

SUBMITTED BY: Alejandro Martinez, Finance Director/City Treasurer

MANAGEMENT TEAM REVIEW: Ana Urquijo, City Manager

FOCUS AREA: Other / NA

ORGANIZATIONAL IMPROVEMENTS: EnterTextHere

SUBJECT: **RESOLUTION NO. 25-1671**, 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 **2025-2026; 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 presented the proposed FY 2025/2026 Operating Budget at the Special Joint Council and Finance Committee Meeting on May 28, 2025. The proposed consolidated expenditures for FY 2025/2026 amount to **\$96,594,133***. Adopting the tentative budget sets the spending ceiling for the fiscal year, which cannot be increased thereafter. At the final budget adoption scheduled for July 9, expenditures cannot exceed these established maximum amounts, though reallocation within the same funds is permissible.

The proposed balanced General Fund budget for the upcoming fiscal year totals **\$18,365,692*** reflecting a 2% increase compared to last year after transfers to various funds. The total balanced General Fund budget, including transfers, amounts to **\$22,528,372***, a 9.3% decrease due to reduced proceeds from property sales and reduction in funding transfers specifically to capital projects and HURF. These figures have been slightly adjusted since the joint meeting held on May 28, 2025, to accommodate final state shared revenue projections received on June 4, 2025, increases to workers' compensation insurance, and other minor changes.

The budget philosophy of Sustainability, Efficiency, and Alignment remains central, with strategies aimed at balancing prudent resource management and strategic investments. The city manager's work plan continues to align with the Mayor and Council's Policy Priorities under Douglas Vision 2032, focusing on Infrastructure, Downtown Revitalization, Managing Growth & Annexations, Economy, Jobs & Amenities, Community Facilities, Special Events & Tourism, and Streets and Roads. Despite a slowdown in some revenue streams, the fiscal year budget represents a balanced budget. Sales tax revenues have varied but are expected to meet overall projections, with March 2025 figures exceeding budget estimates by 0.4%.

Progress continues on the Two-Port Solution projects, with recent developments including final drainage design discussions for the Raul H. Castro Port of Entry and efforts to secure funding for a connector road to the Commercial POE, expected to be operational by 2028. Coordination between the U.S. Department of State and Mexico underscores commitments to their respective ports of entry, with the city supporting infrastructure development efforts, despite facing funding gaps for West Utility Infrastructure Projects.

On June 4, 2025, the Finance Committee met to review the proposed budget. The committee voted 4-1 to recommend the budget as presented, with one member expressing a preference for less conservative revenue projections in investment earnings. Staff offered to prepare a report on investment earnings performance over the

past five years. Chairman/Mayor Grijalva also suggested that, in the next budget cycle, staff explain how revenue projections are developed to allow for more committee input. No other recommendations were made.

This budget recommendation excludes comprehensive market or cost of living adjustments (COLA) seen in previous years, focusing instead on targeted adjustments for classifications facing high turnover and lagging market rates; for this FY it will be the Firefighter classification with an estimated annual cost of \$37,560. An additional \$11,490 is allocated for an anticipated minimum wage increase in January 2026. Additionally, funding for a \$1000 one-time distribution in November, prorated based on number of hours worked and length of service is included. This cost represents a fiscal impact of \$209,000 for the one-time allocation.

Other Budget Highlights include:

- **Grants** – The city has secured \$35,739,868 in awarded grants, applied for \$2,345,935 in additional grants, and has \$22,600,910 in pending grant submissions. A total of \$5,640,754 in matching funds is budgeted across all funds, with \$1,478,941 coming from the General Fund.
- **Capital** – A total of \$1,116,082 is allocated for capital needs: \$576,890 for new capital projects and \$583,192 toward General Fund grant match requirements. Since \$1,478,941 is needed for General Fund grant matches, the remaining \$895,749 will need to come from the \$2,500,000 minimum unrestricted fund balance if all grants are awarded. Additional uses of the \$2.5 million unrestricted fund balance which total \$1,895,749 leaving \$604,251 are recommended as follows:
 - Council Special Projects – \$150,000
 - Vision 2032 Policy Priorities – \$200,000
 - Strategic Investments – \$350,000
 - ISP Strategy and Tower Asset Management – \$100,000
 - Boys & Girls Club seed funding – \$200,000
 - General Fund grant match shortfall – \$895,749
 - **TOTAL - \$1,895,749**
- **Employee Health Insurance** – The budget includes a 2.4% increase in premiums for employee-only health coverage and introduces more plan options with varied deductibles and expanded coverage tiers. These changes may result in savings for family coverage or lower deductibles, depending on individual circumstances. The self-insurance fund continues to perform well, allowing rates to remain nearly flat, and the City will continue to fully cover the basic employee-only plan.
- **Enterprise Funds** – The Water Fund budgets \$1,974,217 from its fund balance for capital projects and grant matching contributions. The Sewer Fund will use \$1,339,355 of its fund balance for new equipment, including a vacuum truck and a concrete slab for an administration building. The Sanitation Fund allocates \$21,065 from its balance for capital expenses, including a rate study.
- **Asphalt Plant** – Financing for the new asphalt plant has been completed, with delivery expected in July 2025. The plant will increase production capacity, support City projects, and provide asphalt for resale. HURF capital needs include \$700,000 (transfer from the General Fund in FY25) for street improvements and \$80,000 for a striper machine flatbed truck.
- **Golf Course** – \$957,108 in carryover funds from the apartment sale proceeds is allocated for improvements. Of that, \$678,063 is committed to the back 9 irrigation design and improvements, with the remaining \$279,045 designated for partial front 9 irrigation work. The General Fund subsidy shows a minor increase of \$2,287, with higher revenues projected due to improved course conditions.
- **Land Sale** – The sale of land near the airport has been divided into phases. Phase I, totaling \$247,194, is expected to close in FY 2026. Proceeds will be directed at airport improvements.
- **Community Funding Requests** – \$30,000 is allocated to support external community requests, including:
 - \$2,000 to University South Foundation (scholarships)
 - \$2,500 for the Apacheria Gravel Race
 - \$1,800 to DARC/Douglas Senior Center (programming supplies)
 - \$2,000 to Rotary Club (Fly-in event support)

- \$15,000 to DARC (fuel and utilities for Meals on Wheels)
- \$6,700 reserved for midyear requests

DISCUSSION:

Staff recommend approval of the FY 2025/2026 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 2025/2026 Operating Budget establishes the projected revenues and expenditures for the City of Douglas.

Fiscal Year: 2025/2026

Amount Requested:

Budgeted: Y / N

Account (s):

“...I MOVE THAT THE MAYOR AND COUNCIL APPROVE RESOLUTION NO. 25-1671.”