

Minutes of the Budget Meeting held April 9, 2012 at 6:00 p.m. in the Council Chambers.

MEMBERS PRESENT

Mayor Lopez Rogers and Council Members

Stephanie Karlin, Vice Mayor
Jim Buster
Jim McDonald
Frank Scott
Charles Vierhout
Ken Weise

ALSO PRESENT

Charlie McClendon, City Manager
David Fitzhugh, Assistant City Manager
Rogene Hill, Assistant City Manager
Kevin Artz, Finance and Budget Director
Pier Simeri, Community Relations and Public Affairs Director
Kevin Kotsur, Chief of Police
Andrew McGuire, City Attorney
Carmen Martinez, City Clerk

1) ROLL CALL BY THE CITY CLERK

2) FY 2012-13 – BUDGET WORK SESSION

A presentation regarding the City Manager's proposed budget plan.

Charlie McClendon, City Manager, presented the proposed recommended budget for FY 2012/13. He thanked staff for under spending their budgets in the current fiscal year, which is a key reason the City has been able to save up money for pressing issues. The total budget for next year is less than the current year's budget. Ongoing revenues have rebounded slightly, which allows the City to address some ongoing needs that have been put off for several years.

Kevin Artz, Finance and Budget Director, provided a financial update of the current fiscal year. For FY 2011/12, total revenues to date, for all funds, through February are \$58 million and expenditures are \$68 million. The budget for the current FY proposed to spend down the balance in capital project funds, and this accounts for the majority of the \$10 million difference. In terms of the operating budget, Avondale has approximately \$2 million more in revenues than expenditures in the General Fund. Sales tax revenues rose between 2% and 3% over the budgeted number, which has helped drive the revenue number up. This surplus will be rolled into the projected fund balance for next fiscal year, creating one-time revenue for the operating budget.

Mr. Artz said that the HURF fund is in balance. Revenues exceed expenditures in the Public Safety Tax Fund. Several years ago this fund experienced severe problems and some staff positions were moved out of the General Fund. The Water Fund has about \$1 million in revenues in excess of expenditures, although some capital projects have not yet been completed. The surplus will be smaller by the end of the fiscal year. Sewer Fund expenditures are currently exceeding revenues. A \$3.5 million transfer out of this fund was programmed to fund the Phoenix International Raceway (PIR) Sewer Line. Revenues are exceeding expenditures in the Sanitation Fund.

Mr. Artz provided a brief economic forecast for next fiscal year. Economic indicators were used to compare February data between 2011 and 2012. The consumer price index saw no change between last year and this year. Last year 220,000 jobs were added in February, while 227,000 were added this year. The national unemployment rate dropped from 9% to 8.3% in the past year. In Arizona, unemployment dropped from 9.7 % to 8.7%. Last year there was a small job loss for the State overall, while this year saw a small increase.

Mr. Artz reviewed data from the last two recessions. The 1991 recession was followed immediately by positive job growth, but the recent recession actually produced a job loss in Arizona. Recent job growth is still making up for what was lost. Accordingly, the staff's budget projections were kept conservative. Historically, state shared revenues, income taxes, state sales taxes, HURF revenue, and auto in-lieu taxes mostly tracked in parallel. In 2007/2008, there was a large bubble in the income tax. Arizona is now once again seeing some significant growth in income tax, but staff is proceeding cautiously by attributing it as a one-time revenue source since it is not clearly sustainable. Avondale's sales taxes saw four straight years of revenue loss from 2007 to 2010. In September of 2011, City sales tax went positive again. The 2012 numbers have exceeded 2011 numbers for every month this year, and growth is projected in the upcoming fiscal year.

Mr. Artz provided details on the operating and capital budgets. The General Fund starts with a \$29 million fund balance, and projects \$46 million of revenue, \$41 million in expenditures, and \$1.8 million of proposed supplemental requests. The assignment and stabilization fund is at \$19 million, leaving an ending unassigned and unrestricted fund balance of \$3.2 million.

Mr. Artz said the total tax levy for FY 2011/12 was \$5.3 million, while the proposed total levy for next year is below \$4.6 million. This decline is the result of the net assessed valuation in Avondale having dropped by 15% in the past year. The total budget for FY2011/12 was just over \$163 million, while the total budget for the new fiscal year is \$155 million. This does not include any of the proposed supplementals that the City Manager has recommended. The operations budget is dropping from \$74.8 million, down to \$72 million. Debt service has decreased by approximately \$700,000, contingency funds are up slightly, and capital projects are down \$5 million over the two fiscal years. Projected revenues are \$104 million of revenue for all funds, with \$86 million received on an ongoing basis, and \$17 million in one-time revenue. The base budget for FY2012/13 is \$39.1 million. Most all of the funds have seen a decrease from FY 2008/09. FTEs have decreased from 532 in FY 2008/09, to 483.5 today.

Mr. Artz said staff proposes to maintain the current property tax rate of \$1.33, which will keep the primary tax levy at the same level as last year, while the secondary levy decreases by about \$750,000. If Avondale does not see growth in its assessed valuations, a rate increase might be necessary in future years. The average home would have paid \$196 in FY 2006/07, but that is down to \$145 in primary and secondary City taxes this year.

Staff proposes that one webmaster/media specialist position be added to the Community Relations Department. The state passed S.B. 1525, which requires cities to update their development fee studies by 2014, so the funding must be available to pay for that study.

Human Resources needs a Kronos system update to better track employee absences and union contracts. The Law Enforcement Fund has an offsetting revenue source and the money must be used to support officer safety. Regarding an increase in the Fire Department's overtime budget, Mr. Artz explained that this line item has been underfunded in prior years so it's being adjusted to reflect actual expenditures due to mandatory overtime requirements. The PIR Unified Command Center has a \$25,000 supplemental which is offset by revenue received from PIR per the development agreement the City signed with PIR. The Economic Opportunities Fund supplemental for \$120,000 will get the fund back to the \$500,000 level. The Parks Department saw increases in janitorial and landscaping services. The Special Event funding supplemental uses an offset to restore some special events. The Police Housing Incentive Program adds \$60,000 on a onetime basis. The ongoing supplemental request is for \$651,000, while the one time request is for \$442,000.

Mr. Artz said other operating funds include money for ballistic vests, a mobile law reporting module, two police vehicles, a GPS point verification system for the Water Department, Central Arizona Project (CAP) excess water rights purchases, manhole rehabilitation, sewer corrosion and odor control, aeration basin mixer purchases, and a fuel increase supplemental.

Council Member McDonald queried when the City could expect to see revenue from the PIR project. Mr. Artz said it will likely not be finished for at least 18 months, so any revenue won't appear before the FY 2013/14 budget. Council Member McDonald asked about the rationale behind projecting lower income tax receipts. Mr. Artz explained that as people start buying houses again, they will receive interest deductions and their taxes will go down. As a result, the City's tax revenue will decrease. Council Member McDonald requested prognostication on Avondale's assessed valuation trends. Mr. Artz said he is hopeful that Avondale has seen the bottom, and that next year, valuations will at least be flat.

Council Member McDonald asked about the manhole cover rehabilitation fund. Wayne Janis, Public Works Director, explained that sewer gases corrode both concrete and the steel. Expenditures on odor control also help control corrosion.

Council Member Weise asked how this year's supplementals compared to last year. Mr. Artz said over the last three to four years, Avondale has not made any supplemental requests beyond very small mandatory ones. Unlike the past few years, the City now has the revenue growth to support supplementals. Mr. McClendon noted that the City actually had net reductions in the General Fund over the last four years. The few supplementals introduced during this period were offset by reductions in other areas.

Council Member Weise noted that some of the requested supplementals are driven by state or federal mandates. He questioned why the sewer fund budget doesn't contain a yearly line item for the maintenance of manhole covers. Mr. Artz explained that it could be done that way, but the sewer fund does not have adequate ongoing revenue to cover the costs. In FY 2014/15, a significant part of the sewer fund debt gets paid off and that will reduce that budget by over \$1.5 million. The manhole cover program could be transferred there on an ongoing basis. Council Member Weise inquired about the City's options should

fuel prices continue to rise beyond the allotted amount. Mr. Artz said staff would respond by making a contingency request to transfer additional funding to the fleet fund. Whatever department uses them, would then be charged the additional cost.

Mayor Lopez Rogers felt that the fuel line item was too small. Mr. Artz responded that the current fuel budget is adequate to cover the remainder of the fiscal year, despite the high prices. Next year's budget adds a \$225,000 supplemental to that amount. Mr. McClendon noted that Avondale is able to buy fuel in bulk on the spot market and pays less than retail.

Mr. Artz continued the presentation by comparing Avondale's budget to those of other Valley communities. Historically, Avondale's FTE-per-thousand residents ratio has been second lowest in the Valley, and that continues to be true this fiscal year at 6.3. Scottsdale's ratio is 11.3. Avondale's budget and staffing levels remain lean, but employees are able to provide the customer service that residents demand. In expenditures-per-thousand residents and General Fund expenditures-per-thousand, Avondale is also second lowest. Avondale is close to the middle on police spending, at 30% of the budget. At 15%, Avondale is on the lower side when it comes to fire expenditures. As more fire stations are added, that will change.

Mr. Artz reviewed that the Capital Improvement Program budget is \$58 million for the first year. The total ten-year CIP plan is \$303 million. The CIP Committee unanimously recommended in February to forward the CIP to City Council. The City Center street project was not included in their review, however, and has since been added. CIP money is being spent on basic projects. Sewer, water and street construction makes up over 55% of the proposed CIP over the next ten years. A fairly significant amount, 10%, is spent replacing technology items and vehicles. Important CIP projects include the citywide overlay, preventative street maintenance, City Center streets, the Intelligent Transportation System (ITS), the rehabilitation of McDowell Road, the widening of one area of Indian School Road, a redundant force main sewer improvement, the PIR sewer line, wellhead treatments, and the completion of several water lines.

Mr. Artz touched upon some of the state budget impacts. Last year, the State swept some of the HURF funds late in the budget process; such a diversion could potentially happen again this year. The Department of Water Resource Fee may be reduced or eliminated. The City is collecting the fee in case it is kept in place. The ASRS contributions may go back to a 50/50 split, and Avondale budgeted for that possibility.

Mayor Lopez Rogers stated that even though the economy is improving, it is prudent to remain cautious regarding the budget. She said residents often don't understand what goes into deciding what streets to spend money on. Mr. McClendon explained that the Street Department has a pavement management program that keeps an inventory of the streets. There is an optimal time to do certain treatments to get the longest life expectancy out of the street. If the City waits too long, the entire street has to be redone, which is much more costly. The City has not always had the budget to do adequate street maintenance; McDowell is an example of a street that fell behind.

Vice Mayor Karlin inquired about an \$800,000 line item in the Water budget. Mr. Artz explained that it is to pay for completely new water lines. Mr. Janis added that in most

cases it is for the installation of a new main to provide service to a new or growing area. In some cases it is to upgrade old, inadequate mains. Vice Mayor Karlin said northeast Avondale already suffers from low water pressure and felt that the addition of more lines, without the addition of booster stations, would just exacerbate the problem. Mr. Janis said Avondale is currently well equipped with booster stations. The Master Plan does not recommend more booster stations, but does recommend more water lines, which will allow water to travel to a site more easily without losing water pressure.

Council Member Weise noted that the expenditure schedule for the City Council shows a significant increase, and he requested an explanation. Mr. Artz responded that in FY2009/10, a portion of City Council's cost was allocated to water, streets, sewers, and sanitation. In FY2011/12, an indirect cost allocation plan was submitted to the federal government for grants. The federal government does not allow the cost of an administrative body to be allocated in an indirect allocation fund. To be consistent, Avondale therefore changed its internal model.

Council Member Weise requested more information on the webmaster/media specialist position. Pier Simeri, Community Relations and Public Affairs Director, said the divide between information technology and marketing/communications has been shrinking in recent years. Businesses have realized the advantages of engaging their customers directly and the government sector has begun following suit. The new website employs many new features to engage the public. Communications no longer carry just one way. This new position would serve as a liaison between all City departments to facilitate their public communications needs. Mr. McClendon added that Avondale has been very successful in pushing information out to the public, but needs improvement in obtaining feedback from the public. This position would help in that regard.

Council Member Weise said citizens are often intimidated by having to get up before Council to express their position. The new technology gives these people a voice. Ms. Simeri said an application like Facebook requires very frequent monitoring because people use it to ask questions. Council Member Weise requested an update in six months to explain what measures have been implemented and how well they are working. Avondale should remain on a fiscally conservative path, because world events could undermine the U.S. recovery.

Council Member McDonald requested details on the Indian School Road improvement. He said Avondale's low FTE-to-resident ratio indicates that the City is run efficiently. The City has made many tough decisions to reduce the budget and has fared better than most. Some of the cuts actually benefitted the City, while some hurt. Moving forward, Avondale should work hard to justify any new addition, and move cautiously as the economy improves. He commended staff for repeatedly under spending their budgets.

Council Member Scott thanked staff for cutting the budget without reducing the quality of customer service. He said he would like to ascertain that the City gets value for the money spent on the webmaster position. The outreach effort will reveal areas where the City is deficient. He inquired about the ballistic vest replacement program. Police Chief Kevin Kotsur explained that vests are replaced on an ongoing five-year cycle so that the full

amount does not hit the budget all at once. Council Member Scott said he supports having ballistic helmets for officers that have to respond to a shots-fired call.

Council Member Vierhout inquired about the \$25 million allocated to improvement districts. Mr. Artz said this allows the City some budgetary flexibility. There is no money behind the appropriation, but this line item allows the City to respond in cases where a developer requests an improvement district. If funds are not appropriated in advance, the developer would have to wait until the following fiscal year. Council Member Vierhout questioned whether this type of mechanism could be used to respond to citizen requests for improvements such as a neighborhood crosswalk. Mr. Artz responded that there is no money to fund this appropriation, but the City Council has access to contingency funds in the General Fund for special requests.

Council Member Vierhout suggested that the CIP contain a contingency fund. Mr. McClendon responded that Avondale once had an account for neighborhood traffic mitigation in the capital budget, but the State diverted \$500,000 from the Highway Funds budget, which is where the money came from. Every improvement has to be engineered and City budget cuts eliminated the engineering position that worked on neighborhood projects. In order to restore the program, the capital money would have to be restored and the City would have to hire a Neighborhood Traffic Manager. Mayor Lopez Rogers requested a discussion on restoring this program at the Council's next goal setting session.

Council Member Buster noted that in terms of the General Fund, Avondale is increasing expenditures by about 10%. Mr. Artz said the budget proposed for next year is about 10% more than what the City projected to spend this year. The General Fund budget for FY 2011/12 was \$41.3 million, but departments under spent. Mayor Lopez Rogers said Avondale has been able to find creative solutions to overcome the challenges of the past four years, while reflecting Council's goals, and without affecting service to residents. The City should be transparent and proceed cautiously. Mr. McClendon stated that City Council will be asked to preliminarily adopt the budget during the second meeting of May. The final adoption will come one month later.

3) ADJOURNMENT

With no further business before the Council, Council Member Weise moved to adjourn the work session. Council Member Scott seconded the motion. The motion carried unanimously.

Meeting adjourned at 7:30 p.m.


Marie Lopez Rogers


Carmen Martinez, CMC
City Clerk

CERTIFICATION

I hereby certify that the foregoing minutes are a true and correct copy of the minutes of the Work Session of the Council of the City of Avondale held on the 9th day of April 2012. I further certify that the meeting was duly called and held and that the quorum was present.



City Clerk

