August 2019
- No new debt proposed in the FY 2019-20 budget

Ms. Olsen said there is \$10.7 million decrease in debt from the prior budget year and no new debt is proposed in FY 2019-20. She explained that due to the passing of Prop 409, the City did not have to budget for any potential debt related to the expenditure limitation, and added that the last PSPRS debt payment will be paid in August of 2019 which will decrease the debt by approximately \$6 million.

Supplemental Requests

- \$12.8 million requested
 - 38% Approved
 - 62% Deferred

Ms. Olsen said over 500 supplemental items were requested by the departments, and only 38 percent, or \$4.8 million, is being presented to Council for approval in additional expenditures for the budget. She said the supplemental requests were based upon the current funding available and were prioritized by the departments.

Department Budgets (In millions)

Department	FY 2019-20
Administrative Services	\$3.3
City Attorney	0.9
City Clerk	0.3
City Council	0.2
City Manager	0.4
Community Affairs	0.1
Human Resources	0.6
Community Investment	1.9
Fire	13.6
General Services	4.7
Municipal Court	2.0
Parks & Recreation	5.2
Public Works Admin	0.02
Havasu Mobility	0.3
Maintenance Services	3.1
Vehicle Maintenance	0.6
Police	16.7
Airport	2.7
HURF (Street)	5.0
IDD (Water)	24.1
Refuse	6.8
Wastewater Utility	29.2

Excludes depreciation and additional debt budget due to expenditure limitation issues

Ms. Olsen noted that any CIP amounts related to that department or fund are included in total department budgets. She pointed out that the budget book contains the prior fiscal year for comparison purposes to identify detail line items and trends. Ms. Olsen said there is an increase in Parks & Recreation and a decrease in Public Works

Maintenance due to shifting of Parks Maintenance from Public Works to Parks & Recreation, and added that there is a large increase in the Airport fund due to grant projects.

Department Budgets

- FY 19-20 Proposed Budget
 - Utilities – 49%
 - Public Safety – 25%

 - General Government – 10%
 - Public Works – 9%
 - Parks & Recreation – 4%
 - Community Investment – 3%

Ms. Olsen said utilities represents the enterprise funds, and the remaining departments are paid with general funds.

Mayor Sheehy asked about the contingency funds and the budget stabilization reserve, to which Ms. Olsen explained that due to the volatility of the main revenue items, the City has included budget stabilization reserves of about 25 percent of the average of the five previous years of revenues (for FY 2019-20 that equates to approximately \$12 million) and included 15 percent in the IDD fund and the Wastewater fund (for IDD that equates to approximately \$3 million and approximately \$4 million in the Wastewater fund) that has been set aside for contingency.

Mayor Sheehy asked about the property tax levy rate, to which Ms. Olsen explained that the City is proposing to keep the property tax levy rate flat. She said in doing so the City will generate an additional \$230,000, and \$71,000 in new construction, for a total of \$300,000.

Mayor Sheehy explained that the reason there is an increase in revenues when the rate is remaining flat is due to the assessed values of the homes.

Mayor Sheehy asked about the supplemental budget request process, to which Mr. Knudson explained that departments were asked to bring forward their needs versus wants so that as a team, staff could identify where we need to be either short-term or long-term and to assess where we need to go. Mr. Knudson said there were 500 individual requests from the departments, totaling over \$12.8 million excluding grants, and almost all were needs. Mr. Knudson said staff is providing good services to the community; however, there are certain times where relief is needed within certain departments. He said some of the things that were identified were new police vehicles, fire turnout gear, fire hose, and fire replacement vehicles. Mr. Knudson explained that the process allows the City to better assess the existing situation and moving forward.

Mayor Sheehy asked if the deferred CIP projects would be addressed in future budget discussions in subsequent years, to which Mr. Knudson said yes given the City's resources. He explained that there are more needs than dollars so the City has to make hard decisions on where to spend the dollars.

Mayor Sheehy asked about the community survey, to which Mr. Knudson said \$16,000 is being proposed in the budget for a community survey that would allow residents to give the City feedback regarding the community, City services, and future projects for Council's consideration. Mr. Knudson said there are many discussions that happen in the community and at council meetings; however, there are families that do not have time to engage with Council or City staff on a regular basis, so this allows another avenue to collect that information from residents.

Councilmember Lin asked if the Assistant to the City Manager would be a new position, to which Mr. Knudson said the City had a Deputy City Manager or an Assistant City Manager position in the past. He said it is typical for

cities the size of Lake Havasu City to have an Assistant City Manager to allow the City Manager to focus on bigger items.

Vice Mayor Lane asked why \$60,000 has been budgeted for the Lake Havasu Unified School District (LHUSD) tennis courts, to which Mr. Knudson replied the City is obligated by contract. He explained that the City entered into a 10-year IGA with the LHUSD that requires the City every five years to make improvements to the tennis courts that are located on LHUSD property. Mr. Knudson said the intention was that if the City contributed to the facility it would be open to the public. Vice Mayor Lane asked if the tennis courts are open to the public, to which

Mr. Knudson replied yes and said there is a tennis club in the community that uses the facility regularly. Vice Mayor Lane asked if this is a less expensive way for the City to have tennis courts for the public without having to build new tennis courts, to which Mr. Knudson replied yes.

Vice Mayor Lane asked about the line item in the budget for a Booster Pump Station at Cypress Park, to which Public Works Manager Mark Clark explained that it is a pony pump to increase the pressure at the park. Mr. Clark said the pressures there are currently working; however, the City had anticipated having effluent to Cypress Park fairly quickly, but in the meantime this pump will increase the pressure of the potable water supply to provide better coverage.

In response to Councilmember Groat's question, Mr. Knudson explained that FTE stands for Full-Time Equivalent which reflects the amount of full-time employees working for the organization. Mr. Knudson added that the City employs full-time, part-time, and seasonal employees, and FTE reflects the full-time employees.

Councilmember Groat asked if the healthcare rate shifted due to movement of full-time or part-time employees, to which Ms. Olsen replied that there was no shift where employees lost benefits by changing the category of their position.

Councilmember Groat asked if the percentage for ERE changes each year, to which Ms. Olsen said the City's payroll library budgets down to the position level. She said for a majority of employees, the City knows what kind of coverage they have to determine what those costs will be; therefore, that amount is budgeted fairly close to what it is.

Councilmember Groat asked about the trend for healthcare for the last three to five years, to which Human Resources Manager Shirlee Palbicki explained that in 2012 the Northwest Arizona Employee Benefit Trust (NAEBT) was formed which incorporated Bullhead City, Kingman, and Lake Havasu City into one trust to spread the risk and take advantage of economy of scale. Ms. Palbicki said the NAEBT rate increases over the last five to six years have remained fairly flat based on actuarial calculations that use census from the previous year correlated with claims. She noted that it is a more accurate than using a national average or trend for healthcare costs. Ms. Palbicki said there may be some shifting between the two plans that are offered which will impact the percentage of change in benefits. Ms. Palbicki stated the 7.6 percent is an average based on that actuarial assessment.

Councilmember Groat asked about the status and mileage of the police vehicles that are budgeted for replacement and whether the vehicle gear re-used or sold, to which Chief Doyle said the vehicles that are being replaced are at least 10 years old and have over 100,000 miles. He said it is difficult to transfer equipment from older models into the newer models; however, anything that can be transferred to outfit the new vehicles is used to reduce costs.

Councilmember Groat asked about the Senior Police Officer position that is being included in the salary analysis, to which Chief Doyle explained that the position was created in the 1990's and the criteria was that a police officer had to have three years of service and test for a senior police officer. He said the position was frozen when the recession began; however, when the recession ended no funds could be added to the budget due to the expenditure

limitation so the position has remained frozen. Chief Doyle said there are currently nine officers that are in the Senior Police Officer band, and the remaining officers are stuck in the Police Officer band and unable to move to the Senior Police Officer band. He said his understanding of the market study was that it took the low of the Police Officer band and the high of the Senior Police Officer band.

Councilmember Groat asked how this affects a police officer that is retiring, to which Chief Doyle said if the officer is stuck in the Police Officer band they remain at step 10 until the Senior Police Officer band is open.

Councilmember Groat asked if the officer's retirement would be calculated on how many months of service, to which Chief Doyle explained the calculation for a Tier 1 PSPRS member, but said the calculation depends on what tier the member is in. Councilmember Groat expressed concern that an officer near retirement may transfer to another department with the same retirement system to amplify their final years of earnings.

Mr. Knudson said what the City Council is hearing is the explanation of the Senior Police Officer position that was created in the 1990s as a mechanism that allowed officers who were maxed out to move into a new band to allow growth to occur. He said he believes this is a band aid approach instead of looking at what the real issue is, which is why staff is requesting funds for a positional analysis study to look at this issue and all issues throughout the City department to create a compensation structure to compete with other agencies to retain and attract employees.

Councilmember Groat asked why the City would include the Senior Police Officer band in the positional analysis study as it creates a disadvantage since it is frozen and inaccessible, to which Mayor Sheehy said that is the point of the positional analysis.

Councilmember Lin asked if the Senior Police Officer band could be opened now, to which Mr. Knudson replied that it is something that staff has discussed, and added that there are hundreds of these same scenarios in the City; therefore, to isolate this one instance and not address it Citywide is something that he would not recommend.

Mayor Sheehy said as a reminder there was consensus from the Council to address this through the positional analysis.

Chief Doyle said the freezing of the Senior Police Officer band is something that has been brought up for several years; however, due to the expenditure limitation and budget constraints it was not something that could be addressed.

Councilmember McCoy asked about the grant funding identified by the Police Department and asked who is responsible for finding grant funding, to which Mr. Knudson said the Police Department has done a great job identifying grants that allow the City to pay staff and purchase equipment. He said the City's current grant process is decentralized and the City is planning to transition to a centralized process yet still allow the individual departments to research and acquire grants.

Councilmember Groat asked the Fire Department for clarification on the budgeted funds for call-out gear, to which Fire Chief Davis replied that it is bunker gear. Councilmember Groat questioned the lifespan of the fire hose replacements, to which Chief Davis replied that due to the dry climate the lifespan of the fire hose is approximately ten years, which is the standard, and added that they do a specific testing process annually on all the hoses.

Councilmember Groat asked about the Self Contained Breathing Apparatus (SCBA) gear, to which Chief Davis said the City is applying for a Federal Emergency Management Agency (FEMA) grant for SCBA. He said this gear is also tested and inspected annually. Councilmember Groat asked about the condition of the fire trucks, to which Chief Davis said the engine at Station #6 would be the next vehicle for replacement. He added that the Fire Department expects to come back to Council for replacement of apparatus in the coming years. Councilmember

Groat asked about the status of specialty training in the Fire Department and if there are any shortfalls in training, to which Chief Davis said it was established last year that there was a shortfall in training and the City is making progress with training this year and has allocated \$40,000 in this year's budget for Fire Department training.

Councilmember Lin asked if the on-site training with the Police and Fire Departments discussed during the LHUSD Public Safety meeting would be done within the year, to which Chief Davis replied yes they do have an on-site drill scheduled for this year. He said the City's preference is to identify what the LHUSD priority is going to be and the appropriate response so that they are doing it universally from school to school.

Councilmember Lin asked if there are sufficient funds budgeted for Teen Break next year, to which Parks & Recreation Manager Mike Keane replied yes. He said with the help of the community he is confident that they will be able to pull together another successful event next year.

Mayor Sheehy opened the public hearing.

Mr. Michael Fuller, President of the Lake Havasu Police Officers Association (Association), addressed the Council and said over the last few months the Association has expressed concerns through a multiple page comparable market study which was presented to the City Council and staff in January 2019. He said a letter was also sent out in response to a recent market study conducted by City staff. He said the concerns include Lake Havasu City police officers being paid anywhere from 15 to 18 percent below market average, the high number of current vacancies, lack of any special duty or retention incentives that would be in line with industry standard, the suspended position of the Senior Police Officer position for over ten years, and the overall inability of the Lake Havasu City Police Department to currently attract, hire and retain police officers. He said there are a lot of officers that are frustrated and have lost their patience, and demonstrated their level of frustration with two stories. The first story was regarding the frozen pay band of Senior Police Officer and the compaction issue of current police officers. He said over the last several months the Association has tried not only to address these concerns but to encourage movement in the right direction to put all officers in the same pay band so that every officer was on the same level playing field going into next year and potentially moving into whatever direction comes from the positional analysis being proposed. The second story was his own personal experience hired as a lateral transfer becoming officer number 77 of the 77 allotted positions in 2003. He said 16 years later, the proposed FY 2019-20 budget has allotted 80 sworn police officer positions. Mr. Fuller said in 16 years, the Police Department has essentially net gained three additional police officers, let alone the current issue of having 10 vacancies, which puts them with having 70 sworn officers. He said some might ask if the Police Department can police the entire city with 80 officers, or even the 70 now, and the answer to that is yes because they have no choice. Mr. Fuller said they have great officers who are always going to push forward and do what is needed. Mr. Fuller said in summary, the Administrative Services Director made a statement at the City Council Planning Retreat in January 2019 in relation to the overall employees of the City that we currently have compared to the past numbers, that as a City we are doing more with less. He said eight to ten years ago when the City started losing all the positions he thinks that could have been said; however, at some point when that continues it changes from doing more with less, to just doing less with less. He said if the City is not careful the Police Department can easily become reactive rather than being as proactive as they should be. He said he believes the Lake Havasu City Police Department can still be the department that others want to work for and there are great pieces in place. Mr. Fuller said as an Association they are keenly aware of the hurdles before them and have no doubt that these issues are directly related to our substandard employee compensation and they are concerned about what another year of doing nothing means; however, they are committed to helping out wherever needed to tackle these issues before them, the department, and the City, and look forward to the City Council's commitment as well.

There being no further comments, Mayor Sheehy closed the public hearing.

There was no further comments or direction from the Council.

CALL TO PUBLIC

There were no requests to address the Council.

ADJOURN

Upon motion by Vice Mayor Lane, and seconded, the meeting adjourned at 10:43 a.m.

CERTIFICATION

I hereby certify that the foregoing is a full and true copy of the Budget Work Session Meeting Minutes of the Lake Havasu City Council held on the 16th day of May, 2019. I further certify that the meeting was duly called and posted, and that a quorum was present.

Kelly Williams, City Clerk/CMC