

**MINUTES**  
**REGULAR CITY COUNCIL WORKSESSION**  
CITY COUNCIL OF THE CITY OF YUMA, ARIZONA  
CITY COUNCIL CHAMBERS - YUMA CITY HALL  
ONE CITY PLAZA, YUMA, ARIZONA  
**February 17, 2026**  
**5:30 p.m.**

**CALL TO ORDER**

**Mayor Nicholls** called the Regular City Council Worksession to order at 5:31 p.m.

Councilmembers Present: Martinez, Morris, McClendon, Smith, Morales (telephonic), Watts, and Mayor Nicholls

Councilmembers Absent: None

Staffmembers Present: Acting City Administrator, John D. Simonton  
Director of Facilities Management, Justin Lewis  
Finance Director, Douglas Allen  
Deputy City Attorney, Rodney Short  
Director of Engineering, David Wostenberg  
Director of Utilities, Jeremy McCall  
Director of Community Development, Alyssa Linville  
Various department heads or their representatives  
City Attorney, Richard W. Files  
Deputy City Clerk, Janet L. Pierson

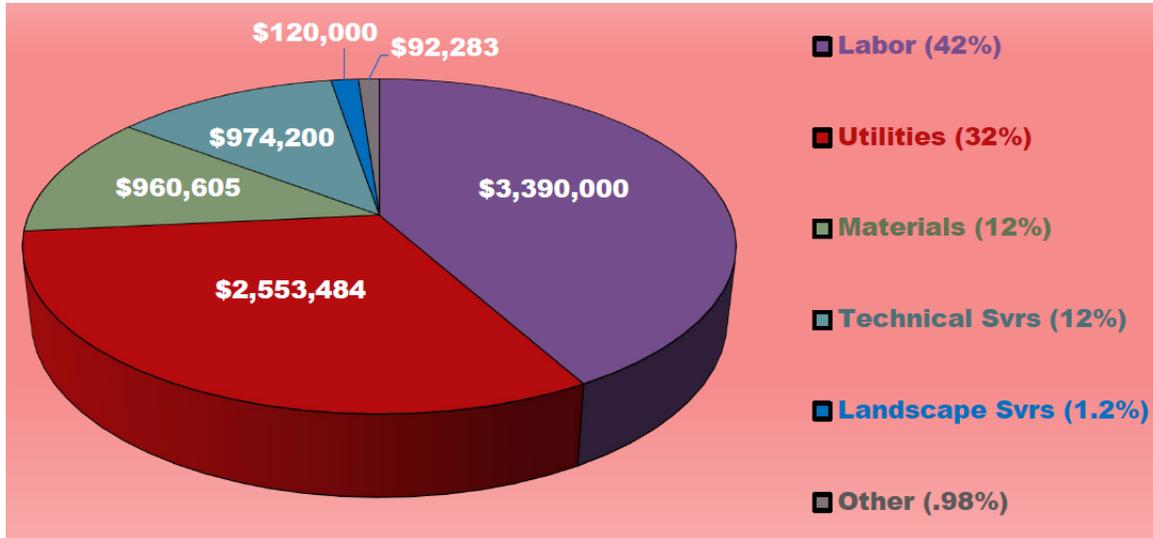
**I. FACILITIES MANAGEMENT DEPARTMENT UPDATE**

**Lewis** presented the following Facilities Management Department (Department) update:

- Facilities Management Staff
  - 53 dedicated employees work across all shifts to keep facilities safe, clean, and well maintained.
  - Employee retention has improved significantly in recent years, supported by competitive pay.
  - Staff tenure is now strong, averaging just over 13 years.
- Mission Statement



- The Department’s mission focuses on providing safe, well-maintained facilities that support departmental needs and enhance public enjoyment.
- Staff take great pride in their work, which is reflected in the quality of the facilities.
- This mission aligns with several strategic outcomes, including creating a safe and prosperous community and fostering an active and appealing environment.
- Current Facilities Portfolio
  - The City’s facilities – 68 sites, covering almost 900,000 square feet – range from newly constructed buildings to historic structures over a century old.
    - Average age of City buildings is approximately 38 years old
  - The Department also oversees all City-operated pools.
    - Because public pool maintenance presents unique challenges, staff receive comprehensive training, and all employees assigned to pool facilities are Certified Pool Operators through the nationally recognized Pool and Hot Tub Professionals Association.
    - With 20 certified staff members, this training ensures that City pools operate safely and meet or exceed all health and safety standards.
- Facilities Snapshot FY 2025
  - The Department completed nearly 11,500 work orders, including 6,600 preventive maintenance tasks and over 4,600 customer service requests.
  - Another 256 items were classified as projects, which are tracked separately because they often take weeks or months to complete, such as renovations or remodels.
    - Separating projects helps maintain accurate tracking of work order times without skewing the data.
- Core Facilities Management Functions
  - The Department prioritizes health, safety, and compliance by first addressing urgent maintenance needs that impact safety or operational continuity, followed by preventive maintenance and routine repairs.
  - In addition to these core functions, the team also manages space planning, sustainability efforts, and vendor performance.
  - Once contracts are established by Procurement, Facilities oversees vendors providing essential services such as electrical, plumbing, HVAC, elevator, and fire alarm system maintenance.
- Key Performance Indicators
  - Key performance indicators focus on response times, maintenance quality, efficiency, and responsible budgeting.
  - In Fiscal Year 25, the team responded to 98% of Priority 1 work orders the same day, outperforming national norms despite operating lean – managing nearly 60,000 square feet per technician for cleaning services and about 30,000 square feet per custodian.
  - The department also aims to fully utilize its budget; budgeting and spending wisely avoids deferred maintenance, which can multiply future repair costs by four to seven times.
- Budget 2025
  - The Department’s budget is approximately \$8 million, with the largest costs being labor and utilities, followed by materials and supplies, technical services, and landscaping.
  - The remaining 1% of the budget falls under “other,” which includes smaller accounts such as fuel, uniforms, and training.



- Building Automation, Control Systems and Security
  - Building automation, control systems, and smart scheduling tools are utilized to help reduce utility costs while improving comfort, air quality, and operational efficiency.
  - A unified, web-based control system – replacing five older independent systems – now allows staff to monitor and adjust building conditions remotely, greatly improving after-hours response times.
  - Over 800 devices, including 355 security cameras, are managed through upgraded automation, security, and cloud-based camera systems, enhancing both efficiency and safety.
  - Additionally, the outdated 1998 card access system was replaced in partnership with IT, with Department staff completing installation and programming to build in-house expertise and reduce reliance on outside vendors.

### Discussion

- Visitors to City Hall are often surprised to learn the building is more than twenty years old, noting how well-maintained it looks – a reflection of the strong work of the Facilities team. With only three administrative staff out of a 53-person department, most employees are hands-on, which contributes to high efficiency and effective operations. **(Mayor Nicholls/Lewis)**
- The department is strengthening employee retention by developing a career-ladder program that supports internal promotion and long-term growth. Providing clear advancement opportunities allows entry-level employees to progress, increase their earnings, and remain with the organization longer. **(Martinez/Lewis)**

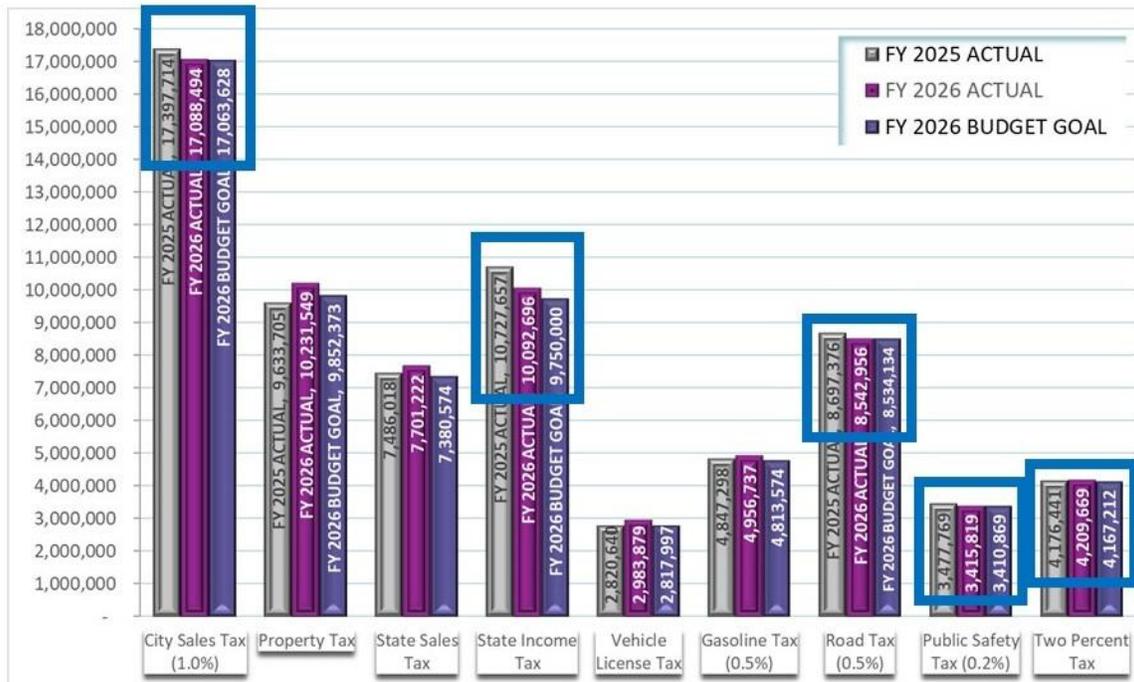
## II. Q2 FY FINANCIAL BRIEFING

**Allen** presented the following information relating to the City’s Fiscal Year (FY) 2025 year-end results, FY 2026 financial status, and FY 2027 budget preview:

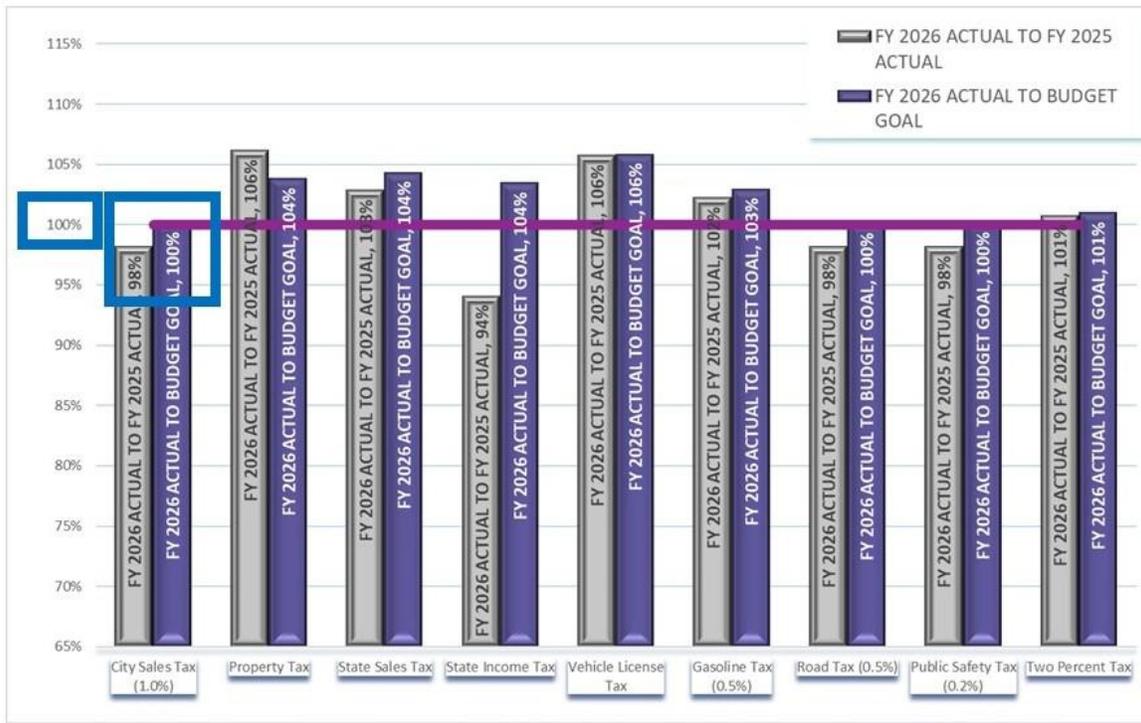
- FY 2025: Year-End Results
  - Annual Financial Reporting
    - The primary report is the Annual Comprehensive Financial Report, which is 236 pages, highly technical, and audited by independent auditors.

- State statute requires the independent auditors to present their findings to the City Council in a meeting, and this presentation cannot be placed on the consent agenda.
- The auditors, Baker Tilly, have issued an unqualified (clean) opinion for the second consecutive year, and there are no findings in the audit.
- This year, the City has also produced a Popular Financial Report, which is more reader-friendly and approximately 16 pages in length.
- Both the Annual Comprehensive Financial Report and the Popular Financial Report are currently available on the City's website.
- The next steps include the auditors presenting their report to the City Council on May 4, 2026, and the City filing all required legal documents afterward.
- Overview
  - Governmental fund revenues exceeded expenditures and transfers out by \$4.8 million, resulting in a year-end General Fund balance of \$33.3 million (about 26% of revenues), which will carry forward into 2026 and is expected to remain similar for 2027.
  - The Arizona Department of Emergency and Military Affairs (AZDEMA) fund was designated as a major fund this year due to a \$6.4 million in state reimbursement grants related to border fencing and technology, but it is not expected to be a major fund again next year.
  - The Public Safety Personnel Retirement System (PSPRS) valuation, which uses market values rather than seven-year smoothing, shows the plan remains over 95% funded even without the \$15.2 million reserve included, and additional details on contribution rates will be provided in the actuarial report as part of the 2027 budget process.
  - All departments remained within their final 2025 budgets, aided by fourth-quarter spending curbs implemented to address expenditure-limitation concerns and a brief period of flat revenues, which ultimately helped stabilize the start of FY 2026.
  - The Note Disclosure explains that the financial statements list \$93.7 million in pledged debt obligations, while project budgets show \$100.7 million in proceeds because premium bonds generated higher receipts than the obligation amount, with an additional \$41 million in utility service bonds also factoring into the reconciliation.
- Investment Earnings and Findings
  - The City earned \$17 million in investment earnings over the last few fiscal years, driven by higher interest rates and strong cash balance.
  - These earnings are being set aside to help mitigate next year's expenditure-limitation impacts until the matter goes before Yuma voters.
  - This year's audit reported no findings, either new or recurring, reflecting strong performance across the entire City organization and the collective effort required to achieve that result.
- Bond Rating Upgrade 2025
  - The City received a bond rating increase in 2025, rising to AA, supported in part by strong pledged revenues – primarily City sales tax and state-shared revenues, which together make up 86% of pledged revenue.

- Closing FY 2025
  - No adjustments are needed to the 2026 budget as a result of the 2025 audit, though mitigation measures remain in place for 2026 due to softening revenues and potential impacts from state legislative actions.
- FY 2026: Financial Status
  - Bottom Line Up Front
    - Revenues for 2026 are essentially unchanged from 2025, coming in only \$42,000 lower – a positive outcome given expected declines related to the State’s income-tax formula changes and the first full year of eliminating the local residential rental tax.
    - By the end of quarter two, major revenue sources are outperforming their benchmarks by approximately 2%, which equals about \$1.4 million above the amount needed to stay on track with the 2026 budget goal.
  - City Sales Tax Basis
    - The City uses two bases of accounting for revenue reporting:
      1. the Arizona Department of Revenue (ADOR) basis for quarterly reports, which records revenues in the month the State receives them,
      2. and the activity basis for financial statements and audits, which records revenues in the month the underlying economic activity occurs.
    - While the timing differences between these two methods can appear significant in monthly or quarterly cutoffs, especially because revenue collections are much higher in some months, such as December – the difference over an entire fiscal year is less than half a percent.
  - Major Revenues



- Sales tax, property tax, and state-shared revenues together make up approximately 76–80% of the City’s total revenues, which is why they are closely monitored and protected.
- The actual revenues received through the first two quarters on the ADOR basis show that City sales tax collections are slightly lower than the same point last fiscal year due to previously noted factors, including changes to state income-tax formulas.
- When compared to the 2026 budget goal, City sales tax is tracking as expected, state-shared income tax is performing slightly higher due to favorable population adjustments, and while City sales-tax categories (road tax, public safety tax, and the 2% tax) are slightly below last year, other tax categories are collecting more, with state-shared sales tax helping offset the difference.



- All major revenues are currently exceeding their 2026 budget goals, and on the year-over-year percentage view, City sales tax is at 98% of last year’s level, while property tax collections are at 106% (mostly due to prior-year receipts).
- Against the budget benchmarks, City sales tax is meeting the goal – so no mitigation actions are needed – and state income tax is exceeding its baseline goal.

o City Sales Tax

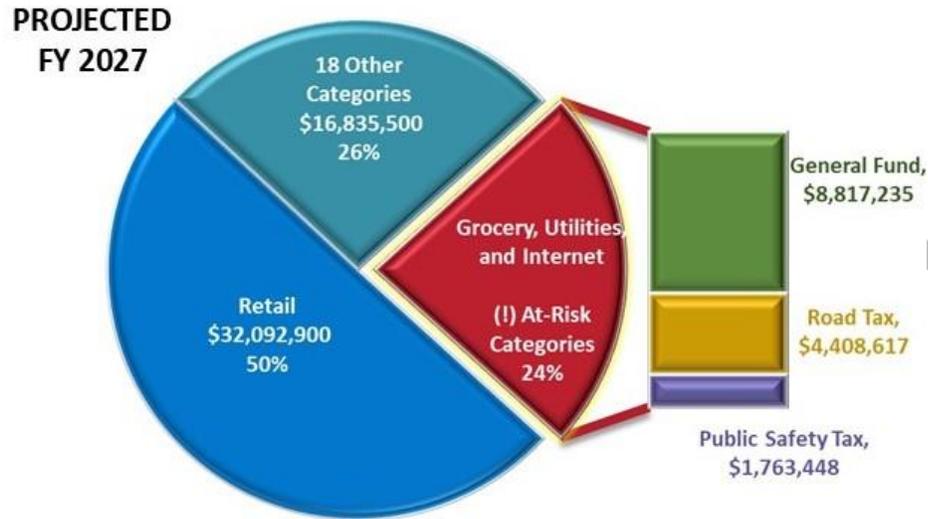
CITY'S 1.7% SALES TAX (1.0% General; 0.5% Road; 0.2% Public Safety)				REPORTED IN MONTH OF ACTIVITY		
Category as Reported by ADOR	July-Dec FY 2026	July-Dec FY 2025	July-Dec FY 2024	July-Dec FY 2023	Change in FY26/FY25	
					\$	%
Retail	\$ 15,417,143	\$ 15,565,812	\$ 15,052,618	\$ 14,015,929	\$ (148,669)	-1%
Grocery (!)	3,844,425	3,716,601	3,487,791	3,140,606	127,824	3%
Restaurants and bars	3,118,959	3,015,937	3,000,944	2,825,506	103,022	3%
Utilities (!)	1,716,282	1,815,432	1,557,257	1,515,463	(99,150)	-5%
Internet sales (!)	1,593,143	1,448,470	1,239,676	1,005,158	144,673	10%
Hotels	512,397	562,877	589,684	641,419	(50,480)	-9%
All 15 other categories	1,636,255	1,794,070	1,680,400	1,505,580	(157,815)	-9%
<b>Total Recurring</b>	<b>\$ 27,838,604</b>	<b>\$ 27,919,199</b>	<b>\$ 26,608,370</b>	<b>\$ 24,649,661</b>	<b>\$ (80,595)</b>	<b>0%</b>
Residential rental leasing*	35,667	279,917	283,324	238,464	(244,250)	-87%
Construction	2,759,562	2,615,168	1,969,584	1,660,036	144,394	6%
<b>Total City's 1.7% Tax</b>	<b>\$ 30,633,833</b>	<b>\$ 30,814,284</b>	<b>\$ 28,861,278</b>	<b>\$ 26,548,161</b>	<b>\$ (180,451)</b>	<b>-1%</b>

\* Category Excluded (Jan 2025) (!) AT RISK 2026 STATE LEGISLATIVE SESSION

TWO PERCENT TAX (2.0%)				REPORTED IN MONTH OF ACTIVITY		
Category as Reported by ADOR	July-Dec FY 2026	July-Dec FY 2025	July-Dec FY 2024	July-Dec FY 2023	Change in FY26/FY25	
					\$	%
Restaurants and bars	\$ 3,663,093	\$ 3,541,867	\$ 3,543,990	\$ 3,329,402	\$ 121,226	3%
Hotels	588,616	643,095	676,804	731,613	(54,479)	-8%
<b>Total Two Percent Tax</b>	<b>\$ 4,251,709</b>	<b>\$ 4,184,962</b>	<b>\$ 4,220,794</b>	<b>\$ 4,061,015</b>	<b>\$ 66,747</b>	<b>2%</b>

- Retail and internet sales combined have shown strong year-to-year growth in earlier periods, but over the last four quarters growth has flattened to around 0-1%, meaning revenues have held prior gains but are not increasing further.
  - Construction activity, which is an indicator of future tax-base growth, has shown nine consecutive months of year-over-year increases, providing a positive outlook.
  - The City's 2% tax overall is showing roughly a 2% increase, driven largely by stronger bar and restaurant activity, while hotel revenue – measured only through room-tax collections and including short-term rentals – continues to lag.
  - When comparing the activity basis to the ADOR basis, the results remain very similar, showing only a 1% difference, and retail performance. While lower than 2025, it is still higher than 2024, indicating ongoing improvement.
  - The red exclamation points in the chart above indicate which revenue categories the State Legislature is currently considering for exemption from the TPT.
- FY 2027: Budget Preview
  - o General Fund Major Revenues
    - The General Fund's major revenues collected in 2023 totaled \$86.2 million; revenue growth in 2024 was significant, increasing to \$96.6 million.
    - In 2025, revenues declined slightly to \$96 million, and revenues for 2026 are estimated to remain flat at about \$96 million; for 2027, revenues are projected to increase modestly.
    - These fluctuations are partly due to state actions that have removed or substantially reduced certain revenue sources in each fiscal year.

o City Sales Tax



- Retail alone makes up 50% of the City’s tax base, excluding the 2% hospitality tax.
- The remaining 18 tax categories account for 26%, while the at-risk categories (grocery, utilities, and internet sales) together make up 24% of TPT, totaling \$14.9 million.
- These at-risk categories affect multiple funds – including a projected \$8.8 million to the General Fund, \$4.4 million to Road Tax, and \$1.8 million to Public Safety Tax in FY 2027 – which were pledged in the recent bond issuance.
- Replacing all three at-risk categories would require approximately a 2.25% TPT increase, due to shrinking taxable categories.

o Other Considerations

- If the City lost its property tax share, a 0.5% TPT increase – matching the Road Tax rate – would need to be approved by voters to recover the \$17.8 million loss.
- The newly formed Town of San Tan Valley had an estimated population of about 100,000 at incorporation, and its addition reduces Yuma’s shared revenues; if applied today, it would mean a \$651,000 reduction, with the full impact occurring next year.
- The change in vehicle tax will not affect the City because it is calculated county by county, and San Tan Valley is in Pima County.
- If a new city were created within Yuma County, the state shared revenue allocation is roughly \$432 per person.
- During the upcoming budget session, the City will review financial forecast stress tests to evaluate how revenues support expenditures, including a model showing how relying on an unusually high one-year increase in state-shared income tax would have caused spending to outpace revenue over time.

○ FY 2027 Budget Calendar

	Budget Task	Responsible Party	2026 Budget Due Date	2027 Budget Due Date	Comment
<b>REVIEW</b>	Position Budgeting - entered in New World	Budget Office	Week of February 3	Week of January 20	Accuracy important
	Current year- FY 2026 revenue estimates uploaded to New World	Budget Office	February 10, 2025	February 9, 2026	Validate department revenues
	Department meetings with City Administration	Departments	February 24-27, 2025	February 17-20, 2026	Be prepared
	Performance measures due- FY 2026 estimates and FY 2027 targets	Departments	March 10, 2025	March 9, 2026	Can turn in early, but please don't be late
	Final department budget monitoring before proposed budget	Departments	March 17, 2025	March 16, 2026	Final date for material changes
<b>PROPOSED</b>	City Council Review sessions	Administration	April 9, 10, 14	TBD	
	City Council Work session: Proposed budget presented	Administration	April 15, 2025	April 14, 2026	
	City Council Work session: CIP presented	Administration	May 20, 2025	May 19, 2026	
	City Council Regular meeting: CIP Public Hearing	CIP / City Council	May 21, 2025	May 20, 2026	
	City Council Regular meeting: Tentative Budget Adoption	City Council	May 21, 2025	May 20, 2026	
<b>ADOPTED</b>	Publish in Yuma Sun	City Council	June 3 and June 10	June 2 and June 9	
	City Council Special Budget meeting: Combined Public Hearing Truth-in-Taxation/ CIP Adoption/ Adoption of FY 2027 Budget/ Introduction of Tax Levy (if applicable)	City Council	June 18, 2025	June 17, 2026	
	Adopt Tax Levy	City Council	July 2, 2025	July 1, 2026	

Discussion

- The \$33.3 million year-end balance being discussed represents the unassigned portion of the General Fund, meaning it is not already designated for specific purposes. The City’s policy requires the General Fund balance to remain at no less than 20% of revenues or next-year expenditures, and the current level of 26% meets that standard. Within the total fund balance, other portions are already restricted or designated, such as \$15 million for PSPRS, one year of debt service, and amounts for capital financing and the Capital Improvement Program (CIP). **(Morales/Allen)**
- The unassigned funds function essentially as a rainy-day reserve, meaning they are not immediately assigned to specific uses but are available for emergencies, cash flow needs, investment stability, and working capital. If the balance ever fell below the 20% policy minimum, City Council would need to create a plan to restore it, ensuring long-term financial stability. **(Morales/Allen)**
- If the expenditure limit increase is not passed by voters, the operational impact would be significant, because the City is already relying on strategies – such as short-term bonds and exempt debt proceeds – to stay under the cap. The 2025 bond issuance was structured partly to relieve pressure on the expenditure limit, since major CIP projects had the cash but not the expenditure limit capacity. Investment earnings, which are excluded from the expenditure limit, currently act as the City’s safety net, but that approach could only sustain operations for two to three years. The City would eventually face real operational constraints and would need to consider cuts or other adjustments. **(Morales/Allen)**

- There is concern that grocery, utilities, and internet taxes may be at risk, with roughly \$14 million potentially impacted in 2027. Preparing a letter to state representatives could be appropriate if those legislative actions appear likely to pass. The idea can be discussed further during the related agenda item so the City Council can determine whether to formally express opposition. **(Mayor Nicholls/Morales/Allen)**
- Standard and Poor (S&P) upgraded the City's rating to AA, supported by a growing tax base, strong reserves, consistent positive financial results, solid management practices, and effective long-range planning. While S&P questioned the decline in state-shared revenues, the City's explanations addressed those concerns and the rating still improved, demonstrating confidence in the City's financial position. **(Mayor Nicholls/Allen)**
- The \$15 million set aside for PSPRS is restricted by City Council action, meaning it is considered committed rather than available as part of the General Fund's flexible, unassigned balance and cannot be used for general purposes. **(Mayor Nicholls/Allen)**
- The improvement to the PSPRS valuation is based on the Governmental Accounting Standards Board (GASB) valuation, which measures assets at true market value as of June 30. This is separate from the actuarial valuation, which smooths results over seven years to prevent sharp swings. Both valuations are currently showing similar improvement, though the actuarial metric is generally more useful for City Council because it drives required contribution rates and decisions about whether to use PSPRS reserves. **(Morris/Allen)**

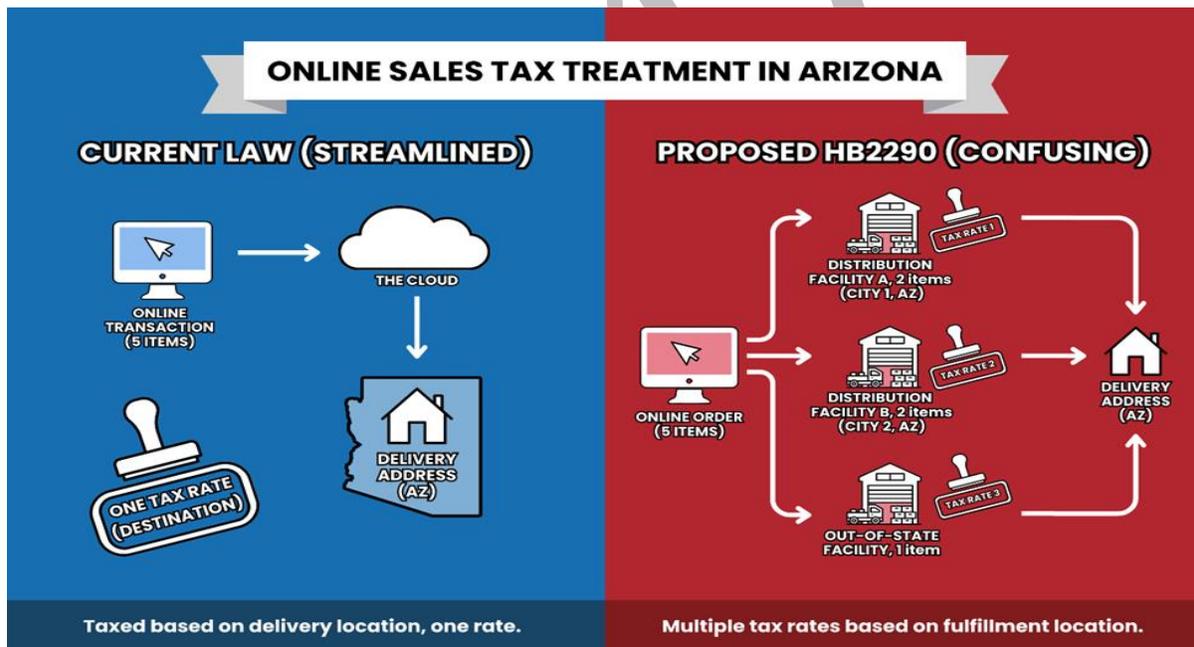
### III. LEGISLATIVE UPDATE

**Short** presented an update on proposed State and Federal legislation affecting the City as follows:

- City Council's Guiding Legislative Principles
  - Support legislation that protects and enhances the City Council's ability to efficiently serve Yuma residents and visitors in a cost-effective manner
  - Protect local decision-making
  - Protect local revenues and mandates that are unfunded
  - Protect the City's water rights and support water remaining in the region
- State Legislature Important Items/Dates
  - Seven bill limit for each elected State Legislator
  - February 20 – Last day for bills in committee
  - February 23 – Cross-Over Week
  - April 17 – Last Day for Conference Committees
  - April 21 – 100<sup>th</sup> Day of Session
- City Council's State Legislative Priorities
  - Maintain shared, voter-approved local revenues
  - Maintain the directed revenue sources
  - Preserve local authority over local taxation
  - Preserve and expand local economic development and job-creation
  - Preserve and expand support for public safety
  - Preserve and expand local growth and housing
  - Preserve and expand investments in infrastructure, quality of life, and community investment
  - Protect local water rights for City of Yuma and region

- Local Revenue Decision Preemptions
  - Senate Bill (SB) 1090, House Concurrent Resolution (HCR) 2028, and House Bill (HB) 2839
    - The food-for-home-consumption (grocery) tax is used by 72 of Arizona’s 92 cities and towns and is a core component of the Model City Tax Code.
    - Rural communities depend heavily on this tax to fund public safety, unlike larger cities such as Phoenix and Tucson that do not levy it.
    - Yuma’s overall sales tax rate is only 1.7%, the lowest in the state, so removing major taxable categories would significantly strain its broad but low tax base.
    - New legislative bills aim to eliminate or sharply limit the food tax by exempting Supplemental Nutrition Assistance Program (SNAP)-eligible items, which would cut Yuma’s food-tax revenue by about 95%.
    - Losing this revenue would force staffing cuts and reductions in programs and recreation services; for Yuma, the tax represents 11% of TPT revenue, and for nearby cities the impact is even greater.
  - HB 4030 and HCR 2052
    - Proposes a local rate, fee, and tax limitation that could restrict cities from increasing rates after fiscal year 2026.
    - HCRs can bypass the governor and go directly to voters, making tax-related measures harder for cities to manage because voters often approve tax decreases without considering long-term impacts.
    - If passed, these would lock in current rates at a time when cities anticipate a fiscal cliff, preventing them from adjusting revenues to maintain services.
    - Because rate increases would be prohibited, any financial shortfall could only be addressed through significant service cuts.
  - SB 1745
    - Creates limits on local excise taxes and rates, similar to the restrictions proposed in earlier legislation.
    - The bill currently applies only to larger cities such as Glendale, Scottsdale, Phoenix, and Tucson, due to population thresholds added to ensure it could pass out of committee.
    - Yuma had a fiscally responsible rental-tax structure that taxed only landlords with four or more rental properties, but that authority was removed along with the broader statewide change.
    - The loss of residential rental tax revenue significantly impacted cities, including Yuma, where the amount lost closely matched the funding needed for the public safety step pay plan.
    - Because that revenue source has been eliminated, the City must now rely on other funds to cover public safety raises and commitments, highlighting how these legislative changes ripple through local budgets.
  - HB 2946
    - Proposes new caps on development fees, a change driven largely by issues affecting metropolitan areas rather than communities like Yuma.
    - Many of the valley cities are imposing very high development fees – often in the upper \$10,000 range and sometimes exceeding \$20,000 – due to water-supply pressures such as the failing Colorado River negotiations.
    - In contrast, Yuma’s development fee is only \$2,572, which appears to be the lowest in the state.

- The bill’s percentage-based cap would limit Yuma’s ability to raise development fees in the future, and a four-year moratorium would further restrict needed adjustments.
    - A separate major concern is TPT sourcing, often referred to as the “internet tax,” which represents a significant financial risk similar to other red-flag items previously discussed.
    - An additional bill, HB 2269, concerning utility TPT, has unexpectedly re-entered consideration after being assigned to appropriations, meaning all major revenue-threatening proposals remain active.
  - HB 2290
    - Stems from the U.S. Supreme Court’s Wayfair v. South Dakota decision, which changed how sales tax is applied to remote and online purchases.
    - Under Wayfair, in-person purchases are taxed at the store where the purchase occurs, while online purchases are taxed at the delivery address of the buyer.
    - HB 2290 would significantly disrupt that system by causing single online orders to be taxed at multiple rates because items could come from different store locations or fulfillment centers.
    - Because the bill treats fulfillment centers – not distribution centers – as the tax origin, Yuma would lose most internet-based TPT revenue from major retailers.
    - Yuma would retain only small amounts of revenue from locally originated online sales or small independent sellers.



- Local Decision-Making
  - SB 1431
    - Introduces statewide preemptions that limit local decision-making authority over planned developments, known Planned Unit Developments in Yuma.
    - Some developers who initially agreed to specific project features are now seeking to change those commitments after construction by pushing for statewide legislation.

- The bill would weaken City Council’s ability to enforce development agreements and uphold expectations tied to major projects.
- Yuma’s City Council has historically been highly business-friendly and development-friendly, making these preemptions especially concerning because they disrupt a system that already works well locally.
- SB 1241
  - Addresses problems caused by out-of-state solar companies that performed unsafe, unpermitted installations in rural Arizona communities, including Yuma.
  - Local inspectors observed serious fire hazards, such as overheated wiring near combustible materials, raising concerns from fire marshals and fire departments.
  - A similar bill failed last year due to opposition from rural counties, but SB1241 returns with expanded scope covering solar, water heaters, and other installations.
  - The bill shifts more responsibility to company-affiliated inspectors, whose limited credentials and ties to the installer raise safety and accountability concerns.
  - Long liability periods for faulty installations mean homes could face fire risks after warranties expire, making local oversight especially important.
  - Because of these safety and enforcement concerns, the preference is to maintain strong local control rather than adopt the bill’s proposed statewide framework.
- Additional Positive Legislation
  - HB 2793
    - Simplifies and improves the annexation process, addressing challenges such as newspaper notice requirements and procedural barriers.
    - The proposal aligns closely with Yuma’s existing annexation practices, which already emphasize coordination, communication, and readiness before bringing areas into the city.
    - The City frequently uses pre-annexation development agreements to ensure that entire neighborhoods can be annexed together when property owners are ready.
    - The bill supports practices that Yuma already excels at, making it a reform the City views positively and considers beneficial for continued effective annexation management.
  - HB 2375
    - Protects zoning authority and local historic district registers in response to concerns raised after last year’s passage of HB 2447.
    - HB 2447 had limited public comment and was viewed as infringing on First Amendment participation rights, prompting renewed interest in restoring local input in historic districts.
    - The new bill helps ensure that historic and redevelopment areas can maintain their established agreements, where developers receive flexibility in exchange for meeting specific design or preservation standards.
    - The intent of HB 2375 is to restore balance by preserving necessary local control while preventing statewide changes from undermining longstanding historic district practices.
  - SB 1683
    - Strengthens protections around military bases by implementing federal Committee on Foreign Investment in the United States (CFIUS) standards at the state level.

- The bill addresses past incidents where foreign-linked businesses operated near sensitive areas, such as activity near Luke Air Force Base that allowed adversarial countries to photograph aircraft.
- A key issue was that the questionable business operated on State land, which lacked safeguards because Arizona had no applicable law at the time.
- With this bill, Arizona becomes roughly the 40th state to adopt CFIUS-aligned protections, helping prevent foreign adversaries from gaining proximity to critical military operations.

### Discussion

- Preparing a formal letter stating the City's position on upcoming legislative matters would be helpful and should be drafted once it is clear which proposals advance later in the week. The letter is intended to support upcoming meetings with state leaders and could be both submitted in advance of and hand-delivered during scheduled visits to the Capitol. The plan is to have a draft ready for the next meeting, refine it based on new developments, and use it as part of coordinated outreach with regional partners. **(Mayor Nicholls/Morales/Short)**
- The historic zoning in HB 2375 is based on a local designation, using the Encanto District in Phoenix as an example. Because the criteria are set locally, there may be opportunities to use such designations to navigate certain state-level restrictions. Further details will be researched and provided to City Council. **(Mayor Nicholls/Short)**
- Approvals for planned developments function much like contracts, raising concerns that new state actions may interfere with previously negotiated arrangements. Legal professionals have questioned how such measures cleared review, since these agreements are voluntary, tailored, and often central to determining density and other project features. Additional elements of the proposal would also restrict forming homeowners' associations, which is more consequential in some regions than others. **(Mayor Nicholls/Short)**
- Shifting TPT sourcing will reduce local revenue because some sales – especially out-of-state online transactions – will no longer generate the local portion of the tax. While the tax is still collected at the state level, local jurisdictions lose funding they previously relied on, including amounts they were receiving even before the Wayfair ruling. Some communities may see revenues drop to zero from certain retailers, making the impacts difficult to offset. **(Mayor Nicholls/Short)**
- Although the bill does not include an emergency clause, the proposed moratorium in HB 4030 and HCR 2052 would lock utility rates to the existing levels set for FY 2026, so rapid action or special sessions cannot be used to work around the restriction. **(Mayor Nicholls/Short)**
- HB 2946 would impose a four-year cap on development fees, focused mainly on residential projects, in response to rapidly rising fees in certain regions tied to new water supply costs. The cap limits increases to no more than 25% of a city's current fee structure, effectively requiring jurisdictions to raise fees in set increments to keep pace with rising infrastructure and public safety costs. **(Morris/Short)**
- The renewed proposal to eliminate the grocery-tax is largely the same as last year, with the main nuance being that most food purchased through federal and state assistance programs is already untaxed, leaving only a very small portion of items still subject to local tax. Because eligible food categories are so broad, the proposal would effectively eliminate nearly all local grocery tax revenue. The local tax burden on residents is minimal – about 85 cents per \$50 of groceries – while the revenue is vital for funding public safety and ensuring visitors also contribute to community services. **(Smith/Short)**

#### IV. REGULAR CITY COUNCIL MEETING AGENDA OF FEBRUARY 18, 2025

Motion Consent Agenda Item C.2 – Contract Award: Professional Engineering Services (On-Call) (award a one-year contract with the option to renew for four additional one-year periods to the following eight firms: Core Engineering Group, PLLC; Dahl, Robins and Associates, Inc.; Entellus, Inc.; Kimley-Horn and Associates, Inc.; Nicklaus Engineering, Inc.; Psomas; Stanley Consultants, Inc.; Wilson and Company, Inc. Engineers & Architects) (RFQ-26-110) (Eng)

**Mayor Nicholls** declared a conflict of interest on Motion Consent Agenda Item C.2, turned the meeting over to **Deputy Mayor McClendon**, and left the dais.

#### Discussion

- On-call contracts allow the City to quickly hire pre-qualified engineering firms for projects without going through a full Request For Qualifications process each time. These contracts are capped at \$500,000 and help keep smaller CIP projects moving efficiently. The budgeted amount is an estimate based on anticipated work over the nine-year CIP. The eight firms selected were chosen from 18 submittals, ranked by score, including several local firms. **(Smith/Wostenberg)**
- Firms are ranked using a points-based evaluation system with four to five weighted criteria that assess factors such as staffing, timely project delivery, and relevant experience. The resulting scores, totaling up to 100 points, are available through the Procurement Department, with evaluator identities removed. Once firms are selected, work is distributed as evenly as possible, giving some preference to local firms while ensuring all firms on the on-call list receive opportunities. **(Martinez/Wostenberg)**
- Various firms have different specialties, and the City selects among them based on project needs. Any contract that exceeds \$100,000 must return to City Council for approval. If a firm reaches a cumulative total of \$500,000 in a year across multiple projects, the limit is triggered for that firm. Each project is still handled as an individual contract and follows the same approval thresholds. **(Morris/Wostenberg)**
- Three of the eight selected firms are local, specifically Nicklaus Engineering; Dahl, Robins and Associates, and Core Engineering Group. **(Martinez/Wostenberg)**

**Mayor Nicholls** returned to the dais.

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Resolution R2026-010 – Post-2026 Guidelines for the Operation of the Colorado River – City of Yuma City Council Comments to Draft Environmental Impact Statement (direct and authorize comments to the Draft Environmental Impact Statement for the Post-2026 Guidelines for the Operation of the Colorado River on the Federal Register) (City Admin)

**McCall** presented the following information:

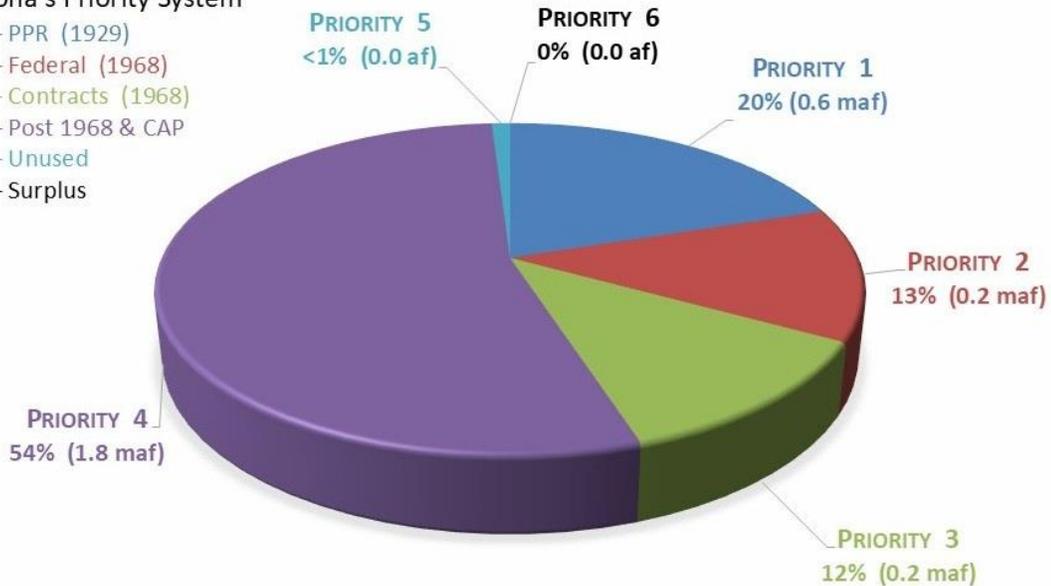
- Post-2026 Operational Guidelines
  - The Environmental Impact Statement (EIS) process is nearing completion, with public comments due by March 3.
  - The upcoming changes to river management rules will not maintain current conditions, and each proposed alternative could significantly affect both Arizona and the Yuma community.
  - Due to these potential changes, it is important for City Council to discuss the alternatives and provide direction reflecting local priorities.

- Law of the River
  - The Law of the River is a century-long collection of negotiated agreements, congressional acts, treaties, and court decisions that define how the Colorado River is divided and managed.
  - It begins with the 1922 Compact, which split the river between the Upper and Lower Basins and allocated 7.5 million acre-feet to each; the 1944 Treaty later added 1.5 million acre-feet for Mexico, bringing total allocations to 16.5 million acre-feet – more water than the river typically produces, creating a long-term structural deficit.
  - Major federal acts built the key infrastructure that governs river operations today, including Hoover Dam and Lake Mead (1928) and Glen Canyon Dam and Lake Powell (1956).
  - For Arizona, the Colorado River Basin Project Act authorized the Central Arizona Project, while the 1963 Arizona v. California decision and subsequent 1970 operating guidelines established how these laws are applied, shaping Yuma’s water priorities and the framework still used in current Colorado River negotiations.
- Arizona v. California
  - The 1963 Arizona v. California Supreme Court decision resolved long-standing disputes over how much Colorado River water each state was entitled to, particularly the question of whether Arizona’s Gila River system – which includes the Salt, Verde, and Hassayampa Rivers – should count against Arizona’s Colorado River allocation.
  - The Court confirmed that these tributaries were Arizona’s own water and did not reduce its 2.8 million acre-feet Colorado River entitlement.
  - However, when Arizona sought authorization for the Central Arizona Project in 1968, California required Arizona to accept junior priority for all post-1968 uses.
  - As a result, nearly all Arizona water – including most of the City’s water – is subordinate to California’s senior rights, with only Present Perfected Rights (PPR’s) retaining top priority.
- Arizona Priority System

2.8 million acre-feet

Arizona's Priority System

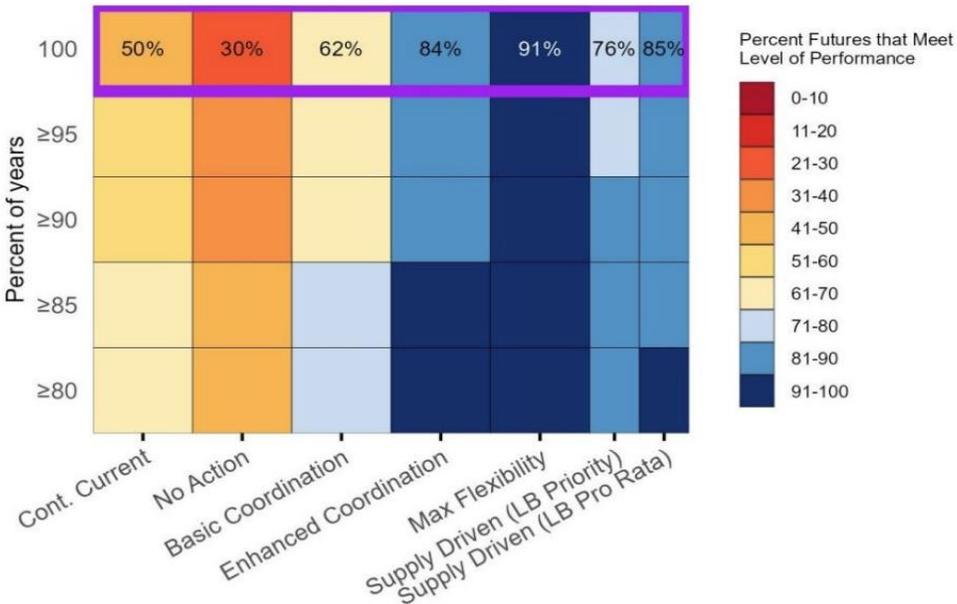
- 1 – PPR (1929)
- 2 – Federal (1968)
- 3 – Contracts (1968)
- 4 – Post 1968 & CAP
- 5 – Unused
- 6 – Surplus



- Arizona's water system operates on a strict hierarchy of priorities, which determines who gets cut first during shortages.
- At the top are PPR's, representing about 20% of Arizona's supply – roughly 0.6 million acre-feet – which are highly protected and rarely subject to shortage.
- Priorities 2 and 3, including the City's Priority 3 contracts, are co-equal and senior to later uses.
- More than half of Arizona's total allocation falls under Priority 4, largely serving the Phoenix metro area, giving it significant influence in statewide water discussions.
- Priorities 5 and 6 are essentially unused or negligible; Priority 6 is so small it is effectively zero, available only when all higher priorities have taken their full supply and excess water remains.
- City of Yuma Water
  - Locally, the City's water portfolio totals about 78,000 acre-feet per year, most of which – roughly 50,000 acre-feet – is Priority 3.
  - The City also holds a small amount of Priority 1 water (about 1,400 acre-feet) and purchases an additional 18,000 acre-feet of Priority 1 supply from the Yuma County Water Users Association.
  - Because Yuma is on the main stem of the Colorado River, the City receives approximately 10,000 acre-feet in return-flow credits each year.
  - Although the City orders around 26,000 acre-feet annually, about 10,000 acre-feet is returned, resulting in a net use of roughly 16,000 acre-feet – only about 20% of the total portfolio – indicating significant room for growth and little short-term vulnerability.
- Considerations for Deciding
  - When considering the EIS options, the goal is to choose an approach that avoids pushing the community into a sudden risk cliff, where nothing seems wrong until an unexpected crisis forces abrupt emergency cuts.
  - The preferred path is one that creates predictable, gradual shortages so the community can plan ahead and adjust over time.
  - It should also preserve long-term water reliability for Yuma and uphold established water rights, honoring priority systems that have existed for more than a century.
    - As noted, long-standing senior rights – some dating back to the 1800s – should not be displaced by much newer users who entered the system decades later.
- Post-2026 EIS Alternatives
  - (1) No Action and (2) Basic Coordination
    - From the City's perspective, EIS Alternatives 1 and 2 are not favorable because they significantly increase the likelihood of emergency conditions.
    - In particular, the No Action alternative would push the system toward the same risk cliff described earlier, where a lack of early, predictable reductions leads to sudden and severe shortages.
  - (3) Enhanced Coordination
    - Enhanced Coordination is generally a strong, well-balanced choice; it increases system storage, helps protect critical infrastructure, and reduces the risk of sudden or catastrophic failures.
    - It also includes structured approaches for implementing shortages, making it a stable and predictable option overall.
    - However, its major drawback for Arizona and the Yuma community is that it does not preserve existing local water-right priorities.

- Because it uses a pro rata sharing method, junior users – such as Priority 4 holders – would receive reductions equal to senior users in Priorities 1-3.
      - This makes the option less favorable locally, as it is not aligned with the long-standing priority system that protects senior water-right holders.
  - (4) Maximum Operational Flexibility
    - Maximum Operational Flexibility is one of the more extreme approaches; its primary goal is to protect major river infrastructure by storing very large amounts of water in the system.
    - While this maximizes reservoir levels, it also means the system holds back more water than is necessary for many beneficial uses, keeping reservoirs artificially high.
    - As a result, too much water is reserved for infrastructure protection, and the needs of water users become secondary under this option.
  - (5) Supply Driven Alternatives
    - Supply-Driven Alternatives is modeled on the idea that water availability should be determined by what the river actually produces: the natural supply over a rolling three-year period becomes the basis for sharing water among the Upper Basin, Lower Basin, and Mexico.
    - While recent state-to-state negotiations have leaned toward this supply-driven concept, the EIS version differs.
    - Still, Option 5 does not fully strengthen long-term river preservation compared to other alternatives.
- Post-2026 EIS Goals

Percent of futures in which dead pool-related reductions are avoided in the percent of years specified by each row



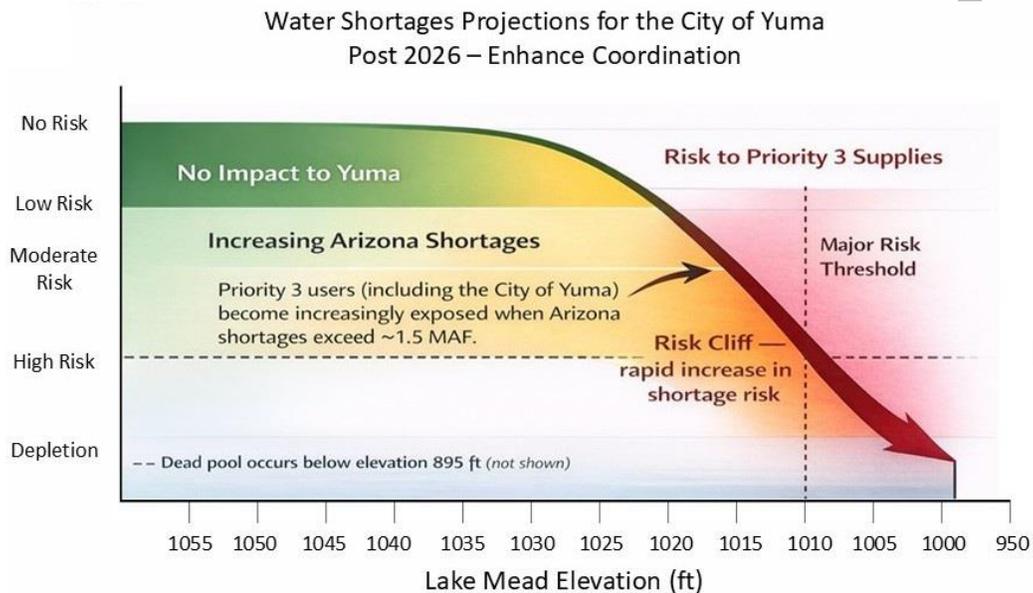
- The EIS modeling compares today’s rules (2007 Guidelines and 2019 Drought Contingency Plan) against several alternatives and shows that doing nothing pushes the system toward dead pool roughly 70% of the time over the 100-year model.

- By contrast, Maximum Operational Flexibility (Option 4) achieves about 91% certainty of avoiding dead pool every year, but it keeps reservoirs artificially high and limits beneficial downstream uses.
- Enhanced Coordination (Option 3) is more balanced and asks the Upper Basin to share in shortages, yet its pro-rata cuts ignore long-standing priority rights (a problem for senior holders like Yuma).
- Supply-Driven (Option 5) uses a three-year natural-flow baseline; Reclamation’s version splits into a priority-based path and a pro-rata path, but the priority-based variant does not adequately protect infrastructure and still leaves a risk cliff.
- Given these trade-offs, the City favors a hybrid approach that blends predictability and rights protection
  - However, negotiations have been difficult because Arizona’s fixed 2.8 million acre feet (MAF) framework does not map cleanly to the Upper Basin’s proportional, watershed-based entitlements, limiting the commitments those states were willing to make.

Alternative	Planned Shortage Approach	Likelihood of Priority 3 Impact	Risk of Emergency Delivery Disruption (Lake Mead)	Predictability for City Planning	Overall Effect on City of Yuma
No Action	Minimal planned shortages	Very low initially	Highest risk – least reservoir protection	Low	Protects short-term supply but creates highest long-term reliability risk
Basic Coordination	Moderate shortages (up to ~1.48 maf); Mead elevation triggers	Low initially; CAP likely absorbs early cuts	High risk under dry conditions; limited reservoir protection	Low to Moderate	Slight improvement over No Action, but still elevated long-term risk
Enhanced Coordination	Larger early shortages (1.3–3.0 maf); based on combined system storage	Low initially; Priority 3 affected only in severe statewide shortages	Lower risk – significantly better protection of Lake Mead	High	Best balance of long-term reliability and planning
Maximum Operational Flexibility	Largest shortages (up to ~4.0 maf); early and aggressive response	Moderate risk earlier than other alternatives due to larger reductions	Lowest risk – strongest reservoir protection	High	Maximizes system protection but imposes the largest volume reductions
Supply Driven	Moderate shortages (up to ~2.1 maf); releases tied to hydrology	Low in early years; Priority 3 protected longer	Moderate to High risk; vulnerable to critically low reservoir conditions	Moderate	Short-term benefit but increased risk of sudden disruption later

- When comparing the five EIS options – ranging from No Action to Supply Driven – the City focuses on how each alternative affects Yuma’s senior water rights and long-term reliability.
- Enhanced Coordination (Option 3) stands out as the midpoint between two extremes: it generally benefits the overall river system and provides meaningful protection, but it does not fully safeguard Yuma’s Priority 3 entitlement, which has long been recognized as a senior right in Arizona.

- Supply Driven (Option 5) includes several features the City favors, such as respecting Yuma’s established water-right priority and accounting for real-world river conditions, including seasonal fluctuations and the system’s structural deficit.
  - These elements were also central to what the seven basin states had been negotiating before their deadline passed.
- Enhanced Coordination



- Under an Enhanced Coordination or hybrid approach, the modeling shows how Yuma’s risk changes as Lake Mead’s elevation shifts.
  - With Lake Mead currently around elevation 1,057, the community sits safely on the low-risk end of the chart.
  - Historically, elevations have never dropped below roughly 1,045, a level that previously triggered major concern because it signaled large cuts for Arizona and California.
  - Federal modeling indicates that true dead pool occurs near 950 feet, and operations will not be allowed to approach that threshold.
- For Yuma, meaningful risk begins near elevation 1,020, but under Enhanced Coordination, the system remains structurally stable across most conditions.
- As long as the framework preserves Yuma’s Priority 3 water rights, the community can endure most shortage scenarios.
- While no model can eliminate the possibility of extreme conditions where water is unavailable, such scenarios would be basin-wide events – shared across all states – rather than something Yuma would face on its own.
- Recommendation
  - A hybrid approach combining Alternative 3 with lower-basin priority protections is recommended, because it minimizes the risk of sudden, catastrophic delivery interruptions seen in other options.
  - This alternative offers predictable, storage-based shortage triggers, allowing the City to anticipate and plan for reductions.

- While the EIS references potential pro-rata cuts at the state level, Arizona can still maintain its internal priority system, preserving Yuma's Priority 3 rights even if Arizona and California share reductions equally at the interstate level.
- Among the available choices, this option provides the best balance of system stability, predictability, and protection of Yuma's long-standing water-right structure.
- **Council Takeaway**
  - The recommended approach fully preserves Yuma's Priority 3 water rights, meaning the community would not lose any of its core supply under this framework.
  - Any reductions that do occur would be predictable and visible in advance, allowing for thoughtful planning rather than emergency reactions.
  - The approach also offers a balanced level of infrastructure protection – not too rigid and not too lax – creating the middle ground that the system needs.
  - Because these rules will guide Colorado River operations for the next 20 years, the goal is long-term reliability without having to reopen the process again.

### Discussion

- The recommendation centers on incorporating preferred provisions from both Option 3, Enhanced Coordination, and Option 5, Supply Driven Alternatives. This hybrid approach preserves the Lower Basin priority structure and relies on actual available supply, allowing for realistic allocation. **(Mayor Nicholls/McCall)**
- Yuma's water supply is quantified within Arizona's 2.8 MAF allocation established under the 1922 Compact, even though Yuma holds a direct federal contract. The federal government sets the state's total allocation, and Arizona must divide whatever amount it receives among its users, which is why pro rata reductions are a concern. **(Mayor Nicholls/McCall/Short)**
- The hybrid model, combining elements of Options 3 and 5, is preferred because it allows cuts to be distributed by priority – meaning higher-priority users like Priority 1 would see smaller reductions. The broader issue is that while Yuma's rights remain superior, their protection ultimately depends on how much total water the federal government allocates to Arizona. **(Mayor Nicholls/McCall/Short)**
- The EIS presents mixed approaches regarding Intentionally Created Surplus (ICS): some eliminate it immediately, others phase it out, and some remain silent. ICS has long been controversial because off-river users could store surplus water – often originating from unused on-river allocations – while on-river communities were excluded, making the system widely viewed as inequitable. There is broad support for ending ICS entirely, and hybrid management options are likely to adopt some version of that change. Recent years have not seen ICS withdrawals, raising questions about whether a phased approach is even necessary. **(Mayor Nicholls/McCall/Short)**
- High-water-use industries are not necessarily harmful to Yuma because, as an on-river community with a consumptive-use contract, much of the water used returns to the system and earns return-flow credits. Yuma typically orders more water than it actually consumes, and federal modeling assumes full depletion even though that does not reflect real operations. Return flows are carefully tracked and integrated into the broader river management system, sometimes offsetting upstream orders. Because these returns help the federal government meet treaty obligations to Mexico, Yuma's practices give it a meaningful role in regional water negotiations. The larger concern is that future cuts might target consumptive use rather than allocation, which would put Yuma's efficient water policies at greater risk. **(Watts/McCall/Short)**

- The resolution could be simplified and made more direct so key priorities – such as emphasizing lower-basin priority and prohibiting intentionally created shortages – are clear. Staff will prepare potential amendments and a strong accompanying letter based on the guidance provided. (**Mayor Nicholls/Short/Files**)

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Ordinance O2026-003 – Rezoning of Property: Southeast Corner of Michigan Avenue and 32<sup>nd</sup> Street (rezone approximately 12,000 square feet from General Commercial (B-2) to Recreational Vehicle Subdivision (RVS)) (ZONE-44631-2025) (DCD)

Discussion

- The proposal seeks to transition existing agricultural land into single-family residential use by shifting the area’s land use designations entirely toward suburban and low-density categories, removing industrial uses. The northern section is expected to feature large lots between two and five acres, while the southern portion would have smaller lots around 12,000 square feet, with most of the project consisting of larger lots. Required roadway improvements will include paving existing dirt roads, and street layouts will be identified later through the subdivision process once rezoning is approved. (**Watts/Linville**)

**EXECUTIVE SESSION/ADJOURNMENT**

**Motion** (Smith/Morales): To adjourn the meeting to Executive Session. Voice vote: **approved** 7-0. The meeting adjourned at 7:42 p.m.

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Lynda L. Bushong, City Clerk

APPROVED:

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Douglas J. Nicholls, Mayor

Approved at the City Council Meeting of: _____ City Clerk: _____
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