

Work Session Minutes
April 1, 2015

1. Mayor Mueller called the work session to order at 4:00 p.m. in the Council Chambers, 1011 N. Coronado Drive, Sierra Vista, Arizona.

Present:

Mayor Rick Mueller – present
Mayor Pro Tem Bob Blanchard – present
Council Member Alesia Ash – present
Council Member Gwen Calhoun – present
Council Member Rachel Gray – present
Council Member Hank Huisking – present
Council Member Craig Mount – present

Others present:

Chuck Potucek, City Manager
Mary Jacobs, Assistant City Manager
Jill Adams, City Clerk
David Felix, Finance Manager
Pamela Weir, Management Analyst and Budget Officer
Jenifer Thornton, Management Analyst

2. Budget Revenue Projections

Mr. Potucek stated that this is the first in what will be a series of budget sessions prior to adopting the tentative budget, which is hoped to be on the second meeting in June. The first topic is on the City's revenue projections, which is where the staff starts its budgeting process and then will move towards the major expenditure areas beginning with personnel expenses, capital and debt services and finally operations and maintenance expenses.

Mr. Potucek asked Council to keep in mind that everything being presented is predicated on the City's current revenue policies. There are no recommendations in terms of changing those and he is watching closely what the Citizens Advisory Commission is doing and will probably have a few of his own ideas; but for purposes of what is being presented and for what staff is doing, they are building a balanced budget based on current policy.

Ms. Weir stated that many of the numbers presented are relatively final and others might vary a little depending on what is heard back from the State's budget. She asked Council to keep in mind that it is a little bit of a moving target as staff goes along. Major funds being look at are:

- General fund;
- Enterprise Funds;
- Airport and Transportation Funds; and
- Capital Improvement Fund.

The General fund comprises 45% of the City's budget and is the largest City fund that pays for the majority of the services that the City is responsible for including all administrative activities, all public safety, Leisure and Library services, Community Development, and so on. There are many revenue sources that contribute to the General Fund:

- Local Sales Tax (TPT)
- State Sales Tax
- Franchise Fees

- Building Permit Fees
- Vehicle License Tax (VLT)
- Local Property Tax
- State Shared Revenue (Income Tax)
- Business License Fees
- Intergovernmental Revenues
- Fee for Services (i.e. Ambulance, Leisure)

Ms. Weir presented an overall summary of the General Fund outlook. When staff combines all of the local sources the City is looking at an increase of \$17,000 from local revenues and a little over \$200,000 from state revenues for a total of \$222,000 increase in the General Fund.

Council Member Calhoun asked what the transfer out means. Ms. Weir explained that the General Fund subsidizes other funds in the City and those numbers are dependent on how those other funds are doing, i.e., the Transportation Fund each year gets a portion of the General Fund to help subsidize those activities.

Mr. Potucek stated that more specific examples are:

- HURF will get the projected amount of the 2% franchise tax that was approved by the voters from SSVEC which is about \$700,000 and that will actually be transferred out of the General Fund and into HURF; and
- Subsidies to the Airport Fund and the Transport System also get transferred out; and
- Grant matches that are in other funds.

In response to Council Member Calhoun, Mr. Potucek explained that those are typically the transfers out and the main ones. Anything else would be very minor in nature.

Council Member Mount asked about the Cove subsidies. Mr. Potucek explained that the Cove expenditures are all within the General Fund and would not need to be transferred out.

In response to Council Member Mount, Ms. Weir stated that transferred out for transportation last year was over \$400,000.

Council Member Gray inquired about the estimated figure concerning the franchise fee. Mr. Potucek stated that one of the themes that will be seen is that some of the City's revenues sources are going to be relatively flat when it comes to growth. In this particular case, be it energy conservation or loss of population, and households, utility taxes growth is not what it has been in the past.

In response to Council Member Huisking, Mr. Potucek explained that the General Fund subsidizes other activities that go to other funds. So money comes out of the General Fund into those other funds to support their activities.

Council Member Huisking asked about the projections on the local and the state sources. Ms. Weir stated that those can change. Mr. Potucek added that staff will drill down on the specifics for each category.

Ms. Weir presented a chart for local revenue sources broken down by all of the various revenues streams:

- Local Sales Tax

The assumptions that staff used to get to those numbers are from the FY 2014 Construction Tax collections because the hospital was a major driver of an increase in construction tax revenues that the City will not see next year. Holding that constant at 14 levels, staff then assumed a conservative .75% overall growth rate based on the current year and projections for FY15.

Mayor Mueller asked about last year's growth projection. Mr. Potucek stated that he believes that the City did one last year but there have been a couple flat years.

Mayor Mueller noted that the staff is optimistic. Ms. Weir stated that part of that optimism comes from the City's current year's actual being higher than initially projected.

Ms. Weir stated that on property tax there is a slight decrease in the projections as a result of decreased property valuations.

Mr. Potucek stated that there are two things that come into play, the potential loss in assessed valuation which may reduce overall revenues at the current rate. The other is based on Truth and Taxation Law. If the City keeps the rate the same for the assessed valuation, it has been the policy of the Council in the past to take the property tax rate down to avoid all of the reports required because the dollar amounts have been so small. Based on current policy, the City would lose some additional property tax revenues as a result.

Ms. Weir stated that the franchise tax, business licenses, investment income and fine projections remain the same and on building permits, staff is anticipating a slight decrease because of the City's development activity in the City.

Council Member Calhoun and Gray requested an explanation concerning investment incomes. Mr. Felix explained that the investment income is the money that the City gets at the state pool and the overnight investments that the City does with the excess cash that is in the bank every night. The City has set up an overnight purchase agreement for extra interest. Unfortunately the interest rate paid on most items for savings and other investments is low. It is deposited but the rate is very low and that is why it is sitting there.

Council Member Gray asked if the City controls how the money is invested and is that a choice. Mr. Potucek explained that the state gives the cities options which are very limited in terms of how the City can invest and those options are conservative. The City also has a policy with regard to investments and how the City invests. The City uses the state pool in which everyone pools their investments and as they mentioned, the interest rate return on those is extremely low.

Mr. Felix explained that the City does have a choice but in order to help the state pools, the state allows itself to invest in items that have higher returns that the cities are not allowed to invest in.

Mayor Mueller noted that this all goes back historically to California. They had cities investing in all kinds of speculative things and going on the edge of bankruptcy and at that time Arizona stepped in and restricted a number of things. The City has been operating like this for a number of years.

Council Member Mount asked if there is a relationship, if there were ideas, with the comptroller. Mr. Felix explained that the state monies are pooled together and the state does its investments. Years back the state did invest in something that went bad and the City did

lose money and that was a fortunate item because the City did not have a whole lot of cash on hand at that time so the City did not lose a lot of money like the City of Chandler. Historically, the City has been lower on cash and he is not willing to put principle at risk.

Council Member Mount asked if the City has a relationship with the comptroller office that would allow the City to send feedback saying that the City would like for them to look into a different type of investment vehicle than what is currently on the table. Mr. Felix stated that it would take a state law change because the state law dictates what the state and cities can invest in.

Mayor Mueller stated that what Council Member Mount is suggesting is a letter asking for consideration in other areas and it would be only a recommendation. The City does not legally have the ability to directly influence the comptroller.

Mr. Felix stated that the state law dictates what the state treasurer and what the cities can invest in. To go outside of what their pools are would take state law changes.

Council Member Gray asked if this is the state agency that controls the pensions. Mr. Felix stated that it is a different governing system.

Council Member Calhoun asked about the \$10,000 projection. Mr. Felix stated that it depends and last year the City had more because the City did get a settlement back from one of the investments that had gone bad with the state and another agency involved.

In response to Council Member Calhoun, Mr. Felix stated that it is reflected in the CAFR. Mr. Potucek stated that as long interest rates remain as low as they are, the City cannot anticipate getting much revenue out of this as \$10,000 out of 20 Million is not a big impact item.

Mr. Felix stated that when he initiated the overnight investment policy, when he started here, he paid with his salary for that. Now Council can see what that does in addition with state pool as we average less than a \$1 per day.

Council Member Gray asked how much is the City investing. Mr. Felix stated that the overnight repo varies from night to night. On March 31st it was \$1.8 Million that was invested and the City has \$3 Million at the state pool as far as the General Fund cash goes. The overnight repo that got the City over \$45,000 the first year nets about a \$1.00 per day.

Mr. Potucek added that Council should think about it as doing the tax return and then doing the interest income section and not even making a \$1.00 so then it is not reported. Mr. Felix stated that this is the downside when talking about the wonderful financing options that the City has and then only having to pay 1.28% on the financing proceeds.

Council Member Mount stated that some of the leading questions as Council progresses are if there are options to sweep that if Council needs to.

Mr. Felix stated that there are options that the City could put in to invest into longer pay, if the City is willing to tie up the money for a longer term and that would get a higher yield. A three-year is the maximum that the City can go on a Treasury bond.

Council Member Mount asked how much would get invested into the account on annual basis. Mr. Felix stated that the balance at the state pool is about \$3 million which is the cash that the City does not need for daily operations and there is \$1.8 Million in the overnight repurchase

agreement as of March 31st and that goes up and down. If it looks like it is going to be consistent then more gets moved over to the state pool.

Mayor Mueller noted that the manager is not recommending changes to Council policy. One of the policies that Council has always had is to maintain a two- month reserve. That is an emergency contingency operation and that has not been touched on purpose and taken money out. That is probably one of the things that will need to be looked at to do short term rather than long term issues.

Mr. Potucek stated that what is important to understand about that is that this is General Fund reserve and it is there in case of a major emergency, i.e., the Monument fire where suddenly the City has to break into the reserve for whatever expenses come out of something like that. When it is tied up in the long term investments, then there will not be instant access to it and that could create penalties.

Mayor Mueller noted that the other issue is that if the City were to have another emergency like the Monument fire, the City is basically on the hook for the first 30 days until the City received federal relief and so the actual cash comes out of the City and the City does not always get the federal money back to the level that is expected or in a timely manner.

In response to Council Member Mount, Mr. Felix agreed that this is a piggy bank and stated that in 2009, when the state was going through its financial difficulties, 30 days before there was a question as to whether the Treasury was going to be able to wire to the City state shared money. If they can't make their payment to the City, the City has to have that available to do regular business.

In response to Council Member Huisking, Mr. Felix stated that there is under \$4 million in the reserve and it is not all cash. There are also other assets but the overall City cash of all funds combined including the health and accident fund is about \$7 million. The health and accident fund is a trust fund set up by the employees and it can be borrowed in case of an emergency with payback.

Council Member Gray asked what happens in an emergency since the City cannot spend more than what is budgeted. Mr. Potucek explained that the City would have to declare a state of emergency and document the expenses. Mr. Felix added that the one exception is if the Governor declares an emergency in the area, then the limit goes up.

Ms. Weir stated that the remaining revenues that the City gets locally for the General Fund are:

- General Government;
- Public safety;
- Community Development
- Public Works;
- Leisure & Library;
- Miscellaneous:
 - o NSF fees;
 - o Police reports;
 - o Fingerprints.

Overall seeing decreases in most of the categories. Mayor Mueller asked about NSF fees. Ms. Weir explained that it is a fee for a check written to the City with nonsufficient funds.

Ms. Weir stated that all of the locally controlled revenues for the General Fund have an increase of over \$17,000.

Council Member Mount asked if the CAFR will have this broken down in detail. Mr. Felix stated that these are charges for services and more detail can be provided upon request.

Council Member Gray added that she would also like to see more detail.

Council Member Calhoun stated that she would be interested in knowing what are the real money making programs to help form decisions around budgets. That is really across the board and not just Section Five.

Council Member Mount asked Council Member Calhoun if she means a cost benefits analysis. Council Member Calhoun stated that yes as it would be helpful to know that.

Mayor Mueller stated that he is concerned about that level of detail because then staff will be spending a whole lot of time providing the information. He suggested an overall program, Council's level for policy.

Council Member Mount concurred and added that he does not want to be perceived at like they are trying to manage the departments; but there are things like the program and facility issues that he would like to see.

Council Member Gray stated that she is more concerned about the fees.

Council Member Calhoun added that it may be impractical for this budget cycle; but in the future since departments have that information, because that is an important part for doing business.

Mr. Potucek pointed out especially when looking at this particular slide that this is the minority of the General Fund revenues. If Council looks at them closely, i.e., public safety, the bulk is ambulance revenue that makes up the largest portion of public safety. On the Public Works' side, there are a lot of agreements with various agencies for fueling, maintenance and parts. Leisure and Library is where you have your programming, i.e., Kids World. It is not too hard to break those up and he believes what Council Member Calhoun is asking for is more on the expenditure side. The departments will be present when the expense side is reviewed and they may be able to address some of those questions.

Mr. Potucek stated that there was a policy decision made a long time ago to maintain the City's certificate of necessity for providing ambulance service and it is a major revenue source that helps support the General Fund operations in the Fire Department. A lot of cities gave that up and privatized those services.

Council Member Mount stated that he is looking at funding i.e., aquatics and Kid's World in order to get an indication of usage because those will be emotionally charged with decisions that need to be made.

Ms. Weir stated that the numbers for State Shared Revenue is from a couple of weeks ago from the State. The one exception is the vehicle license tax because the City is more conservative. Historically the State has been about 10% inflated.

Mr. Potucek pointed out that the numbers on the income tax side came in about \$300,000 to \$400,000 less than what was being hoped. The income tax lag is a reflection of what happened a couple of years ago primarily in the Valley. The local sales tax projections and growth have been relatively flat. As the Valley came out of their recession, the City started seeing more growth in State Shared Revenues and as a result the City was becoming more reliant on the State Shared Revenue as opposed to the local revenues and this really hurts the City going into next year's budget.

Ms. Weir stated that of the money that the City will be receiving from the State, the City will be actually paying \$93,500 back to them because of taxing policies.

In response to Council Member Gray, Mr. Potucek explained that ADOT additional duties were defined by the Legislature as they should take fees from the City for administering programs.

Mayor Mueller noted that it is both, cities and counties. It is Arizona law.

In response to Council Member Huisking, Mr. Potucek state that it is Sierra Vista's share and that it will be an annual event.

Mayor Mueller noted that the League of Cities tried to limit it to two years and could not get it done with current law; but they are still working on having it eliminated in the future.

Council Member Calhoun asked how the City knows if it is getting its fair share from the State for income tax and sales tax. Mr. Potucek stated that he can't say that historically there has been a problem with it; the League monitors these things and the City will get projections that will appear to be relatively accurate. The number is provided a year in advance and if that number matches up with next year's number, then it is probably a fairly accurate number that can be counted on that perhaps nothing funny is going on.

Mayor Mueller stated that when the public voted to do the State Shared Revenue and not collect the income tax, sales tax at the local level, there was a formula established in law and they were given guidance to follow those formulas to give the city its fair share based on population and a number of other things. Legally they are bound to do that and he is unsure what Council Member Calhoun is asking here.

Mr. Potucek stated that they are audited; but stated to look at what happened with the lottery funds. That was done by the vote of the people and we now no longer receive lottery funds. Mayor Mueller noted that there was additional executive action and additional legislative action to make changes outside of what the people voted on.

Mr. Potucek stated that the HURF money gets swept into DPS and HURF is laid out specifically in terms for what is collected and what it can be used for; but in the state budget process, the money gets moved. Mayor Mueller stated that it is a case where terms get broadened.

Council Member Gray asked who's watching out for that at the state level. Mr. Potucek stated that it gets audited by outside sources. Ms. Jacobs stated that they have an inspector general and they get audited externally as well.

Ms. Weir stated that there are meetings underway with departments based on their operations and maintenance requests. Staff's initial projections somewhat out of necessity are that the City will have a lower level of operations and maintenance expenditure than the previous year.

Staff will continue to evaluate capital requests. The PSPRS increases at \$550,000 alone are greater than the increases in revenue and on top of that the Class and Compensation Plan would take another \$1 million from the General Fund, a total of \$1.6 million in potential personnel expenditure increases.

Finally, staff will be reviewing and monitoring the projections and update Council based on any new information for the General Fund.

The HURF revenues appear to be stable and staff is awaiting final state budget analysis and do continue to transfer in the roughly \$700,000 from the SSVEC Franchise fee into the HURF fund to assist with street maintenance. The majority of the projects will need to continue to be mostly funded by grants.

Mr. Potucek stated that what is important to know is that HURF has been so gutted and that if that money was not transferred in the HURF fund for street maintenance, the City would be down a level of about \$300,000 a year for street maintenance. HURF cannot be counted on by itself as in years past to take care of the streets.

In response to Council Member Gray, Mr. Potucek stated that he does not think that the City can necessarily count on grant funds to do the City's maintenance in the future. If a federal program comes up and the City had been able to take advantage of it, like it was done for Fry, Seventh and Wilcox, staff would certainly do that; but to count on it annually as a source of funding, he would say no.

Mayor Mueller added that on the last Transportation Bill, one of the things that they did is that they were looking for ways to cut cash and corners and in fact they kept a line item for bike paths as a federal highway enhancement; but they did not fund the line and they have done other things like that through the Transportation Bill.

Council Member Huisking asked if HURF should be kept as a place holder because it is still a state law and suggested that Council change its policy to make sure that the streets are funded from the General Fund revenues from now on. Mr. Potucek stated that it is a good point and what has been seen happen during the past years, with the Legislature taking lottery funds, that was the City's grant match for the transit system, and when we see HURF being used for other purposes at the state level and reducing the amount to the City, essentially items that were typically funded out of other funds and revenue sources in the past, have essentially now shifted over to General Fund responsibility. When you add that into the retirement system issues and some of the other problems that the City has with declining growth rates and revenue sources, it has a cumulative effect and really cause the Council to have to consider local revenues sources as a way to make up the difference. The budget can't continually absorb all of these other outside costs and then have the City operate as effectively as it did in other areas before.

Mayor Mueller stated that as a policy question, that is essentially what has been already done. Because the last several years, the City has not received any HURF money. The City has been using local funds to supplement the road. The City has been doing that as a policy for a couple of years now and the question is how much more additional money that could be put into that effort.

Council Member Huisking asked if whatever is decided to do in this budget process becomes the new policy or will it continue to vary. Mr. Potucek stated that the Council established for example the \$700,000 transfer through the budget process as the Council's current policy.

Other policies that Council has with regard to tax rate and etc. are established through ordinance, resolution or through the budget process. If Council makes changes to any of the things, then that would constitute a policy change which would then impact future budgets.

In response to Council Member Calhoun, Mr. Potucek explained that policies come from very many different sources. Some come from federal law and some come from state law and are written in law. Some come from City ordinances and others have been established through the myriad of resolutions that have been approved in the past or within the budget process. City staff are creatures of habit, once a policy has been established and it works, staff does not tend to change them unless the need or some other opportunity comes up to do that. Essentially, they are all written somewhere.

Mayor Mueller stated that simple things like how much reserve should the City have, that is in the budget book. The Council does not have a separate policy that states that.

Mr. Potucek stated that there is a Financial Policy and it is included in the budget book.

In response to Council Member Calhoun, Mr. Potucek stated that Council could absolutely use the \$700,000 currently being used as street money for something else next year; but there is where Council may want to be careful in what is hard coded in an ordinance versus what is established through a budget policy because if this was hard coded in an ordinance, then Council would have to go back and vote on changing the policy. By making it a budget policy Council has the flexibility to make those changes much easier on a year to year basis.

Ms. Weir stated that in terms of dollar amounts there is still a lot to be determined. For the fuel tax is anticipated \$2.9 Million coming from the State which is a very slight increase of \$50,000 and then the transfer in from the SSVEC franchise fee.

The Enterprise funds continue to be very healthy and staff anticipates the sewer rates to stay the same and the refuse rates are currently under review pending both some state legislative action as well as taking a look at expanding the City's commercial recycling program and making sure that those rates are adequately covering costs.

Mr. Potucek added that there are other pressures of building on the refuse fund, in particular more so in the sewer fund. Both are impacted by customer base so if you have fewer customers than you have less revenue to deal with. On the refuse side, there is constantly pressure in terms of landfill tipping fees that the refuse that goes to the County landfill system. Those are schedule to go up fairly significantly over the next few years and that may flow down to the rate structure. The amount of recycling actually reduces the revenue to the system so that is a pressure point as well. Notwithstanding also legislative activity designed to take away the City's commercial customer base. All those put additional pressure on refuse fund. Right now it is healthy but over time, he thinks that the City will see erosion and negative rate impacts in the future.

The Airport fund is largely dependent on grant funds and is funded through fuel sales and hangar fees.

The LTAF is where the state lottery money used to go and no longer does. This fund is heavily subsidized by the General Fund. Last year it required a \$430,000 transfer from the General Fund. Mr. Potucek noted that it is the Transit System.

Ms. Weir stated that Public Works is beginning an analysis of the Transit System as a whole and taking a look at how it is operating.

Mayor Mueller asked if the City has paid off the hangar debt. Mr. Potucek stated that a couple of years ago, the City rolled the remaining hangar debt into a refinancing to take advantage of lower interest rates because the state was charging the order of 5% to 6% on those and they are not rolled into a 10-year note at 2% for another nine years.

Mayor Mueller asked if there is revenue coming in from the hangars or is it balanced with the debt. Mr. Potucek stated that there is revenue coming in from the hangars. The hangar revenues go towards the payoff of that note. There is not much hangar revenue because there are fewer customers.

Mayor Mueller stated that he would like to know about any revenue made from the hangars.

Mr. Felix stated that on the revenue side, a couple of years ago to help the General Fund subsidy that was going to the airport due to the lack of revenue source, the Capital Improvements Fund did pay off two airport notes and that money is still owed to the Capital Improvements Fund as he has an internal tracking of it. At some point, it does need to pay that back over time.

In response to Mayor Mueller, Mr. Felix stated that he would get the revenue in and the official payment and then the balance that is owed to the Capital Improvement Fund. Mr. Potucek stated that one of the advantages in doing the refinancing is that the debt service payment sent to ADOT were fixed amounts that needed to be paid to them by refinancing, staff is trying to stay faithful to what the payments were and obviously have lower interest costs; but do have more flexibility in terms of how the Capital Improvements Fund is paid back.

Council Member Mount asked if the Citizens' Advisory Commission (CAC) have started to gel on a projection that Council could be prepared for if it is not that half a penny because 3.8 is based off of last year's. He also asked if staff has an idea how much will be going into the Capital Improvement Fund this year. Ms. Weir stated that this half a penny dollar amount is the projection for the Fiscal Year 2016 and current CAC deliberations seem generally in a consensus that they would like to see the entire Capital Improvement Fund unfenced with the recognition that almost half of that still has to go to paying of the City's debt and that the City will still have those capital maintenance needs and stuff like that. They understand the repercussions of that as well. They would like to see the restrictions lifted off of that money.

Mr. Potucek noted that this would be a policy change.

Ms. Weir presented Council with a slide of historical revenues of where each fund has been over the last few years.

Council Member Mount asked about the sewer's drastic decline. Mr. Felix explained that a couple of years back, the City did a reconstruction of the sewer ponds that has cut the electricity bill in half and then last year it was the Sulger Sewer. That is \$2 Million that the City got in loan and that is considered a revenue source because that is capital donated to the Sewer Fund. Mr. Potucek added that they are one-time capital infusions for projects that came in and now the City is back to an operational state.

Council Member Calhoun asked if the City is still balanced on the sewer. Mr. Potucek stated that the City has to be. Mayor Mueller added that the City can operate at a lower level without getting into trouble.

Mayor Mueller asked why the refuse went up. Mr. Felix explained that Fiscal Year 2013 had the construction of the recycling building for doing the mulch and then this current Fiscal Year there are four refuse trucks in the budget and extra pieces of equipment that were not there in the past. Mr. Potucek stated that it is financing revenue and that will be coming in. The Transfer Station is another issue that the system faces will not necessarily the City. If the overall Countywide system chooses to do that, that will add cost to the countywide budget for that and Sierra Vista will have to pay their share through the rates when that occurs.

Ms. Weir summarized the City's revenue position looking into next year, the City should experience an increase of \$200,000 in revenue for the General Fund and that increase is not large enough to offset the PSPRS costs and the ADOT payment of \$93,000.

The Enterprise Funds remain strong and the Capital Improvement Fund once the debt payments is taken out, it will allow for limited continued projects on a priority basis including some capital maintenance as well.

Council Member Mount noted that the bottom line is that even with the \$200,000 increase, the City would still be in the red given the PSPRS and ADOR costs. Ms. Weir stated that staff did a very base projection as part of the CAC process assuming status quo for absolutely everything on the expenditure side given these projections and it shows just over a \$300,000 deficit going into the budget.

Council Member Gray noted that it is because of the PSPRS and ADOT costs not due to the actions of the City.

Council Member Calhoun asked why the Class Comp is not mentioned. Mr. Potucek stated that Council does not do that in the current budget policy. If staff is able to put that in the budget and balance it, he is going to be in a position where he is going to have to recommend revenue policy changes to balance the budget if that is all included. Those recommendations will be part of a balanced budget proposal because he does not see how the City can shave the capital and O&M expenditures \$1.3 Million at this point in time without some sort of revenue policy change.

Council Member Calhoun asked if Mr. Potucek sees a way to shave it with just \$300,000. Mr. Potucek stated that it is probably doable but not without significant pain. Mayor Mueller stated that Council has to look at long term and not a one year shot. Mr. Potucek added that this is not a one year problem that is being dealt with.

In response to Council Member Calhoun, Mr. Potucek stated that a lot depends on the revenue source being talked about. It is relatively easy with Enterprise Funds because there are a number of customers and a rate associated; but with State shared revenue, the City gets those from the State other than the ones that the City tweaks some because historical knowledge has indicated to the City that certain categories, i.e., vehicle license tax, have not been totally accurate in the past. The City will make a run based on its own projections which staff feels will be better. He stated that he thinks when the Council is talking about conservative revenue projections, it is really being talked about the City's sales tax that is the largest local revenue source and the staff tries to be very conservative there because sales tax is very dependent on the local economy. Fluctuations can take it up or down and if the

revenue projection is over inflated, then suddenly the expenditures cannot be kept within budget plan during the course of the year and he would rather err and always has on the side of conservatism when it comes to that. Being more aggressive in terms of sales tax projections can turn out to be very problematic.

Mayor Pro Tem Blanchard asked where the money went from the sale of the land on the west side as he would like to see at least the tennis court building be torn down using some of that money. Mr. Potucek stated that there was \$50,000 budgeted for the beginning of the demolition of some of the buildings in that facility but he has put a hold on that because of the budget situation. That \$50,000 could go a long way in helping the City the next fiscal year and although he agrees with him that it needs to be done, he is just very cautionary about that right now in terms of needing the money.

There are two sources of revenue that are in the Capital Improvements Fund that were held in advance. The City received \$500,000 for the sale of North Avenue property and now the City has received \$250,000 for the Cox properties. The money has not been spent and it is currently still available. He is sure that there are a lot of ideas for how to spend it and staff will be making some proposals and providing Council with options as part of the budget. One of the items that Council already heard about was the Fry Townsite cleanup funds that would come out of that.

Mayor Mueller noted that those are all expenditures and not revenue. Mr. Potucek stated that they are revenues that are in the Capital Improvement Fund.

Mayor Pro Tem Blanchard stated that he would like to see the building torn down before there are people living in it. Mr. Potucek stated that he can't disagree with him and maybe the City can work with the County and find a better way to do that.

Ms. Weir concluded with a brief update on the CAC as many of the Council Members have attended some recent meetings and since this meeting, they now have two more meetings to finalize recommendations. They have a menu of about five different pictures that they are looking at to recommend to Council from the most conservative to the in a dream world they would love to fund all of the things. They have heard from every City department and will be presenting to Council on April 16th with a final recommendations.

Their initial priorities for funding include the Class/Comp implementation, police department staffing, public safety is a major concern, neighborhood enhancement and potentially adding a neighborhood enforcement officer to deal with some of the abatement and neighborhood issues, street maintenance as well as investing in economic development.

Staff is reviewing operations & maintenance budgets and has received submissions for the Enterprise Fund. The General Fund submissions will be following shortly after that. Staff is continuing to balance the budget assuming the revenue stays the same as the current picture presented to Council, and the next presentation will be at the end of the month to review debt service and capital expenditures.

Mayor Mueller asked for a schedule for the rest of the budget meeting. Mr. Potucek stated that there is a tentative schedule put out for the rest of the preliminary budget meetings and for the final budget presentation as well.

Council Member Mount asked about the CAC's public input meetings. Ms. Weir stated that there are two:

- April 2, 2015 from 6:00 p.m. – 7:00 p.m. at Fire Station 363; and
- April 4, 2015 from 10:00 a.m. – 11:00 a.m. at the Library in the Mona Bishop Meeting Room.

Ms. Weir added that in addition to the meetings, there is online engagement as well.

3. Adjourn

Mayor Mueller adjourned the work session at 5:03 p.m.

Mayor Frederick W. Mueller

Minutes prepared by:

Attest:

Maria G. Marsh, Deputy City Clerk

Jill Adams, City Clerk