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TOWN OF JEROME, ARIZONA

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June 2, 2026

TO: Jerome Town Council
Mayor Christina "Alex" Barber

FROM: Brett Klein, Town Manager / Clerk

REFERENCE: **<u>Final Draft of FY 2027 Budget for Adoption</u>**

Attached is the final draft of the fiscal year 2026-2027 Town Budget in line item (Caselle) format and the State budget forms. Thank you to the Town Council and staff for all the work everyone put in to create this budget document. Attached you can also find a summary of the fund balance analysis, a list of the transfers, a levy rate statement, and the requisite public notice.

<u>General Fund:</u>
The general fund is the main operating fund for the Town comprised of all general government functions. The proposed budget is set at $2,849,700.00, which is nearly a 6% decrease over fiscal year 2026. This represents the third year in a row of lowering the general fund budget. The ability to lower the budget is due primarily to projects being funded entirely with grant funding and other proprietary funds, and staff's conservative use of medical benefits, which allowed the Town to see a very minimal increase for fringe benefits once again. The tentative budget utilizes only $40,000 of the fund balance, which is significantly lower than years' past. This was aided almost exclusively by the strong returns within the parking fund, which provided $155,000 of assistance to the general fund for public safety staffing and equipment, and $135,000 to the utilities for enhanced infrastructure.

You may note the projected fund balance for end of fiscal year 2026 is predicted to be $155,000, thanks mostly to the sale of 655 Holly. Without that sale we would have broken even, which is not a bad place to be. However, with our slowly depleting general fund balance, it is important that we build it back up again in excess of the minimum fund balance policy of 25% of the General Fund operating expenses as set by Council. For this reason I am recommending we do not just pay down the new refuse truck with the proceeds from the sale of 655 Holly. Moreover, the exceptional interest rate we received for the truck keeps our debt service payment manageable at just under $30,000 over 8 years. The sanitation budget and utilities overall budget is balanced with the first $30,000 debt service payment included, plus an additional $10,000 set aside toward a new refuse truck. Unlike in past years, these funds will be designated for use by the Council solely for a new or the current refuse truck.

General fund revenues in this current year and forecasted for the next fiscal year in the budget are most impacted by the State Shared Revenue, sales tax, wildland fire fees, and Yavapai County's library funding formula. State Urban Revenue share will show a modest increase as the State moved to a new funding formula. The State is unpredictable, so we have been budgeting for the shared revenue in a conservative manner, which helped mitigate the impact to our budget for the preceding fiscal years. We participated in far few opportunities for wildland fire revenue due to staffing shortages, but are looking to increase that significantly in FY27, along with utilizing the new brush truck, which provides a fair return on the investment. Yavapai County lowered its municipal library contribution to cities two years ago and while it will stay relatively flat, at least it will not be reduced further once again. This fiscal year we have received quite a bit more sales tax revenue than last year as travel and tourism continue to grow post-pandemic. Our numbers look lower in our current spreadsheet, but we will be receiving FY 2026 revenues well into the month of August.

The conservative revenue forecasts are still able to cover the anticipated general fund expenses including a number of new programs and commodities. The general fund expense budget includes the following personnel, one-time, and ongoing expenses:

- Competitive cost-of-living adjustment of 3.5% for staff (this is lower than some of our neighboring jurisdictions, but it follows larger increases year over year, and the Council has generously enhanced the fringe benefit package offered to staff thereby aiding in staff member retention);
- Enhanced Town contributions for dependent insurance;
- Budgeted funds for four (4) full-time career fire fighters and supplemental part-time assistance;
- Town Hall and Court security enhancements;
- Zoning Code update;
- Paying down the PSPRS shortage;
- Cemetery appraisal;
- An additional Town Hall Furnace;
- Window replacement in Town Hall and the co-op;
- A new parking enforcement multi-use vehicle; and
- File room enhancements.

Utility Fund:

The three utilities that comprise the utility fund include: Water, Sewer and Sanitation. The utility fund is different than the general fund. It is a proprietary or business-type activity that is run similar to how a private business is run. The expenses are offset by user fees. User fees are the primary revenue typically of a utility fund, but due to the unique circumstances of Jerome, the Town's expenses are offset significantly through other fund subsidies such as parking fund and the general fund. This practice is not sustainable in the long run and we have been slowly trying to ensure the funds are self-sufficient.

The Utility Fund is balanced at $1,073,255 compared to $994,250 for the current fiscal year. The increase is due to expenses out of our control that are exponentially increasing such as tipping fees, water treatment chemicals and testing, fuel, and waste water management contracted staff. For FY 2027, the Utility Fund and grant funding will cover the following projects beyond the routine maintenance and operations:

- Verde Central siphon line repair;
- Mescal Canyon siphon line repair;
- School Street Regulator;
- Water line repairs to Deception;
- Debt service payments for the new sanitation truck; and
- The Clark Street Regulator, which will be a new addition to our CIP.

In addition, the CONSTRUCTION of the new wastewater treatment plant, will be procured through outside funds. See the attached list of transfers for impacts to the Utility Fund.

HURF Fund:

HURF is a State shared highway user revenue fund provided to cities and towns based on a formula that includes the Town population and gasoline sales within the county. The tentative budgeted HURF fund is set at $170,000, compared to $169,100 for the current fiscal year. For FY 2027, the HURF Fund will continue to cover paving projects that are much needed, including the final parking section on Hull to be paved and miscellaneous street patching.

Parking Fund:

Revenues from the Parking fund cover the maintenance of the system, and will also cover necessary and needed public safety items, along with infrastructure repair due to the significant traffic received in the Town. See the attached transfer list for impacts to the Parking Fund.

Capital, Contingencies, and One-time Operating Expenses:

The Town has received an interim loan to cover certain costs associated with the new wastewater treatment plant of approximately $2,000,000. This loan will be paid off utilizing USDA grant funding. Approximately half of it was expended in FY 2025 on paying off the original bridge loan from the Arizona Community Foundation, and legal and other associated costs of acquiring easements from Verde Ex for the WWTP. Expenses continue to be applied against this loan in FY 2026, and there will be some carryover in FY 2027. The Town also received a CDBG grant for Deception, with nearly all of it, or approximately $400,000 forecasted to be expended for the 2026 fiscal year. However, due to the delayed start it is once again in the FY 2027 budget. Construction is now underway and will be wrapped up in the next 30-45 days with expenses crossing over both budget periods.

The Town has also received a drainage grant for Gulch Road. The drainage project is completed and expense reimbursements will be expended within the two budget periods for this project as well. In FY 2025, the Town received two large WIFA grants totaling approximately $3,000,000. In FY 2026 grant and project administration and some initial design costs have been expended and reimbursed through the grant. FY 2027 will see significantly more scoping and design expensed toward the grant, along with the likely completion of the School Street Regulator project. In FY 2027 we will receive notice on whether our other large-scale grant applications that have been completed will be funded. Those grant applications include approximately $2.7M for the reconstruction of Verde Avenue, and $3.2M for the reconstruction of Center Street. Other items included in these categories are:

- Engineering for the eventual repair of retaining walls;
- Early planning for a new sanitation truck;
- Design work for the hotel Jerome;
- Generators for redundancy;
- Historic building preservation and rehabilitation;
- Enhanced security for the springs and other Town properties;
- Municipal court renovation and Town storage enhancements; and
- Costs associated with the new wastewater treatment plant.

Thank you again to the many individuals who participated in creating this proposed budget. The final product is a balanced, conservative, and realistic budget that will allow the Town to meet its financial obligations and continue to address much needed improvements.

The tentative budget was approved at the May 28th Special Council Meeting. It may be reduced but not increased prior to its final adoption at this meeting without significantly impacting the timeline.