

Sierra Vista City Council
Work Session Minutes
June 14, 2021

1. Call to Order:

Mayor Mueller called the June 14, 2021, City Council Work Session to order at 4:30 p.m., Council Chambers, City Hall, 1011 N. Coronado Drive, Sierra Vista, Arizona.

Mayor Rick Mueller – present
Mayor Pro Tem Rachel Gray – present
Council Member William Benning – present
Council Member Gregory Johnson – present
Council Member Angelica Landry – present (virtual)
Council Member Mark Rodriguez - present
Council Member Carolyn Umphrey - present

Others Present:

Chuck Potucek, City Manager
Victoria Yarbrough, Assistant City Manager
Adam Thrasher, Police Chief
Brian Jones, Fire Chief
Matt McLachlan, Community Development Director
Laura Wilson, Leisure and Library Services Director
Tony Boone, Economic Development Manager
Mike Cline, Management Analyst
Jennifer Osburn, Budget Officer
David Felix, Chief Financial Officer
Abe Rubio, Chief IT Officer
Jill Adams, City Clerk

2. Discussion regarding [FY 2021-2022 Budget Presentation](#)

Mr. Potucek stated that staff will present the proposed FY21/22 budget. Budgeting is a year-long process at the city, and it really begins in earnest at the start of the calendar year. Many budget meetings have been held up until this point along with individual budget meetings with Council Members; therefore, anything being presented will not be a surprise but a culmination of all that has been put in on the part of the Council and staff.

Going into the next ten years of which this budget really starts, there will be challenges and some opportunities ahead. The budget itself is a financial plan that not only helps in terms of providing services for the current year, but also helps to meet some of the goals and challenges in moving forward. The challenges and opportunities have been divided into three areas, Public Safety Retirement System, and the challenges that the city faces in dealing with it over the next decade; street maintenance and types of projects that are a big cost factor, and the opportunities in economic development and quality of life projects for the community. This budget starts the city down this road and there are no tax increases associated with the budget, but there are several projects.

The budget acts as a bridge from the public voting on the General Plan and Council's work on their Strategic Plan every two years. Staff is trying to dress what Council has laid out in terms of what they want to meet over the next two years, which included in the budget as well. The budget team is led by Assistant City Manager Victoria Yarbrough, working with CFO David Felix and Budget Officer Jennifer Osburn, and the department heads, all assembled that helped to put the budget together.

Ms. Yarbrough gave a shout out to her budget team and noted that she could not have asked for a harder working and knowledgeable team as well as the various levels of staff whose work went into the budget. She announced that a few changes have been made since the Tentative Budget Book was distributed as well as recent changes that happened as late as the morning of Monday, June 14, 2021. An overall budget summary will be presented of all revenue, debt, O&M, personnel, capital projects, grant and future issues. Also, during the last quarter of the presentation, Mr. Felix will provide a brief on the PSPRS.

Changes to-date from the budget book include the MPO budget increase of \$16,263 that was heard about after the budget book had gone out to Council, an increase in building permit revenue, \$16,263, and added was a website redesign, \$50,000 for next year that is something that happened relatively recently, which is the one new item that has not been covered before.

There have been challenges with the website over the past year and primarily it has come down to security issues and staff's time. The website is hosted by an external company and then staff in Communications and Marketing, and IT use Word Press to manage the content of the website. The current hosting setup has presented some security risks and size issues with the number of pages that are hosted. The problems in both of those areas have continued to develop, where in April IT had over 1,500 support tickets for server issues alone.

Mr. Rubio and Ms. Hector were asked to look at other options to have the website hosted by another company. They did that and in May they brought their results to Mr. Potucek and Ms. Yarbrough. One was selected that would resolve the issues because the current system needs a software update to address the security issues, but that comes with a lot of risks. The site may break when updated and unfortunately, the city does not have a Word Press expert on staff. This would address the security risks but updating brings its own challenges. The answer is to have someone else host. Most cities host their websites in this fashion and the host becomes responsible for all security upgrades and the content. Not only would this save a lot of time on the Communications and Marketing side, but it will also save time on IT's side and the city would get a beautiful, updated new website. It is a significant cost upfront, but then the cost drops dramatically, and the ongoing maintenance is paid year to year that includes the security updates and the cost for keeping the website updated and hosted. This is estimated to be about \$50,000 for next year.

Council Member Johnson asked if \$50,000 would be a first-time charge. Ms. Yarbrough stated that \$50,000 a first-time charge and it is for four different web sites. Staff will make sure that the amount covers the four websites because the quote that was originally received included the Upper San Pedro Partnership Website, Cochise Conservation and Recharge Network Website as well as the Visit Sierra Vista Website, and the City's main website.

The Capital Improvement Fund Transfer-in was increased by \$50,000 for a project that needed to be moved from O&M to Capital. If the project happens, then there will be a development agreement involved and at that time the Council will receive more information.

The Fire PSPRS overtime contribution was underestimated; therefore, it was increased to \$150,000.

Due to the initiative that was passed last fall, states get a distribution from marijuana sales and that money is specifically to go to PSPRS funds and any additional costs that legalizing recreational marijuana are supposed to bring. Staff does not have any idea as to how much this will bring in, but the equivalent is being budgeted, \$150,000 to the overtime contributions, where staff fell short on the original estimates.

Mayor Mueller asked what the adjustment will be once it is known if it is less than \$150,000 of the overall state shared revenue that the city will get from marijuana. Council Member Umphrey stated that it might be more, but Mayor Mueller noted that he does not think that it will be more since Sierra Vista is only a baby state and other counties have one of these places. Mr. Potucek stated that staff is going to monitor the revenue that comes in and if it comes in short then adjustments will need to be made and cut in other areas, i.e., personnel lines since those are fully budgeted and the city is always short on positions.

Ms. Yarbrough stated that in the Capital Improvement Fund, if there is an increase transfer in, then there must be a reciprocal transfer out; therefore, this is the reciprocal of the \$50,000 transfer in. She added that the Schneider Electric Project, \$51,880, is about to be closed out that had delays due to the pandemic, but everything is nearly complete except for two projects that are expected to be finished in the next couple of months. The carryover was budgeted to make sure that the money is available to close it out. The \$101,880 is the addition of these two items.

The sewer fund had a small increase to fulltime salaries, \$4,096 and the second part of the Schneider Electric Project carryover, \$32,783. The carryover is the addition of \$36,879 is the addition of these two items.

The MPO budget was submitted after the tentative budget book had come out; therefore, the following are MPO fund budget additions:

- Increase expenditures, \$134,840.
- Increase federal share, \$118,577.
- Increase local match, \$16,263.

A slide was displayed of the budget by major fund along with an overview of what these changes, year to year meant:

- General Fund's significant increase is primarily due to capital projects.

Ms. Yarbrough stated that contrary to what is believed, most of the capital projects are budgeted out of the General Fund. A transfer in is done from the Capital Improvement Fund.

- Salaries and benefits increased due to the two percent annual step increase and the four percent market shift.
- HURF, \$11,542,763 includes a lot of projects, i.e., Avenida Escuela Construction Project, Fry Boulevard Construction Project, Charleston Rebuild Project, additional money in the annual street maintenance, and Garden Avenue Redesign Project.
- LTAF, the Transit Fund, increased \$2 million for multi-use path and additional money for

curb, gutter, and sidewalk projects.

- Airport Fund is the \$10 million grant that is being pursued in the amount of \$1.5 million for the Forest Service building, \$1.3 million for the site improvements, etc. that adds up to almost \$12 million.
- Capital Improvement Fund includes the Schneider Electric carryover. A place holder was left in for the sale of King's Court, \$500,000, because the money that the city receives from the sale will be go back into the Capital Improvement Fund to fund other capital projects.
- Sewer Fund decreased because the city is slowly paying off the bond that paid for the upgrade to the sewer plant several years ago. Less interest is being paid as the bond is paid off.
- Refuse Fund has a positive \$413,00 that went up slightly due to the debt for new trucks.
- All other funds are everything else that was not mentioned.
- Grant Fund has a \$4 million place holder.

Ms. Yarbrough stated that altogether, \$28 million increase over last year for a total budget of just over \$114 million due to one-time funding for grants that the city may or may not get. If the city does not get the grants, the project does not get done.

A slide was displayed of how the budget breaks down by expenditure type and the percentage of the total budget that represents (percentages have changed significantly from previous years and most of that is due to capital increasing substantially due to potential future grants):

- Projected city sales tax revenue by six percent for next year, \$20,769,252

Due to the way that the sales tax has been trending, staff felt that it is relatively conservative at six percent because it is unknown at what point the city will come out of the artificial increase to the sales tax revenue due to the pandemic, federal stimulus packages, etc.

- Licenses and permits, \$491,263

The building permit fee increased. Staff checked year to date, and it is still tracking a little under what was made this year.

- Local government payments, \$6,111,595

The decreased, \$185,176 is due to the SEACOM Fund changing and the HURF exchange project/HURF swap for Fry Boulevard. The city paid for the design and so the amount of that project is coming down and now left are the funds for the construction.

Bids are now up on the Procure Now Website, and very good bids came in. Staff expects to sit down and review those and decide on an award.

- State Shared Revenue, \$16,117,773

This includes the income tax decrease and other State Shared Revenue Funds going up.

- GMC Revenues stands for Government Maintenance Center, \$1,436,500

This is the revenue line for the many different agreements with other governmental agencies. This is the revenue for fuel sales, labor, fluids, working on other organizations' equipment. This has increased compared to the actual's year to date.

- Airport revenues, \$1,020,750

These are up due to fuel sales. It is a busy and active fire season just like last year.

- Sewer revenue, \$3,857,139

The increase is due to increased service charges and the increase in refuse revenue is due to the rate increase that was approved about a year and a half ago.

- Leisure revenue, \$961,848

This has been a tough one for two years. It was decreased last year because of the pandemic, but it is being increased because people are going to be coming back and want to do more things. All the programs are now proceeding; therefore, staff tried to do a conservative increase, but also recognized that there are a lot of people who are coming out, i.e., Color Run that had 300 people, and the Wine and Spirits Festival. This is expected to continue, but staff also wanted to keep the revenue projection conservative since it is still hard to tell what will happen with some programs.

- Planning revenue, \$68,000

The increase is due to budgeting more money for abatements. The city has been fortunate in recouping some of the money that has been spent on abatements.

- Development Fees, \$0

This gets zeroed out because the revenues go back into the fund to bring it whole.

- Investment income, \$30,000

This goes down because interest rates are low.

- Donations, \$4,497,272

The substantial increase in donations was due to the donation of the Animal Control Center, the budgeted Avenida Escuela, payment by Walmart, and all other departments and divisions' donations.

- Notes Payable, \$5,232,000

This is for planning for three of the larger project financings, Veterans' Sports Complex, fire truck, and airport projects.

- Carryover, \$10,799,222

This increase is due to having more projects.

Ms. Yarbrough stated that regarding debt, the city finances certain capital projects, depending on a variety of factors, e.g., type of project, project cost, expected life. The financing terms generally match expected life of the equipment. There are two types of debt, bonds for long term and lease purchases for short-term debt.

A slide was displayed of the debt service by fund for next year:

- General Fund, \$281,880; HURF, \$79,907; and Refuse, \$434,097 are all primarily vehicles.
- Sewer Fund, \$951,934 is the plant upgrade and vehicles.
- Airport Fund, \$0 and Park Development Fund, \$0 had notes paid off early last year.
- SVMPC interest and redemption is a land purchase that was cashed out last year.

The slide showed how outstanding debt has tracked over the last ten years. Anything that is financed will show up in next year's budget and it will not be reflected in FY22. The city is in a good position to take on future debt.

A slide was displayed of the Operations and Maintenance, \$25,316,982 across all funds. An extensive list was included in the Tentative Budget Book, but most of the changes were:

- Decrease to \$67,383 in the Mayor and Council Department due to having budgeted donations under this budget in the past.

Staff noted that there have not been many donations to Mayor and Council; therefore, staff reduced this part of the budget.

- General Government, \$5,121,990

This is due to an insurance increase. Next year there will be a change as staff is going to start moving things like this to be under the City Clerk.

- SEACOM, \$331,537

This is the software and maintenance, the SUA2 agreement that is being paid off.

- Public Works, \$11,365,307

There is a significant increase in every fund that is under Public Works. The primary reason for the increases is due to \$150,000 more for fuel for the airport, which will be seen back on revenue. There is also more equipment maintenance that was budgeted that is costing more as a whole across Fleet, Transit, and Refuse, which is being addressed like buying new refuse trucks and in other situations, things just cost more. The cost of parts has also gone up.

Ms. Yarbrough displayed a slide of significant O&M changes and noted that most of the time O&M changes were made to match FY21 actuals. The departments and divisions do a great job of adjusting year to year based on actuals. The same goes for some significant increases because there is almost always a good reason for doing this.

- City Manager Professional Services Line went up almost \$44,000 due to an increase in legal fees. This is adjusted year to year as it depends on what is going on and it covers the water attorney, Sarah Ransom, endangered species attorney, etc.
- Human Resources Professional Services Line increased by \$44,000.

This is tracking actuals due to PSPRS traumatic event counseling. This was a legislative change two years ago, and the city always wants public safety staff as well as other staff to seek counseling support. The reason that this has increased is that while the city wants them to seek counseling that they need, they are allowed to go to out of network providers and that sometimes hits the city in the pocketbook.

- IT, \$45,000

This fluctuates year to year, but the office equipment maintenance was increased by \$45,000 for a body camera cloud storage increase. The initial contract expired and had to be renegotiated and it went up \$45,000.

Mayor Mueller stated that there has been discussion about the Legislature not having a statewide standard guidance on how long the data must be kept from the body cams. He further stated that he would like to hold discussions to look at what is in the Statutes for storing normal evidence and coming up with a strawman for the Legislature because they have been asked to do this for a couple of years. Costs went up to \$45,000 and it will continue to go up, the more stuff is stored. If there are things that do not have to be stored, there needs to be specific legal guidance from the Legislature on what can be deleted, but it is still not in State Law.

Mr. Potucek stated that the Legislature has been trying to move towards a situation where they are wanting to assist smaller communities with obtaining body cameras etc. The initial expense of the cameras themselves is not so bad, but the ongoing storage requirements that continue to go up. He added that this presents an opportunity for the city if the Chief of Police Association and the Sheriff can get together with the County Attorney to present a case to the Legislature.

Mayor Mueller stated that he is talking about more than just identifying the need because it is easy in a short conversation to identify the need. The challenge that he thinks the Legislature has especially with the committee system that they have is having a hard nose proposal written up so that they can work with. He thinks that this will take about a year to get started so that the city is not paying an exorbitant amount of fees for something that is basically never going to be seen in the court. Police Chief Thrasher stated that he does not believe that they have because they generally follow the State Library Records Retention Laws regarding each one. There is guidance in the State Law Library about how long to retain evidence for each case, misdemeanors, felonies, etc. He added that if it does not have to do with that, then there is a minimum time, and it is up to the decision of the agency on how long they hold on to it beyond that.

Mayor Mueller stated that he thinks that it would be smart to have a state standard on when to delete the nonimportant. Police Chief Thrasher stated that it is in the State Library except that each agency can continue to keep it longer if they decide to. There is a minimum standard by the State, but beyond that, it is up to each agency.

Mayor Mueller noted that this needs to be looked at to make sure that it is in fact appropriate for

what the city is doing. If the Legislature is going to be spend money for everyone else to get cameras, the city has already spent their share on cameras, there needs to be one state standard and he thinks that this is a good step.

Mr. Potucek stated that when this was started a couple of years ago and went down this road, staff knew that the contract was going to end and that a higher expense was coming. Mayor Mueller stated that his concern is that it will continue to rise.

- Police Department Professional Services

This line went up by \$9,400 and budgeted is \$10,000 for Better Bucks startup funds, but there were some other small decreases.

- Police Operations

Professional Services decreased by \$83,768. Also budgeted was the City's SEACOM contribution, which went down this year as well as police uniforms.

Ms. Yarbrough stated that the Police Department is fully budgeted as if it would be fully staffed. If that many police officers are hired, then the money will be found.

- Public Works

Fleet Vehicle Equipment and Maintenance cost went up to \$89,000, which is due to the cost of parts.

Fleet Professional Services increased to \$83,964 due to the renegotiation of NAPA Contract and the fulltime position that is in Fleet Services.

Mayor Pro Tem Gray asked if the NAPA Contract is for five years. She also asked if the price that is being paid the same for this year or will there be an automatic increase in the term of the contract. Ms. Yarbrough stated that she does not know, and Ms. Flissar is not present; however, she can find out for her.

- Community Development

Included in Planning Professional Services was \$50,000 as a place holder for a potential contract for homeless services. The city may not be ready for this in FY2022, but as Better Bucks is launched, and assisting with it and seeing how this works and spending the next year determining what is needed. Also included \$50,000 in the Neighborhood Enhancement Professional Services line to increase abatements.

Council Member Johnson asked if the two services combined total \$100,000. Ms. Yarbrough stated that this amount was taken out during the CDBG presentation to be able to include additional projects for St. Vincent De Paul and Good Neighbor Alliance; however, the amount was added to Community Development O&M budget to address the increased abatements.

Ms. Yarbrough stated that the Leisure and Library Services Department has a new name after a year plus of working on it. They are now the Department of Parks, Recreation and Library and the changes in their budget are:

- Land and building rental, \$28,000.

This was missed over the past few years. This was included in the use agreement with the School District, which was part of the negotiation that took place in 2018 to have a fairer partnership in how each other's buildings are used. In exchange for this, the School District had one ask on the \$28,000 that was the amount of their sewer fees. It was written in the agreement, but it was not budgeted for each year and now it is in the budget. The money was made up that was missed on paying that.

Mayor Mueller asked if this was a sewer cost for the ballfields and the city's sports building. Ms. Yarbrough stated that the School District asked if the city could rebate their sewer funds to them and they were told that it was not possible because there is an enterprise fund. However, since the city saved a significant amount by each agreeing not to charge each other for the use of the facilities, the city would rebate them an amount equivalent to what they are paying in sewer fees.

Mayor Mueller asked if this is for all school facilities. He also asked if it is still advantageous to the city to do this because the city now owns the sports complex. Ms. Yarbrough stated that it is all school facilities, and this is their total annual cost. Staff can check to see if it is still advantageous, but they are not paying for the Veterans Sports Complex property. The city was not renting anything there except the sports division building and the gym. Most of the cost was going to the district for renting the schools for the Kids World Program. Staff is looking at the contract because there are a few things that need to change.

Mayor Mueller stated that if the contract is being looked at, he can live with this. However, at some point in time, and he knows that there must be something to be able to negotiate with when working with the school board, the \$28,000 rebate is the right way to do this. Ms. Yarbrough stated that the city was paying the school district about \$116,000 a year for the use of their facilities.

Council Member Umphrey asked if this is retro pay. Ms. Yarbrough stated that it is not. That has already been taken care of. There is a line in the agreement that the city will pay them, and this is one year.

- Parks

Added \$7,100 for new brackets for banners in Veterans Memorial Park which will go on the light poles inside the park.

- Aquatics

Added \$8,200 for snack bar equipment like what happened with the Library Café. It was found that to attract a concessionaire to the snack bar, there needs to be a small investment in basic equipment. One of these items is a usable sink because there needs to be a usable sink for place that is being rented out.

- Library

Added \$31,000 for contract for a security guard. This is something that has been looked at over the years because it is an unfortunate truth that there are a few unruly people who like to visit the library and it is not all quiet people checking out books and getting on the internet. A trial run was tried with the Arizona Rangers, and it is not something that they can cover full time.

However, in the short time that they were there, it did help significantly.

Council Member Johnson asked about the number of hours that the security guard will provide at the library. Ms. Wilson stated that it is going to be a part time position at 20 hours per week.

A slide was displayed of how the operations and maintenance budget breaks out across the departments. The total O&M for next year is under \$24 million.

A slide was shown of the new fulltime positions added for next year that include salary and full burden:

- Public Works

The Operations Manager Richard Cayer retired at the end of December. Therefore, the opportunity was taken to reorganize and look at what was needed across the department. This has been done throughout the years, and at one point, splitting the department was attempted into two separate departments; however, this did not work. Currently, the department's manager and city engineer positions have been split into three separate manager positions. There is now the external operations manager in charge of the enterprise funds, the internal operations manager in charge of fleet, facilities, and streets, and the new position of a capital improvement development manager, \$138,440. This position will be responsible for the Capital Improvement Plan and will oversee the engineers, engineering inspector, and the drafters.

Another civil engineer, \$83,280 was added because there is an upcoming retirement next year that will give the engineer an opportunity to get on the ground and work at the point that when the person retires, a decision can be made whether to backfill the position or not.

A refuse worker, 45,459 was added that is budgeted in the Refuse Fund.

A street maintenance worker, \$45,923 was added that is budgeted in the HURF Fund.

Parks, Recreation and Library added a management analyst, \$82,907 and exchanged a customer service coordinator position that was removed.

Added two Fire Department EMS transport positions, \$43,450 that are for the new EMS Substation. These positions will not start until February.

There was one reclassification and that was for the marketing production designer, \$4,620. The amount includes salary and burden increase.

The retirement contributions for next year are as follows:

- PSPRS contribution will go up almost \$300,000.
- ASRS contribution will go up \$193,000. These increases are due to salary increases and not a rate increase.

A slide was displayed that showed the total contribution for both PSPRS and ASRS and the difference. These numbers include the annual two percent step and the four percent market shift overall in the personnel budget.

A slide was displayed of the personnel costs by fund, \$37,372,758. This is both the changes for

the new positions and the two percent annual step increase and four percent market shift.

Ms. Yarbrough displayed the list for capital projects in Fiscal Year 22 and showed how these are separated:

- General Fund depicting the department that it is budgeted under, the cost and how each item will be paid for.
 - o Vehicles will be financed:
 - FD-Ford Expedition 4x4 \$60,000
 - PD-Ford Excursion DSL \$75,000
 - PD-GMC ½ ton pickup \$50,000
 - Procurement-Ford E350 Utility Van \$60,000
 - CD-Chevy ½ ton pickup \$50,000
 - Engineering-Chevy ½ ton pickup \$40,000
 - Fire-100ft aerial fire apparatus \$1,100,000
 - o The police vehicle replacements will be cashed out (seven new vehicles, \$500,000 will be ordered for this year and the two previous years that are getting delivered later this summer):

Mayor Pro Tem Gray stated that she is aware that dealerships are still having issues in getting in these vehicles and there was an article in the newspaper about it with Sierra Toyota. She asked if there is information that these vehicles will be coming in this summer. Ms. Downing stated that Procurement does not yet have confirmation that they will be coming in this summer. She added that she checks in with the dealership about every month and they have no new information.

Mayor Mueller stated that this is an international issue and not just a local issue.

- o IT Department:
 - Replacement of the library patron computers, \$95,000
 - Security camera upgrade, \$45,500
 - AV upgrades at Fire Station III classroom and conference room.
 - Network upgrade, \$115,000
 - Animal Control Center expansion design/construction, \$2,000,000 (the design will be paid for out of donation funds and the construction will also be moved up this year due to the \$1.2 million donation and the additional \$800,000 that was shifted from the Capital Improvement Fund. These are also Strategic Plan items.
- o Carry over item:
 - Female locker room, \$94,889 carryover, scheduled to be finished by the end of June, but the carryover is budgeted just in case it does carryover into July.
- o Solar Cover Project, \$200,000 at the police department and if it happens will be financed as part of a phase II Schneider Electric Project.
- o Strategic Plan items
 - Playground replacement

- OYCC, \$16,650
- Castle playground at VMP, \$40,000
- Sports Complex restrooms, \$500,000
- HURF Fund
 - Fry/North Garden, \$2,396,422
 - Street maintenance, \$1,500,000
 - Avenida Escuela, \$2,500,000
 - Charleston rebuild, \$932,000
 - Garden Avenue planning for the design, \$265,000
 - School land purchase, \$366,000

Ms. Yarbrough stated that she will be attending the School Board Meeting to propose the purchase of the land adjacent to Roadrunner Park to the Sierra Vista Unified School District Governing Board. This land was appraised earlier this year at \$366,000.

- Two RICO funded projects for the police department:
 - Police equipment, \$100,000
 - Police vehicles, \$50,000
- EMS substation construction is budgeted under grants, \$2,000,000

Ms. Yarbrough stated that there is still bad news on the total cost for the EMS substation. A couple weeks ago it looked like initially the cost had crept up to about \$1.9 million and \$600,000 was going to be shifted against that to make up the difference. However, the budget team found out that the cost has now crept up to about \$2.8 million. The difference was explained as a 30 to 40 percent increase in the price of construction materials, which is happening across the country. The tentative plan to pay for the additional requirement is to finance the project and then depending on how revenues come in and interest rates when looking at doing that at the end of the year, cash the project out or continue with the plan to finance. Financing rates are low.

Mayor Pro Tem Gray asked about the deadline to get this finished. Ms. Yarbrough stated that the city is locked into the timeline on this project and staff did go back to the granting agency and asked if there was any additional time that could be added to the project and if there are any additional funds since this is happening everywhere and was unexpected, and the answers to both questions was no. The city is required to start shovels in the ground in September and have substantial completion of the facility done by March 2022.

Council Member Umphrey asked about financing the project. Ms. Yarbrough stated that currently the plan is to finance the project; therefore, what happens and what is done year to year is, when the time comes at the end of the year, to look at revenues, interest rates and if either of those or both are good, then the project may be cashed out or if it looks like a better option, then at that point it will move forward towards financing it.

Council Member Umphrey voiced her concern on waiting on the financing since the rates are currently good, and she does not know how long that will last. Council Member Johnson stated that he agrees with Council Member Umphrey and noted that Council just approved during the last meeting accepting a 1.32 interest rate. It is going to go away rather quickly, when facing a five percent inflation rate as a country. He encouraged that because the EMS substation is needed, and the grant money is starting to dwindle as far as value is concerned.

Mr. Potucek stated that they need to know what the final prices are and that will not be known

until August. If there are other things that come in that they can take advantage of earlier, i.e., Council going through a process of voting to identify the projects/items that they are going to contemplate for financing. Staff will put that list together and Council can vote later in the year just like they did for the actual items that will be financed. If there is a way to speed up some of the items that is thought will be in, i.e., vehicles, then staff can look at how to do that.

- \$4 million place holder for potential federal funds because if it is not budgeted then it cannot be used. This is in case there are future stimulus projects, but if the city does not get the funds, then nothing will happen with those funds.
- Airport Fund
 - Site improvements at the airport, \$1,337,000
 - Construction grant for apron and taxiway, \$1,000,000
 - Potential Forest Service helicopter base, \$1,500,000
 - \$10 million potential grant for an airport hangar project.
- Sewer Fund has a couple of small items:
 - Polymer Feed System Carryover, \$125,000
 - Sewer-Ford F350 liftgate, \$50,000
- Transportation Fund
 - Buss purchases funded 100 percent out of this year.

Council Member Umphrey stated that they are usually 80/20 and they were 100 percent.

- Schneider Electric Carryover Projects, \$84,663:
 - Aerator upgrade at the Environmental Operations Park
 - Cove wave machine
 - 10 percent retention

Ms. Yarbrough stated that these are the last two items to close out the project. The city is down to its last \$84,000 of the entire project, and it is hoped to close this out by the end of the month, but it may carry over into July, especially since there was currently a warranty repair on the wave machine.

Council Member Umphrey asked if the repair was completed. Ms. Wilson stated that the wave machine was working fine, but last Saturday there was a structural issue that had nothing to do with the wave machine. However, the wave machine is non-operable because there is another issue, but it was back up for another day or two.

Council Member Umphrey asked if the warranty repair was on the wave machine. Ms. Yarbrough stated that it was and explained that it was a warranty repair that was required when the wave machine went down after Memorial Day.

In response to Council Member Umphrey, Ms. Yarbrough stated that she is correct in that there were multiple problems. The wave machine is fixed and operable; however, there is now a structural issue that is being worked on diligently.

In response to Council Member Rodriguez, Ms. Wilson stated that it is a 20-year warranty.

A slide was shown of future projects in the Capital Improvement Plan that did not make the list for this year that were quite large projects. The process of evaluating the Capital Improvement Projects is scheduled in late summer, early fall. This year there will be a new capital improvement manager to revamp the process and plan out these projects not only for next year,

but for future years. Some items on the list may be seen on next year's list and some may continue to slide to future years.

- CDBG Grant Projects:
 - o Carryover in the CDBG projects to finish Solider Creek Park improvements, \$60,000
 - o Eddie Cy Park improvements, parking lot construction, \$446,447
 - o COVID-19 Emergency Response funding, \$59,838 balance left through September 1st.
 - o New projects for the current year:
 - Emergency Home Repair Program, \$50,000
 - GNA kitchen improvements, \$15,000
 - St. Vincent De Paul parking lot improvements, \$15,000
- Other grant projects separate by fund:
 - o Joint Resources Utilization Study, \$476,200
 - o EMS Substation Grant, \$1,522,875
 - Federal, state, and local funds are \$1,522.875 (the local funds will change, but this is how the grant was written).
 - o Veterans Memorial Park Improvements Phase I, \$3,500,000 (potential Land Water Conservation Fund Grant).
 - o Two football grants:
 - Football grant, \$250,000
 - Baseball Fields grant, \$750,000

Mayor Mueller asked who the grantor is on the football grant. Ms. Wilson stated that she is in talks with the local football groups. These are place holders for things that are hoped to be brought in sometime within the year, but there is no plan on who would lead and who would follow on that grant.

Mayor Mueller stated that a lot of times the professional baseball organizations need to indicate what grant and "x" amount of money. He asked if it is known who the grantor is for that. He asked if the search is still being done for the grantor, the ones giving the money. Ms. Wilson stated that the Diamondbacks is who is being approached on the baseball field, but it is unknown as to who the city will partner with to get that because it must come from a 501C3.

Mayor Mueller stated that he understands that for both, the city must partner with a local group because they will not give the money directly to the city. He asked who the football side of the grant is. Ms. Wilson stated that she cannot remember the lead agency, but there are three that are being looked for.

- Airport Projects:
 - o Hangars, \$10,000,000
 - o Apron and taxiway, \$1,000,000
- Transit
 - o These projects come from different pots of money and have different uses.
 - Multi-use Project Grant, \$2,000,000

Staff found this year that some of the transit funds could be used for multi-use paths within three miles of a bus stop. The city has been searching for many years because the original funding source dried up, another way to fund the paths in the community. All projects under the LTAF Fund are 80/20 funding, which means 80 percent paid for by the federal government with a 20

percent match required from the city.

- Cashless System and Security, \$172,000

The city would like to move to a Cashless System so that the drivers do not have to carry cash and make change. It will be a significant improvement for them.

- Pedestrian Safety and Accessibility Grant, \$1,388,503

This is another grant that staff found for the first time this year where improvements can be made a certain distance from a bus shelter. This is for a curb, gutter, sidewalk streetlight, etc.

Mayor Mueller asked if this includes ADA improvements. Ms. Yarbrough stated that he is correct.

- Bus Stops and Shelter Improvements, \$100,000
 - HURF
 - Fry Boulevard construction project, \$2,396,422
 - HSIP Adaptive Singal Phase I, \$910,000 (staff is still working on closing out this grant).

Ms. Yarbrough displayed a slide detailing future issues that Mr. Potucek prefaced at the beginning of the presentation.

The revenue impact from the pandemic remains to be seen. It is known that the city's revenue was significantly increased for various reasons over the past year, but the city needs to see how that settles going into future years and if there are any other federal stimulus programs, etc.

The city is facing a possible revenue decrease in future years due to legislation, the potential flat income tax that has been proposed. It is about 16 days out from the end of the fiscal year and the State does not yet have a budget. Staff is watching closely what might happen. This would not start until fiscal year 2023.

PSPRS increases are always a possibility. There are several police retirements forthcoming; therefore, police recruitment and retention are a very high priority.

Street maintenance is being prioritized more in next year's budget. This is featured prominently in the Strategic Plan, and it is expected to see more budgeted in this area.

The Classification and Compensation Plan maintenance and minimum wage compression will continue to be an ongoing issue. The reason why the four percent market shift was proposed this year is since the city is losing ground in comparison to other states for salaries and it is expected that next year it will be the same case as well.

Next Steps:

- Tentative Budget vote, June 24, 2021 (this will set the budget cap)
- Final Budget vote and property tax hearing, July 22, 2021
- Property tax vote, August 12, 2021

Council Member Landry voiced her appreciation for the information on PSPRS because this can

be confusing. She added that in going through the budget book, she likes that it is sectioned off/broken down that is easier to read and understand. She further stated that she appreciates being able to meet one-on-one with staff that was helpful.

Mayor Muller asked about the public hearing for the budget. He also asked if this is an appropriate time to open it up for the public, even though there is no one present. Mr. Potucek stated that there is no requirement to have a public hearing during the work session. During the tentative vote, that is an opportunity to open it up for a public hearing. The public can also comment in between the tentative budget and final budget votes.

Council Member Umphrey noted that a list was made during the one-on-one meetings and asked if the list would be shared. Ms. Yarbrough stated that it is going to take time to compile the list and share it with everyone, but she will have it for Council before they vote on the budget.

Council Member Johnson asked if the Council would meet again to go over the budget on June 15, 2021. Mayor Mueller stated that it is not necessary if everyone is done and there are no further issues.

PSPRS

Mr. Felix stated that he is aware that two of the Council Members are very familiar with the PSPRS situation and for the rest, they are somewhat familiar or not at all. He added that the presentation is about how the city got to where it is at, the issues with the system, what has been done, and where the city is headed.

The city joined PSPRS in the 1960's and it is kind of like the mafia because once you join, you cannot leave. There is no option and every year there is an actuarial valuation done on each system. The police department is valued separately than the fire department and this is across the board on the PSPRS's website.

The City of Bisbee has a police department and a fire department valuation. Those that have only police, have only a police valuation, but they are all available going back to about seven years on PSPRS's website. Therefore, different contributions are displayed.

The system looks at what is happening and makes assumptions with each individual division and participant. The underlined concepts are the same with the numbers used, but each system is looked at, and every five years they go through a review of their assumptions and adjust, i.e., life span etc.

People wonder what this really is, but frankly, it is an educated guess of what might happen and what might be owed. It is a mathematical swag for lack of a better term. For instance, some of the questions are:

- When is the new hire going to retire?
- If they retire, are they retiring at 20 years, 25 years, 32 years?
- What will their pay be?
- Are they going to get promotions, raises, stay with the city, or go elsewhere?
- Are police and fire employees going to work overtime?
- Are they going to work at the same amount during their whole career or are they going to bulk up at the end?
- What is the cost-of-living adjustments?

These are all things that go into the estimate and the big question is how long they are going to live once they retire. There is always the word out there that fire fighters die five years after they retire because that is what is going on, but not according to the actuarial. They are living quite a bit longer than that. They retire at 45, 50 and they can have 20, 30, 40 years on the retirement system that must be paid for. They also put money away and the question is what the return on investment is going to be. Historically, with PSPRS it has not necessarily been that good.

They decide to invest on internet stocks in 2003 and in real estate in 2007. Both times they lost over 25 percent of the whole portfolio value. In 2002, they had about \$5 billion in assets, but they did not get back to that asset level until 2012. At that same time the liability side doubled. This is twice that they had severe 25 percent losses.

On ASRS there must be a seven-year positive average to get a long-term COLA. PSPRS is structured in that even if the members just lost 25 percent of their value, the next year they will have a 13 percent return. Any excess return over nine percent is split evenly between going back into the system and giving a permanent rate adjustment to the members.

Mr. Felix explained that although the members just lost 25 percent of their value, they will get a two percent permanent adjustment the following year. However, when that is put away in 2003, and in 2008 they lost 25 percent of what they put away in 2005, the question is who will make that up. It is the participants, members, cities, and counties that make that up. There was work to fix this under the new system, but all the members of the old system cannot be changed. The police and fire unions in the late 90's was able to get an amendment put into the State Constitution over and above Contract Law that they cannot be harmed. This was the whole Hall Lawsuit because they tried to change the benefits and the court ruled in the unions' favor.

The city contributes every year. There is a normal contribution which is what would be the actual valuation that say when the new person retires, and this is what should be put aside to cover them. Then there is amortization of the unfunded liabilities.

Mr. Felix showed a slide of contribution rates and funding ratios that depicted what has happened over the last 20 years, and why he would never recommend a bond issue for this. He added that in 2000 the city is over 100 percent funded for both with the peak year being 2001 when the police department was funded at 123 percent and the fire department was funded at 204 percent. Ten years later, it fell below 100 percent and the percentage and funding ratio is in 2020 because that is the last report that the city has. The new one will be coming out in six months.

Mayor Pro Tem Gray asked if this is just for Sierra Vista. Mr. Felix stated that these are the city's numbers. The slide displays what has happened to the contribution rate and the funding based off the changes, returns that they have, COLAs and other items with the system.

A slide was displayed of the history of the annual contribution rate as well.

Mr. Felix stated that next year DPS's funding rate is 101 percent. The worst city participant in the State is a police department for South Tucson because they have dropped and are now only at 229 percent, down from 325 percent of this year.

A chart of the annual contribution rate was displayed for those that prefer a visual. In 2001, the city is seeing somewhat of a decrease going into next year and part of that is because of what

the city has been doing.

Mr. Felix stated that someone once told him that these are just numbers and do not really matter, but at looking at the contribution that must be made – this is a real effect on the budget. To go from \$2 million to \$5.6 million is a serious contribution and a serious hit on the budget.

The State Legislature to help fix the problem mandated to have all cities come up with a policy on how they are going to fix the problem. This was brought to Council a couple of years ago and they adopted by resolution to contribute the mandatory amount. Some cities are apparently not funding the full amount, but the City of Sierra Vista will always fund the minimum amount, which is the required amount. The city is going to strive to continue to fund people that enter the Drop Program. The city is not required to do so, but since they were being budgeted before, the city will continue to budget their salaries when doing the budgeting process. The city is going to strive to pay the whole amount. The city budgets for every single vacant police officer and fire fighter.

Mayor Mueller asked if that it is the authorized position and not the individual police officer or fire fighter. Mr. Felix stated that it is the authorized position, and they all have retirement calculations with them. The city is going to strive to keep paying that for people that are not technically on the books, but it is good budgeting practice to budget a 100 percent of the salaries in case something comes up during the year where people are hired. This makes it easier going into the following year to adopt a budget as well.

The city did this next one striving to pay the payment in the first quarter of the year because years back, Paradise Valley had done an estimation and they estimated that they were getting \$50,000 extra return in the year by making the contribution in the first part of the year. The city is going to strive to maintain the rate of the current year if it will drop in the new year. The rates are decreasing about three percent for each system and the city is striving to maintain that same current year rate, which will then obviously help to be more of an extra payment every year that will also help pay this down faster.

There is a mandatory 16-years left on the amortization, but that may change based on the influence by other problems that occur every year and different returns.

Mr. Felix stated that it looks like some of the things that have been done is starting to pay fruition, and there will be confirmation of that in November/December when the new actuarial reports come out.

Mayor Pro Tem Gray asked if there is any inkling of what the actuarial will be. Mr. Felix stated that given the minor changes that can happen and knowing that PSPRS can snatch defeat from the hands of victory, he cannot. They managed to pull a one percent return in a year when the market was upside down. He added that he hopes that what the city is doing would help offset whatever challenges they may have on their end, but they can also make assumption changes which could negatively affect the city.

Mr. Potucek stated that this is a good sedge way into the discussion on pension bonds because there is a lot of the being seen in the news or jurisdictions that are certainly in a bind and have high contribution rates. Sierra Vista is not at the level yet, but a lot of them are going to pension bonds to address the problems that they incurred because of all this. This sounds attractive at the start, and it may be that jurisdictions have no other choice, but certainly, they can lock in a set payment at a low interest rate. However, it does not address long term investment returns.

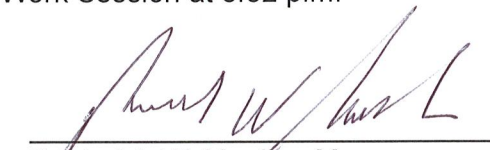
if there are poor investment returns, it is conceivable that they can end up with a bill even on top of the bond payment. Sierra Vista is striving not to get to that point, but maybe at a point in time the city may have to.

Council Member Johnson stated that the city makes contributions more than what is required. He noted that the CAFR indicates that it was \$501,225 and asked if that might happen this fiscal year. Mr. Felix stated that he does because the city is contributing the amount of the budgeted amount and not the actual amount, and the members of the Drop have already been paid for during the second week of July, the whole budgeted contribution. He expects to have a similar excess contribution this year. The challenge is that there is a lag because the numbers seen in the CAFR are from 2019 rolled to 2020, and any excess contribution the city makes in 2021 will show up in 2023 valuation.

Council Member Johnson stated that the excess for the fire department under PSPRS was \$365,496. He asked if that might happen this fiscal year as well. Mr. Felix stated that he is correct.

3. Adjourn

Mayor Mueller adjourned the City Council Work Session at 5:52 p.m.



Frederick W. Mueller, Mayor

Attest:

Minutes prepared by:



Maria G. Marsh, Deputy Clerk



Jill Adams, City Clerk