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TOWN OF JEROME, ARIZONA

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June 2, 2025

TO: Jerome Town Council
Mayor Christina “Alex” Barber

FROM: Brett Klein, Town Manager / Clerk

REFERENCE: **Final Draft of FY 2026 Budget for Adoption**

Attached is the final draft of the fiscal year 2025-2026 Town Budget. 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.

General Fund:

The general fund is the main operating fund for the Town comprised of all general government functions. The proposed budget is set at \$3,016,445.00, which is actually a 1% decrease over fiscal year 2025 due primarily to tenured staff turnover and contemplated projects being funded entirely with grant funding. The tentative budget utilizes only \$325,000 of the fund balance, which is a little more than the predicted general fund surplus for the current fiscal year of \$200,000. In comparison, the current year utilized \$407,000, so we continue to reduce the reliance on the fund balance with the ultimate goal of not needing to use the fund balance at all and to instead build it back up. When factoring in the anticipated surplus, that leaves over 46% of general fund operating expenses uncommitted and available in an emergency. The Council adopted the Government Finance Officer’s best practices for maintaining at least a 25% general fund operating expense reserve.

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 be decreasing once again as the State moved to a new funding formula, but we anticipated this two years ago and conservatively budgeted for the State revenue share. This helped mitigate the impact to our budget for the proceeding fiscal years. We also were able to participate in more opportunities for wildland fire revenue, thanks to the new brush truck, being fully staffed, and adding fire mitigation staff members. 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. 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, just like last year. Our numbers look lower in our current spreadsheet, but we will be receiving FY 2025 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 the past three years and our neighboring jurisdictions, but it follows larger increases year over year, and the Council generously enhancing the fringe benefit package offered to staff which has aided in staff member retention);
- Enhanced Town contributions for dependent insurance;
- Budgeted funds for an additional fire mitigation employee;
- Enhanced Historic Preservation expense line item;
- Town Hall and Court security enhancements;
- Court conference / attorney room;
- Paying down the PSPRS shortage;
- Zoning ordinance update;
- Cemetery appraisal;
- A new Town Hall Furnace;
- Window replacement in Town Hall and the co-op; and
- File room enhancements.

Utility Fund:

The three utilities that comprise the utility fund are: 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 a general fund subsidy.

The Utility Fund is balanced at \$994,250 compared to \$1,098,768 for the current fiscal year. The slight reduction is due to less reliance on the general fund and certain capital projects shifting to the capital or contingency funds, and similar to the general fund, significantly aided through the receipt of grants. For FY 2026, the Utility Fund and grant funding will cover the following projects beyond the routine maintenance and operations:

- Walnut Springs Tank Refurbishment;
- Verde Central siphon line repair;
- Mescal Canyon siphon line repair;
- School Street Regulator;
- Water line repairs to Dundee / Holly and Deception; and
- A new sanitation truck (hopefully - mostly through contingency funds).

In addition, the CONSTRUCTION of the new wastewater treatment plant, and a new sanitation truck 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 \$169,100, compared to \$201,669 for the current fiscal year. The nearly 15% decrease is due to not transferring as much in as projects will be completed with grant funding. For FY 2026, the HURF Fund will continue to cover paving projects that are much needed, including the first section of County. See the attached list of transfers for impacts to the HURF Fund.

Parking Fund:

Revenues from the Parking fund cover the maintenance of the system, and will also cover necessary and needed public safety items and 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. 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. The Town has also received a drainage grant for Gulch Road and two large WIFA grants totaling approximately \$3,000,000, which will also be expended in some capacity in fiscal year 2026. In FY 2026 other large-scale grant applications will be completed for the reconstruction of Verde Avenue, the reconstruction of Center Street, and a water storage tank. Other items included in these categories are:

- Engineering for the eventual repair of retaining walls;
- The aforementioned sanitation truck;
- Design work for retaining walls;
- Design work for the hotel Jerome;
- Generators for redundancy;
- Historic building preservation and rehabilitation; and
- Costs associated with the new wastewater treatment plant.

Thank you again to the many individuals who participated in creating this proposed, tentative 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 27th Special Council Meeting. It may be reduced but not increased prior to its final adoption at this meeting without significantly impacting the timeline.