

SUBMITTED BY: Alejandro Martinez, Finance Director

MANAGEMENT TEAM REVIEW: Ana Urquijo, City Manager

FOCUS AREA: Other / NA

ORGANIZATIONAL IMPROVEMENTS: EnterTextHere

SUBJECT: **RESOLUTION NO. 24-1608**, a Resolution of the Mayor and Council of the City of Douglas, Cochise County, Arizona, **ADOPTING** the **TENTATIVE ESTIMATES** of the amount required for the public expense of the City of Douglas for fiscal year 2024-2025; **ADOPTING** a **TENTATIVE BUDGET**; setting forth the receipts and expenditures; the amount proposed to be raised by various means; and giving notice of the time for hearing taxpayers on the ADOPTION of the final BUDGET.

EXECUTIVE SUMMARY:

The tentative budget adoption for the City of Douglas City Manager's Recommended Budget must be approved in accordance with ARS (Arizona Revised Statute) 42-17101 which sets the ceiling in spending.

BACKGROUND:

Staff provided a presentation of the proposed FY 2024/2025 Operating Budget during the Special Joint Council and Finance Committee Meeting on May 28, 2024, and another presentation and Q&A with Mayor and Council on June 5, 2024. The proposed consolidated expenditures for FY 2024/2025 are **\$67,778,377**. By adopting the tentative budget, the Mayor and Council set the ceiling in spending for the fiscal year and cannot be increased thereafter. At the final budget adoption, scheduled for July 10, expenditures cannot be increased higher than the established maximum amounts, however, expenses can be moved or reallocated only within the same funds.

The Finance Committee met on June 4, 2024, and reviewed the proposed budget. After thorough consideration, the committee expressed its support and voted unanimously in favor of the budget as presented. No specific modifications were recommended to the budget. However, in their motion for recommendation to the Mayor and Council, they requested that the conversation from the meeting be included as part of the motion. This included highlighting key points such as the possibility of waiving transit fees, reviewing all rate studies, and specifically defining the \$2.5 million unrestricted reserve floor. The Finance Committee wanted to convey that meaningful discussions and questions were asked before agreeing on their recommendation.

The budget philosophy continues to prioritize Sustainability, Efficiency, and Alignment, now with an added focus on long-term growth to address needs and develop core strategies. The City Manager's work plan aligns with the Mayor and Council's Policy Priorities under Douglas Vision 2032, which include Infrastructure, Downtown Revitalization, Managing Growth & Annexations, Economy Jobs & Amenities, Community Facilities, Special Events & Tourism, and Streets and Roads. Reflecting the Douglas economy's robust growth, sales tax revenue has increased by 12% over the previous year and is 19% above budget projections.

A balanced budget of \$18,009,294 is recommended for the upcoming fiscal year in the General Fund. This represents an 8% increase from last year's budget after transfers from the General Fund to the Airport, Golf Course, Transit, Capital Projects, Highway User Revenue Fund (HURF), and Debt Service. The actual General Fund budget before transfers is \$24,850,880, which is a 22% reduction from last year's budget. This reduction is due to several factors, including the payoff of the La Perilla Apartment loan/debt service, the removal of \$1 million proceeds to the Golf Course as new revenue, the removal of American Rescue Plan Act (ARPA) funds as new revenue, and reductions in overtime for Police OT programs that exceeded the regular use for established programs.

The General Fund budget includes funding for key areas and programs. Among some of the highlighted impacts are year three funding of the three-year Classification Maintenance Review (CMR) Plan to get positions closer to market rate; operating adjustments due to inflation; a recommendation to pay off the Call Center debt service/loan and replace it with new debt service/loan for a new asphalt plant and associated equipment; a PSPRS increase of

\$124,000 for Fire pensions; an additional 6 months of laborer costs for Cemetery beautification; removal on Animal Shelter lease expense; and removal of Call Center lease revenue.

While overall general fund expenditure shows a decrease of 22%, most departments experienced an average increase of 13%. The decrease overall is realized by paying off debt, removing expenses associated with one-time revenue sources and making reductions to reimbursable overtime line items to match current spent amounts. The departmental increases are due primarily to inflation with higher costs for fuel and utilities. Uniform allowance also increased for most uniformed classifications. Uniform Allowance increased for field staff from \$350 to \$450 and for police sworn personnel from \$760 to \$1,000. The cost of the increase is \$14,680 for both.

Other Budget highlights include:

- Grants – staff are seeking the standard annual grants and various new grant opportunities offered through federal, state, and local spending programs. Budgeting \$25,108,287 throughout all funds, including \$2,500,383 in match for these opportunities, even though some are in progress and no formal decision has been made.
- Capital- Proposed budget contains up to \$12.6 million in total capital projects of which \$2.97 million is from carryover and another \$2.66 million is new capital. \$2.44 million in capital is contingent upon the sale of the land around the Airport and receipt of the Save America's Treasures Project grant. Additionally, it includes the acquisition of a new asphalt plant for \$3.5 million which will be funded through lease proceeds. For this budget year we have approximately \$5.7 million of fund balance to apply towards capital and policy priorities. Staff recommends using \$1.9 million for the call center bond redemption and \$2,684,866 of those monies for new capital.
- This budget includes a 0% increase for health insurance premiums. The performance of the self-insurance fund remains strong and allows rates to remain flat for the new fiscal year. Employee only coverage continues to be covered in full for the basic plan.
- This budget includes funding for a \$1000 one-time distribution in November, prorated based on # of hours worked and length of service. This cost represents a fiscal impact of \$200,000 for the one-time allocation.
- The Water fund will be using \$965,859 of its fund balance in this budget recommendation for capital projects that include Well 14 Rehab, Booster pumps, SCADA system, Generators, automatic flush system among others.
- The Sewer fund will be using \$781,890 of its fund balance in this budget recommendation which will fund various equipment including a new vacuum truck and the acquisition of a prefabricated administration building. Sanitation will be using \$21,065 of its fund balance to cover its capital expenses including a rate study.
- Golf: As background, during FY21-22, the Mayor and Council directed staff to pursue the sale of La Perilla Apartments, adjacent to the golf course. The sale was final and closed as projected in FY23-24. The revenue from the sale is now included in this budget to provide major capital improvement to the golf course, totaling \$1.1 million. This budget also contains an increase in the General Fund subsidy to the golf course to cover the cost of the additional position of Golf Superintendent, approved last fiscal year.
- With the completion of the survey and the revised Airport Layout Plan, the city can finalize the sale agreement with J.W. Resources for the purchase of three large separate parcels surrounding the Douglas Municipal Airport. The current revised sales price the city and buyer are negotiating is \$2,064,321. Proceeds will be used similarly as proposed in the prior year, but also to match the Saving America's Treasures Grant of \$750,000 that requires a 1:1 match. Another major project to use the proceeds is to upgrade the Jet A fueling facilities to automated dispensers and move to the more spacious large apron.
- Recommending funding of \$27,800 for outside community funding requests that include \$2,000 University South Foundation (scholarships), \$2,500 for Apacheria Gravel Race (New signature), \$1,800 to DARC/Douglas Senior Center (arts and crafts supplies/bingo prizes), \$2,000 to the Rotary Club (Fly-in event support), \$15,000 to DARC (fuel and utilities for meals on wheels program), and \$4,500 for midyear requests.

The Mayor and Council met on June 5, 2024, and were notified that Finance Committee recommended the budget as presented along with a summary of the committee's discussion in regard to Transit, Enterprise funds and reserves; as described earlier in this memo.

DISCUSSION:

Staff recommends approval of the FY 2024/2025 budget as presented. The budget schedules required by the Arizona Auditor General's office will be published in the newspaper prior to the final adoption as prescribed by state law.

FISCAL IMPACT:

The FY 2024/2025 Operating Budget establishes the projected revenues and expenditures for the City of Douglas.

Fiscal Year: 2024/2025

Amount Requested:

Budgeted: Y / N

Account (s):

“...I MOVE THAT THE MAYOR AND COUNCIL APPROVE RESOLUTION NO. 24-1608.”