

MINUTES
SPECIAL BUDGET WORKSESSION
CITY COUNCIL OF THE CITY OF YUMA, ARIZONA
YUMA CITY HALL CONFERENCE ROOM #190
ONE CITY PLAZA, YUMA, ARIZONA
April 23, 2025
4:00 p.m.

CALL TO ORDER

Mayor Nicholls called the Special Worksession/Budget meeting to order at 4:03 p.m.

Councilmembers Present: Martinez, Morris, McClendon (4:12 p.m.), Smith, Morales, Watts and Mayor Nicholls

Councilmembers Absent: none

Staffmembers Present: City Administrator, Jay Simonton
Douglas Allen, Finance Director
Various Department Heads or their representative
City Attorney, Richard W. Files
City Clerk, Lynda L. Bushong
Deputy City Clerk, Janet L. Pierson

I. QUARTERLY FINANCIAL BRIEFING

Allen stated that tonight's discussion would focus on the FY 2025 budget and FY 2026 financial outlook and beyond.

FY 2025 QUARTER 3.0

Up-front takeaways include the highlighted areas below:

BLUF (Bottom Line Up Front)	
REVENUE – Governmental Funds <ul style="list-style-type: none">➤ Remains steady with signs of slowing and continues to be outpaced by budget requests and service demands➤ Sustainability: balancing ongoing operations to recurring revenues = structurally sound budget➤ Low diversity, combined City Sales Tax + Property Tax + State Shared Sales Tax + State Shared Income Tax = 78% GF recurring revenues (Susceptible to downturns)	CASH AND FUND BALANCES – All Funds <ul style="list-style-type: none">➤ Adequate for past/current economic environment➤ No less than 20% policy is not sufficient to sustain a significant downturn; future is always uncertain➤ Safety nets to maintain proper cash flows and navigate through downturns minimizing service reductions➤ These are finite resources by nature; use should be purposeful and remain flexible, adaptable
ANNUAL EXPENDITURE LIMITATION (AEL) – All Funds <ul style="list-style-type: none">➤ City is one few in AZ to not have adjusted AEL by voters➤ Growth in population, service demands, and total customers of city services is faster then AEL formula➤ Population formula reset in 2023 from the 2020 census➤ Supply delays, bottled necked purchases strain future AEL➤ Bring to City of Yuma voters November 2026➤ Maximize exclusions to the AEL, use most restrictive first<ul style="list-style-type: none">▪ Blue Money Green Money	OTHER – All Funds <ul style="list-style-type: none">➤ Capital Improvement Plan is too large for City's Revenues or Cash Balances or AEL<ul style="list-style-type: none">• CIP Bonds is an option: spread costs over useful life (Mortgage)➤ PSPRS Unfunded Liability Policy for considerations➤ Interest earnings historical highs; and is AEL exclusion➤ Departments made cutbacks in requests to balance budget➤ Easing in approach for programs, new staff

The major operating revenue noted below accounts for nearly 80% of the total General Fund revenue and needs to be monitored closely; action needs to be taken if a problem occurs.

MAJOR OPERATING REVENUE	
(A) Governmental Operating Source	(B) Fund
(1) City Sales Tax (1.0%)	General
(2) Property Tax	"
(3) State Sales Tax	"
(4) State Income Tax	"
(5) Vehicle License Tax	"
(6) SUBTOTAL - GENERAL FUND (1-5)	
(7) Gasoline Tax (0.5%)	HURF
(8) Road Tax (0.5%)	Road Tax
(9) Public Safety Tax (0.2%)	Public Safety
(10) Two Percent Tax	Two Percent
(11) TOTAL GOVERNMENTAL FUNDS (6-10)	
(12) Water Sales	Water
(13) Wastewater Sales	Wastewater
(14) Solid Waste Fees	Solid Waste
(15) TOTAL ENTERPRISE FUNDS (12-14)	

Major Operating Revenues: Budget and Year-over-Year

Volatility of the revenues are shown as follows: Q1-down 2%; Q2-up 2%; Q3-flat

MAJOR OPERATING REVENUE						BUDGET AND ACTUAL YEAR OVER YEAR			
(A) Governmental Operating Source	(B) Fund	(C) FY 2025 Total Budget	(D) FY 2025 July-March % of Budget	(E) FY 2025 July-March Actual	(F) FY 2024 July-March Actual	(G) Year-to-Year Amount Change	(H) Q3 % Change	(I)1 Prior Q2 % Change	(I)2 Prior Q1 % Change
(1) City Sales Tax (1.0%)	General	\$ 34,880,000	80%	\$ 27,800,568	\$ 25,572,924	\$ 2,227,644	9%	14%	9%
(2) Property Tax	"	16,841,513	62%	10,480,759	9,918,765	561,994	6%	7%	20%
(3) State Sales Tax	"	14,800,000	77%	11,459,704	11,058,335	401,369	4%	3%	-5%
(4) State Income Tax	"	21,000,000	77%	16,091,485	19,581,615	(3,490,130)	-18%	-18%	-18%
(5) Vehicle License Tax	"	5,700,000	77%	4,381,037	4,034,496	346,541	9%	9%	14%
(6) SUBTOTAL - GENERAL FUND (1-5)		\$ 93,221,513	75.3%	\$ 70,213,553	\$ 70,166,135	\$ 47,418	0%	2%	-2%

Year-over-Year revenues are only up by \$47,000 driven by two factors:

- City Sales tax
- State Income Tax
 - Had a sharp decrease this year compared to last year

Major Operating Revenues: Benchmark and Actual

MAJOR OPERATING REVENUE						BENCHMARK (BM) AND ACTUAL			
(A) Governmental Operating Source	(B) Fund	(C) FY 2025 Total Budget	(J) FY 2025 July-March Benchmark %	(K) FY 2025 July-March Benchmark \$	(E) FY 2025 July-March Actual	(L) Amount Over/(Under) Benchmark	(M) Q3 % of BM	(N)1 Prior Q2 % of BM	(N)2 Prior Q1 % of BM
(1) City Sales Tax (1.0%)	General	\$ 34,880,000	74%	\$ 25,811,200	\$ 27,800,568	\$ 1,989,368	108%	113%	107%
(2) Property Tax	"	16,841,513	64%	10,778,568	10,480,759	(297,809)	97%	100%	68%
(3) State Sales Tax	"	14,800,000	74%	10,898,720	11,459,704	560,984	105%	106%	98%
(4) State Income Tax	"	21,000,000	75%	15,752,100	16,091,485	339,385	102%	104%	102%
(5) Vehicle License Tax	"	5,700,000	74%	4,207,740	4,381,037	173,297	104%	103%	103%
(6) SUBTOTAL - GENERAL FUND (1-5)		\$ 93,221,513	72.4%	\$ 67,448,328	\$ 70,213,553	\$ 2,765,225	104%	107%	103%

Benchmark revenues are the City's budget goals. Currently we are at 104% and there are no changes needed on the expenditure side.

Major Operating Revenues: Actuals and Budget Goal



Overall, finances are steady on the revenue side. FY 2025 Q3 major revenues are 1% higher than last fiscal year FY 2024 or 101% of last year FY 2024 Q3.

City Sales Tax

CITY'S 1.7% SALES TAX (1.0% General; 0.5% Road; 0.2% Public Safety)					
Category as Reported by ADOR	July-March FY 2025	July-March FY 2024	July-March FY 2023	Change in FY25/FY24	
				\$	%
Retail	\$23,000,576	\$22,535,790	\$21,837,824	\$ 464,786	2.1%
Grocery	5,613,700	5,283,075	5,055,383	330,625	6.3%
Restaurants and bars	4,694,004	4,611,368	4,579,741	82,636	1.8%
Internet sales	2,106,394	1,817,957	1,527,310	288,437	15.9%
Hotels	854,715	907,612	992,653	(52,897)	-5.8%
Utilities	2,550,138	2,205,879	2,080,311	344,259	15.6%
All 14 other categories	2,522,570	2,520,754	2,235,162	1,816	0.1%
Total Recurring	\$41,342,097	\$39,882,435	\$38,308,384	\$1,459,662	3.7%
Residential rental leasing *	335,005	415,092	431,363	(80,087)	-19.3%
Construction	3,846,277	3,171,663	2,455,130	674,614	21.3%
Total City's 1.7% Tax	\$45,523,379	\$43,469,190	\$41,194,877	\$2,054,189	4.7%
* Residential rental leasing ended January 2025					

TWO PERCENT TAX (2.0%)					
Category as Reported by ADOR	July-March FY 2025	July-March FY 2024	July-March FY 2023	Change in FY25/FY24	
				\$	%
Restaurants and bars	\$ 5,516,369	\$ 5,438,974	\$ 5,388,975	\$ 77,395	1.4%
Hotels	980,375	1,038,744	1,132,749	(58,369)	-5.6%
Total Two Percent Tax	\$ 6,496,744	\$ 6,477,718	\$ 6,521,724	\$ 19,026	0.3%

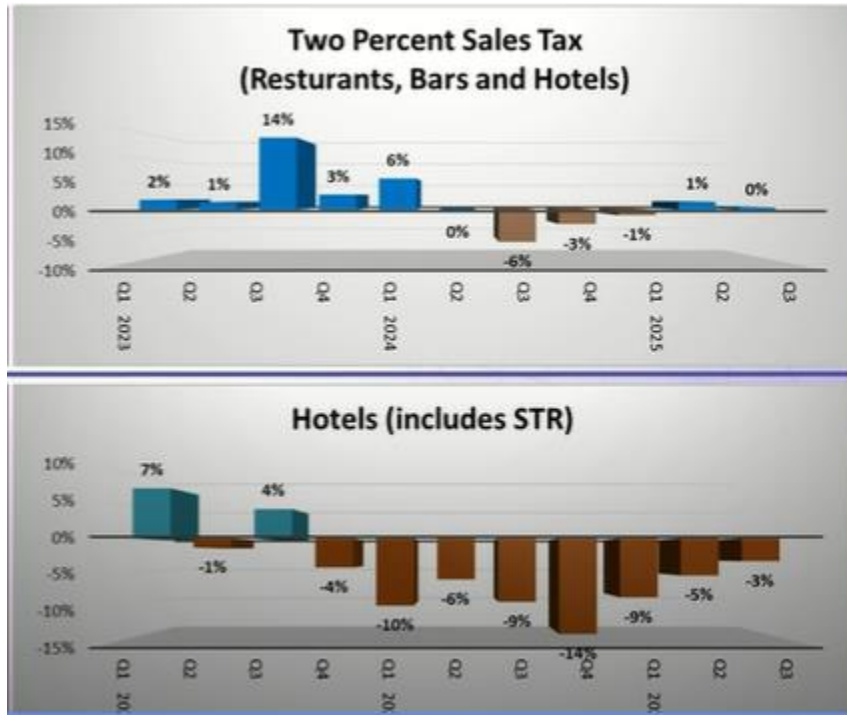
Total 2% Tax for Parks is **0.3% more** in FY 2025 as compared to FY 2024.
After hyper growth in FY 2021 and FY 2022; estimates for FY 2024 and FY

- Retail is by far the highest category at \$23 million with grocery right behind it, which is why the grocery tax debate was so important to the City.

Spotlight: City Sales Tax – Categories of the Quarter



- In the 4th Quarter of FY 2024, the Retail and Internet category had two consecutive months of 3% lower than the previous year (FY 2023).
- The 3rd Quarter of FY 2025 closed with two consecutive months showing lower collections than the prior year 3rd Quarter and resembled the closing of FY 2024.
- Construction is still showing an increase year-over-year



- The Two Percent is flat with hotels pulling it down below the growth line

FY 2026: OUTLOOK

Budget Preview: General Fund Revenues

GENERAL FUND REVENUES						
(A) Revenues By Source	(B) FY 2022 Actual	(C) FY 2023 Actual	(D) FY 2024 Actual	(E) FY 2025 Estimated	(F) FY 2026 Projected	(G) FY 2027 Projected
(1) City Sales Tax (1.0%)	\$ 31,368,329	\$ 32,890,150	\$ 34,390,132	\$ 35,930,000	\$ 36,770,000	\$ 37,873,100
(2) Property Tax	14,896,945	15,213,991	15,612,274	16,291,513	17,277,928	17,969,045
(3) State Sales Tax	13,525,597	14,352,376	14,913,219	15,315,861	15,400,000	15,785,000
(4) State Income Tax	12,638,305	18,418,692	26,108,820	21,455,314	19,500,000	19,987,500
(5) Vehicle License Tax	5,111,639	5,408,721	5,488,540	5,843,523	5,888,000	6,035,200
(6) Total Major Revenues	\$ 77,540,815	\$ 86,283,930	\$ 96,512,985	\$ 94,836,211	\$ 94,835,928	\$ 97,649,845
(7) Investment Earnings	(522,221)	2,375,227	4,159,229	4,921,973	3,433,513	2,918,486
(8) All Other Revenues	19,725,902	22,097,217	25,061,781	23,335,701	26,748,976	26,864,151
(9) TOTAL GENERAL FUND	\$ 96,744,496	\$110,756,374	\$125,733,995	\$123,093,885	\$125,018,417	\$127,432,482

- Total Major Revenues
 - \$77,540,815 (FY 2022)
 - \$86,283,930 (FY 2023)

- \$96,512,985 (FY 2024)
- \$94,836,211 (FY 2025/Estimated)
 - Due to income tax decreases
- \$94,835,928 (FY 2026 Projected)
 - Rebounds a little bit but still flat due to a two year decrease in State Income Tax
- \$97,649,845 (FY 2027 Projected)
 - Revenues are starting to go back up

The top 5 Major Revenues: City Sales Tax, Property Tax, State Sales Tax, State Income Tax and Vehicle License Tax account for 70% of the recurring revenues of the General Fund

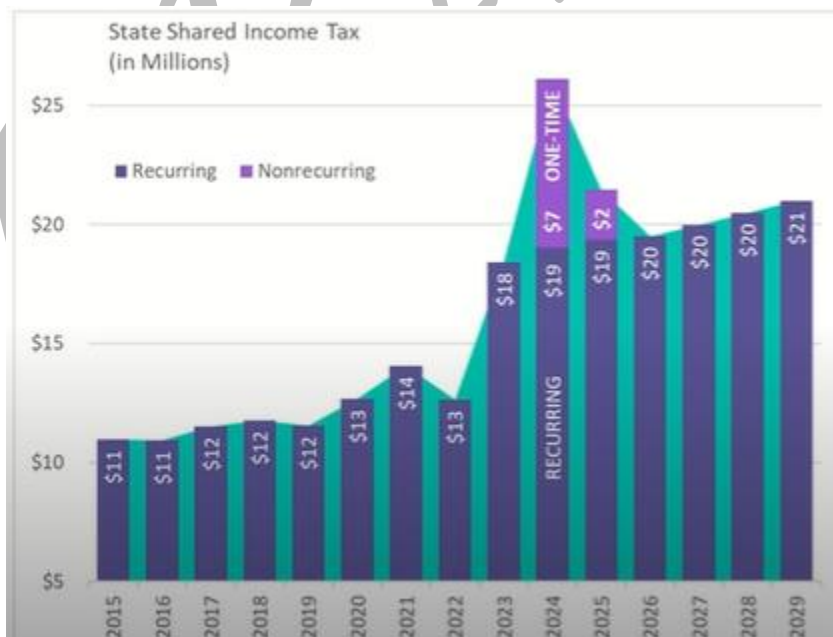
Discussion

- Internet sales is captured in City Sales Tax. (**Morales/Allen**)

State Revenue Sharing

- State Shared Revenues are distributed based on population base:
 - Sales Tax: \$918,000,000 statewide
 - Yuma FY 2025 Estimate = \$15.4 million (12.3% of General Fund budget)
 - Income Tax: \$1,186,300,000 statewide
 - Yuma FY 2025 Estimate = \$19.5 million (15.6% of General Fund budget)
 - Yuma's portion usually gets smaller as Yuma does not grow as much as Maricopa County, but Yuma is growing larger than other rural communities. In the last two years Yuma has had a larger percentage of that pie.

State Shared Income Tax – Recurring Revenue vs. One-Time



- In FY 2024 the State income tax allocation to cities and towns increased from 15% to 18%.

- In FY 2025 the State moved from incremental income tax to a flat 2.5% to take effect halfway through the fiscal year.
- The City knew FY 2024 and FY 2025 increases were one-time revenue and in 2024 set up an account called the *Capital Reserve and Contingency Fund* to isolate that approximate \$10 million in one-time revenue.
 - This is the fund the City would go to first if something like the grocery tax bill did not go away.
 - The City's budget document states that after two years, the funds can be used for grant matches or other CIP one-time expenses.

Allen expressed how detrimental losing the City's 1.7% grocery tax would have been to the City's budget as it is projected to make up 13% of the FY 2026 City Sales Tax revenue. City Sales Tax, retail in particular, should be monitored carefully due to their low diversity.

Property Taxes

Components to property taxes and levies include:

- Levy Limit
 - The maximum levy limit goes up 2% each year and is very consistent
- Assessed Valuation
 - Typically goes up and will only go down in rare cases
 - As the assessed value goes up; the rate goes down



- Last year's tax base was \$2.1321 and generated \$16.4 million
 - If the City keeps the same \$16.4 million, the tax base would be \$2.0812 plus new construction would increase it to \$16.7 million generated which is 4% under the max of \$17,277,927
- The recommendation later in the budget will be to go to the max levy limit
 - Keeping the same rate of \$2.1321 would cause a tax increase for the truth and taxation and generate a total of \$17.1 million
 - The max of \$2.1433, along with new construction, would net \$17.2 million; a difference of around \$90,000.

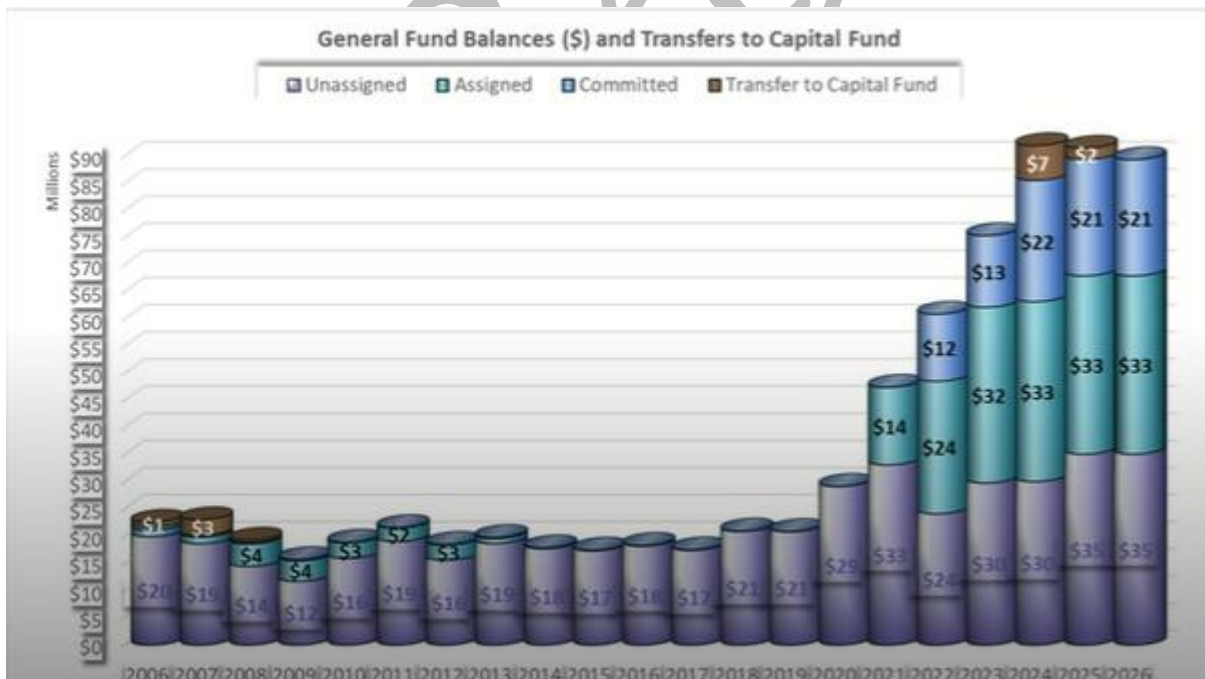
Discussion

- The difference between the lowest tax base (\$2.0812) and the highest tax base (\$2.1433) is around \$500,000. (**Watts/Allen**)

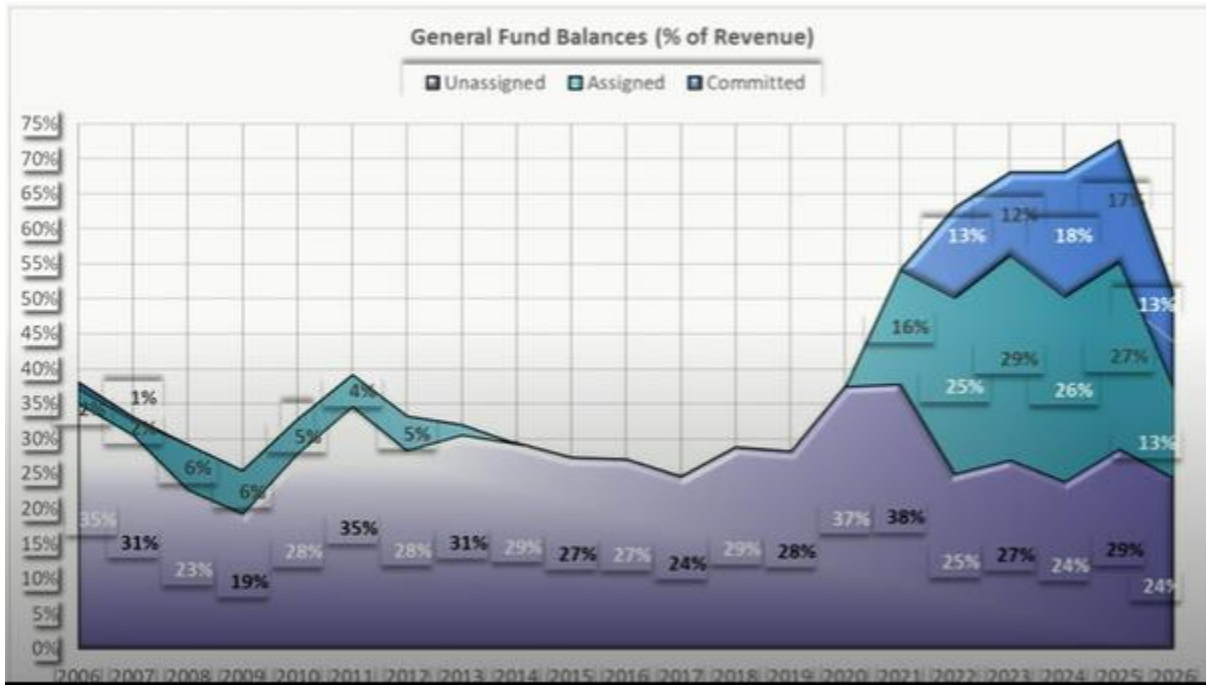
General Fund: Fund Balances

- The City of Yuma's unassigned fund balance policy historically has had a benchmark of no less than 20% of revenues or the subsequent years expenditures, as all expenditures are balanced to not exceed those revenues for the purpose of maintaining cash flows due to the timing of taxes and different seasons.
- The Government Finance Officer Association (GFOA) considerations for assigned balances are as follows:
 - Diversity of revenues; volatility
 - The City of Yuma is not that diverse and has four revenues that drive the budget.
 - Exposure to subsidizing programs more than the General Fund
 - The City has not had to subsidize, but with the outlook of the Two Percent fund and other funds such as HURF, the General Fund might be asked to subsidize some of these in future years.
 - Bond ratings and government ratios
 - Rainy/snowy day funds
 - Replenishment plan if certain assigned balances are used.

General Fund Balance – Amount by Category



General Fund Balance – Percentage of Revenue



- Designated (Unassigned) balances are set for specific purposes and audited at year-end; Budget Authority, like a contingency, is budgeted as an expenditure.
- Assigned balances are set to pay for previous liabilities such as supply chain delays, at a later date, bonded debt payments due July 1, or multi-year capital projects; Unlike a contingency, fund balances are set to honor previous obligations, carried forward until payment is made.
- Committed balances require City Council action, such as pension systems unfunded liability and pre-funding
 - The best example is the Public Safety Personnel Retirement System (PSPRS) unfunded liability reserve
- Transfer to Capital Fund moves fund balance out from the General Fund
 - Example: CIP transfers for future projects

General Fund Balance – By Purpose

FUND BALANCES BY PURPOSE	ACTUAL AUDITED FY 2024	ACTUAL ESTIMATED FY 2025	BUDGET AMENDED FY 2025	BUDGET PROPOSED FY 2026
PSPRS UAAL RESERVE (AELR EXEMPT)				
Beginning balance, July 1	\$ 13,136,272	\$ 14,175,782	\$ 14,175,782	\$ 14,884,571
Addition	1,039,510	708,789	689,654	744,229
Reduction	-	-	(7,000,000)	(7,000,000)
Ending balance June 30	\$ 14,175,782	\$ 14,884,571	\$ 7,865,436	\$ 8,628,800
ASRS CPPP RESERVE				
Beginning balance, July 1	\$ 3,168,860	\$ 7,944,153	\$ 3,168,781	\$ 6,300,000
Addition	4,775,293	-	3,088,855	1,260,000
Reduction	-	(1,644,153)	-	-
Ending balance June 30	\$ 7,944,153	\$ 6,300,000	\$ 6,257,636	\$ 7,560,000
PS PROPOSITION PENSION (AELR EXEMPT)				
Beginning balance, July 1	\$ 1,497,917	\$ 2,220,450	\$ 2,957,502	\$ 2,957,502
Addition	722,533	737,052	-	740,000
Reduction	-	-	-	(3,000,000)
Ending balance June 30	\$ 2,220,450	\$ 2,957,502	\$ 2,957,502	\$ 697,502

- **Public Safety Personnel Retirement System (PSPRS)**-Established under Resolution R2020-059 and used to pay unfunded pension liability if it resurfaces; Annual Expenditure Limitation Report (AELR) exempt
- **Arizona State Retirement System (ASRS)**-Deposited in ASRS “Contributions Prepayment Program” bucket until the City moves it to the “Payroll Contributions” bucket in lieu of standard ASRS payroll contributions.
 - Public Safety Proposition Pension through the dispensary tax and disbursed by the number of PSPRS employees; AELR Exempt and perfect for paying the PSPRS unfunded liability

FUND BALANCES BY PURPOSE	ACTUAL AUDITED FY 2024	ACTUAL ESTIMATED FY 2025	BUDGET AMENDED FY 2025	BUDGET PROPOSED FY 2026
CAPITAL IMPROVEMENT PLAN				
Beginning balance, July 1	\$ 6,312,075	\$ 8,354,691	\$ 12,354,691	\$ 12,354,691
Addition	2,042,616	4,000,000	2,561,551	-
Reduction	-	-	(7,292,668)	(9,458,815)
Ending balance June 30	\$ 8,354,691	\$ 12,354,691	\$ 7,623,574	\$ 2,895,876
LONG-TERM DEBT - BONDS				
Beginning balance, July 1	\$ 15,037,302	\$ 15,099,670	\$ 15,099,670	\$ 12,500,246
Addition	15,099,670	12,500,246	12,500,246	12,510,781
Reduction	(15,037,302)	(15,099,670)	(15,099,670)	(12,500,246)
Ending balance June 30	\$ 15,099,670	\$ 12,500,246	\$ 12,500,246	\$ 12,510,781
SUPPLY CHAIN DELAYS / CASH FLOWS				
Beginning balance, July 1	\$ 5,615,542	\$ 7,460,034	\$ 7,460,034	\$ 5,036,258
Addition	2,745,659	-	-	-
Reduction	(901,167)	(2,423,776)	(7,315,994)	(5,036,258)
Ending balance June 30	\$ 7,460,034	\$ 5,036,258	\$ 144,040	\$ -
UNASSIGNED FUND BALANCE				
Beginning balance, July 1	\$ 29,849,742	\$ 30,116,224	\$ 30,116,224	\$ 35,155,236
Addition	266,482	5,039,012	-	-
Reduction	-	-	(5,433,733)	(4,663,397)
Ending balance June 30	\$ 30,116,224	\$ 35,155,236	\$ 24,682,491	\$ 30,491,839

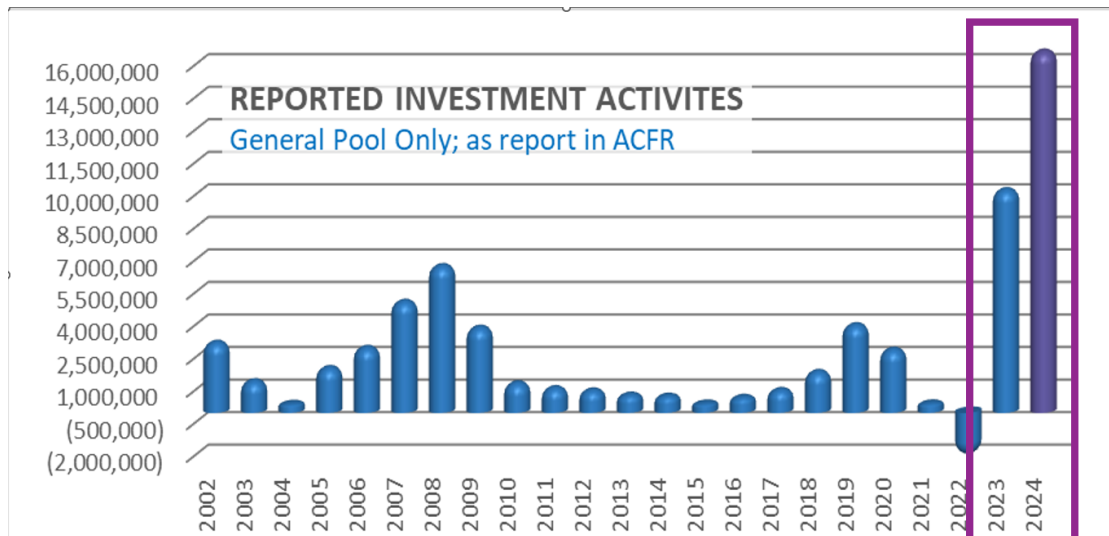
- **Capital Improvement Plan (CIP)** = carried forward for future CIP (Capital or Bond Payments)
- **Long-Term Debt** = 1 year of bond payments – due July 1st.
- **Supply Chain Delays** = the estimated cost of equipment ordered in prior years, but not received; balance is carried forward until settled; all budgeted in FY 2026
 - Up to \$7.4 million in 2024
 - Down \$2 million – budgeted for all to be spent but if not spent will carry forward
- **Unassigned** = no less than 20% and is currently approximately 24% at \$30.4 million

Discussion

- The unassigned fund balance is currently at \$30.4 million (approximately 24% of benchmark) and is what will carry forward into the 2026 Budget. (McClendon/Allen)

ANNUAL EXPENDITURE LIMITATION

Look Back: FY 2024 Investment Earnings (Unrestricted)



- The last two fiscal years, and this year as well, the City has had historic investment earnings; investment earnings are excluded from the Expenditure Limitation and one of the exclusions available to the City.
 - The plan is to use these sparingly to get through 2026 and 2028

Allen provided the following:

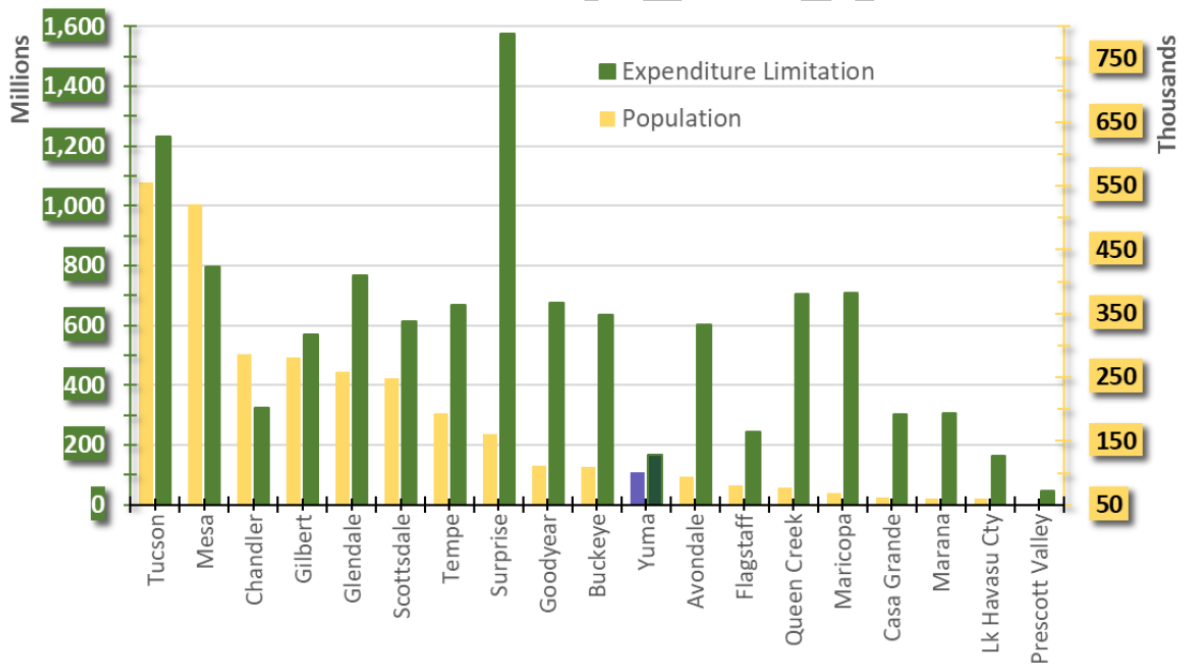
- The Annual Expenditure Limitation (AEL) can be found in the Arizona Constitution, Article IX, §20 and is applicable to all cities and counties throughout the State:
 - It sets the base limit for actual expenses of local revenues.
 - It has a restrictive ceiling even if the municipality has more local revenue/cash than the AEL
- Formula components– goes back to 1980:
 - Population Factor
 - Takes the population of 1978 to today
 - Inflation Factor
 - Takes the Gross Domestic Product deflator from 1978 to today
 - Compares to what the budget was in 1980
 - Yuma had a rather significant budget at the time, per capita
- Why Comply
 - Penalty up to 33% of State income tax withheld based on amount exceeding the AEL
 - Public Trust: Exceeding violates state law
- How to Increase – Must go to the voters (3 different ways it can be done):
 - Permanent base adjustment; Adjusts all future years (the recommended method)
 - Home rule applied to next 4 years only; Voter may adopt additional adjustments
 - One-time override; Good for one specific year for a specific amount
- How to Comply
 - Maximize exclusions available:

- Debt proceeds
- Debt repayment
- Grants and donations
- HURF in excess of 1980
- Voter approved tax for CIP
- Investment earnings
- Revenues subject to AEL:
 - Property taxes
 - Sales taxes
 - Licensing, permits and fees
 - State shared revenues
- When to Vote
 - Recommend taking to the voters at the general election in November 2026

Discussion

- State Law requires this type of election to be held in an even-numbered year and at the General election. November 2026 is the next opportunity to bring this to the voters. (Simonton)

Allen presented the following graph showing Arizona cities (excluding Phoenix) with populations over 50,000 and their corresponding AEL as well as their AEL per capita:



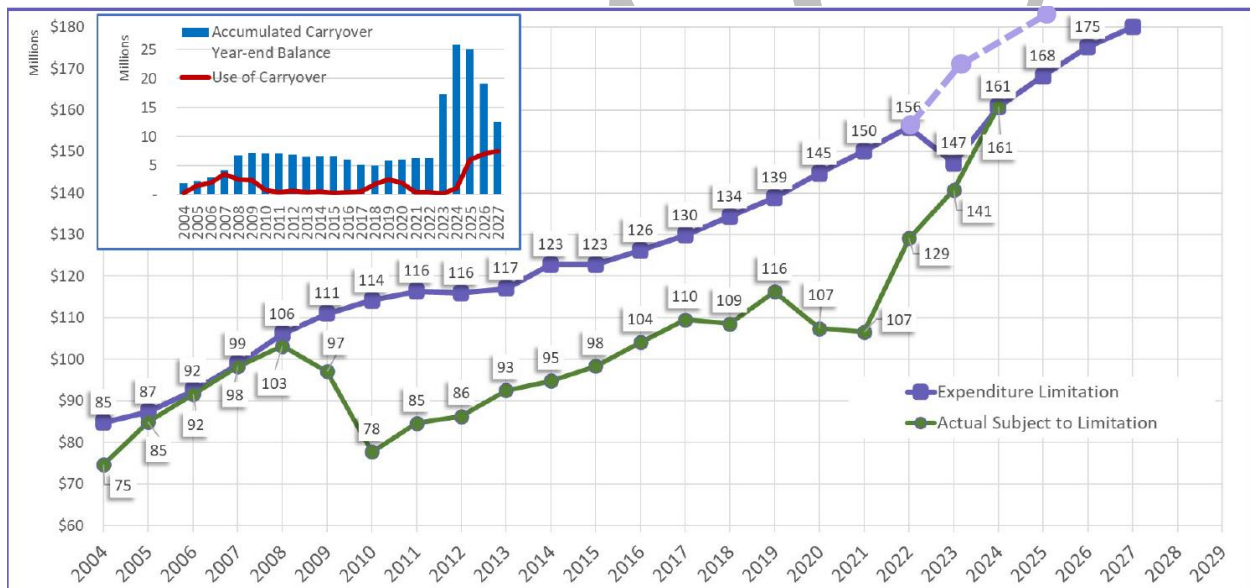
- The Expenditure Limitation for many of the smaller cities as well as the larger cities is significantly higher than that of Yuma.
- The proposed amount is half a billion dollars for the following reasons:
 - Corresponds with our budget amount
 - It fits in with communities of similar size to Yuma

- The City of Yuma has never changed its Expenditure Limitation which is why it is so low
 - There are a handful of other communities that have not had this increase; this includes the County of Yuma

Discussion

- School Districts also have an expenditure limit with a different, but similar formula. **(Mayor Nicholls/Simonton)**
- The language that goes on the ballot is very specific. The City can provide education on the importance of the AEL by getting in front of civic groups and organizations, but cannot advocate for the AEL. The City's Elected Officials would be leaned on to educate the voters that this is not a tax. Running it at the same time as the County will be beneficial for both. **(Smith/Simonton)**
 - The restriction regarding advocating for the AEL does not begin until City Council approves putting it on the ballot. **(Files)**
- There are independent agencies potentially willing to help take that information packet and do the advocacy. **(Mayor Nicholls)**

ANNUAL EXPENDITURE LIMITATION AND INTEREST CARRYOVER

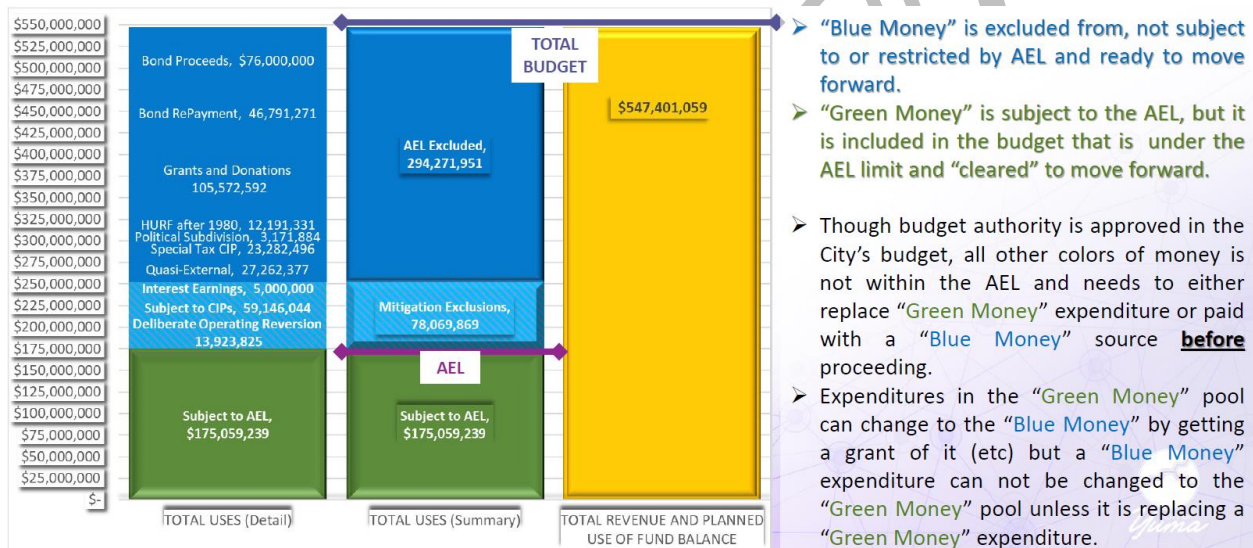


- The chart above shows how the City's Expenditure Limitation/Expenditures has trended over time.
 - Prior to 2008 the City was right at the Expenditure Limitation
 - The 2008 recession started 2-3 years of 5% negative revenue
 - Expenditures started to creep up again in 2011 through 2019, with a dip in 2020 to 2021 due to supply chain issues. At that time, the City knew there could be a problem forthcoming if there was a bottleneck in the supply chain and all purchases coming in one year.
 - That spike is what we are seeing in 2021-2023.
 - Any amount under that Expenditure Limitation does not carry over; it is annual.

- The expectation was that the Expenditure Limitation would continue to go up due to population and inflation.
 - The 2020 Census lowered the population; in 2023 the City came very close to the limit
- The City is estimated to be at an Expenditure Limitation of \$175 million in 2026
- Expenditure-wise we were right at the limit last year and had to use approximately \$700,000.00 of carryover to balance.
 - Carryovers include interest earnings
 - Carryover is projected to be used in 2025-2027

AEL MITIGATION PLAN: EXECUTIVE SUMMARY

Allen used the below graph to explain what he calls Blue Money and Green Money.



Discussion

- Deliberate Operating Reversion (\$13,923,825) is budget savings – money captured within the departments budgets but not spent and is historically 12% to 18%. This year it is closer to 3%. (**Morales/Allen/Morris**)
- Deliberate Operating Reversion is not exempt from the Expenditure Limitation it is just anticipated to not be spent and is monitored carefully. (**Morris/Allen**)
- The criteria for the Expenditure Limitation is not based on the actual budget but rather on the expenditures (**Nicholls/Allen**)

PUBLIC SAFETY PERSONNEL RETIREMENT

Below is a snapshot from the most recent PSPRS report dated June 30, 2024, showing Yuma in the 95% ratio of unfunded liability:

032	Yuma Fire Dept.	136,086,731	123,924,997	119,181,465	120,421,942	4,743,532	3,503,055	96.2%	97.2%
033	Yuma Police Dept.	164,220,974	152,883,613	144,718,258	146,224,530	8,165,355	6,659,083	94.7%	95.6%

- Last quarter it was recommended to not pay anything at that time due to the reserve that was set up. When the reserve is taken the City will be 100% funded.
- In 2023 PSPRS did an audit on some of their assertions and found they were overvaluing Yuma's portfolio resulting in Yuma's unfunded liability increasing
 - Top two reasons for this overvaluing: interest rates were *nearly* met and salary increases were higher than expected
 - As of June 30, 2024, the PSPRS Board decreased the growth rate of public safety salary assumptions from 2% to 1.5% resulting in increased unfunded liability which then increases the contribution rates.
 - Prior to issuance of the bonds a few years ago, the contribution rate was 70% contribution rate for the City. The City does not want to get in that situation again.
- It is in the budget to make some payments to Tier One and Tier Two only
 - Taking the unfunded liability minus the LGIP account with the reserve fully funds PSPRS at 100%
- It was recommended that each time public safety receives a pay increase we pay the unfunded liability in that same year. It does not hit our books, it is not recorded with PSPRS, and it keeps our contribution down.
- It is important this year because paying the unfunded liability with those funding sources is also exempt from the Expenditure Limitation

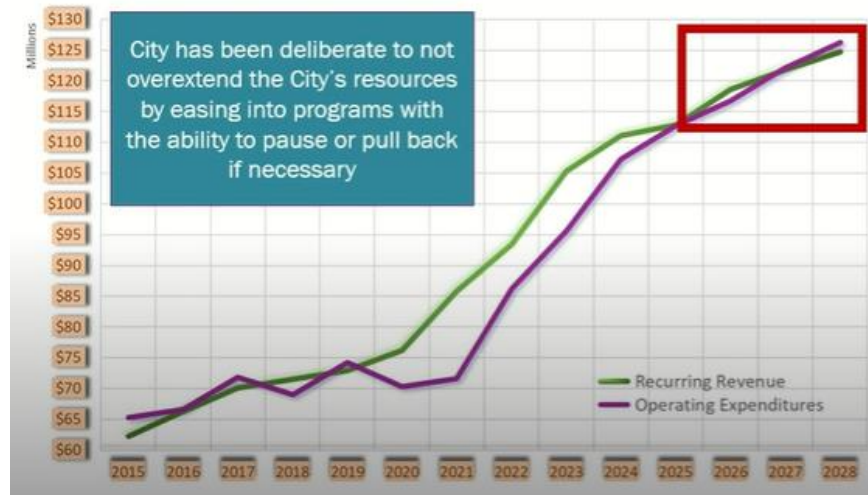
Discussion

- The bond obtained to pay for Tier One and Tier Two unfunded liability did its job but for several reasons including PSPRS's underperforming investments, incorrect assertions (mortalities) and the reduction in the pay structure, the City finds itself owing some unfunded liabilities. (**McClendon/Allen/Nicholls**)

FINANCIAL FORECASTS (STRESS TEST)

Allen stated that management continually monitors revenues and economic factors when putting together a two-year plan so-as-to not go over the "fiscal cliff".

The below chart shows what years 2026, 2027 and 2028 look like. Although revenues are estimated very conservatively, the operating expenses could be a little higher than recurring revenue in 2028. Growth of personnel plays a key role in this bump with 15 new positions.



There are reserves available if revenues go flat; however, the key is in the duration. If there is another multiple year event like COVID, the City does not have the reserves for that.

BLAB (BOTTOM LINE AT BACK)

Key points

- Revenue
 - Sustainability: balancing ongoing operations to recurring revenues = structurally sound budget
- Cash and Fund Balances – All Funds
 - The no less than 20% policy is not sufficient to sustain a significant downturn; the future is always uncertain
- Annual Expenditure Limitation (AEL) – All Funds
 - Growth in population, service demands, and total customers of city services is faster than AEL formula
- Other – All Funds
 - The Capital Improvement Plan is too large for City's Revenues or Cash Balances or AEL
 - CIP Bonds is an option: spreading costs over useful life (Mortgage)

Discussion

- State Shared Revenues include income tax, sales tax, auto licensing tax and Highway User Revenue Funds (HURF). HURF is considered a State Shared Revenue but is kept in a separate fund and not part of the General Fund. (**Mayor Nicholls/Allen**)
- The City would take a \$20 million hit if the income tax portion of the state shared revenues were eliminated by the State Legislature (**Mayor Nicholls/Allen**)
- The number being considered for the Expenditure Limitation increase is \$500,000,000. (**Morales/Allen**)

BREAK (4:56 PM – 5:11 PM)

II. PROPOSED BUDGET OVERVIEW

Simonton thanked the budget team for their hard work and many hours spent putting this budget together and presented the following:

General Fund Revenues

- The theme of this years' budget is *Progress with Purpose*
- Progress is being made on the Council's strategic initiatives as well as providing for the core functions for our community
- The proposed FY26 budget is structurally balanced
- Challenges:
 - Expenditure Limitation
 - Challenges are expected in 2026, 2027 and possibly into 2028
 - Strategies to deal with these challenges will be presented to City Council
 - Unknowns such as tariff impacts, winter visitor population changes, inflationary impacts (had started to ease), interest rate changes (lower rates mean less investment income)
 - Sales tax
 - The City's economy is driven primarily by sales tax; decreased spending could influence revenue quickly
- Total Budget (All Funds) approximately \$547.4 million
- Capital Improvement Program (CIP) \$222 million which is approximately 2% less than last year (flat)
 - CIP books will be delivered to City Council prior to May 1st
- Forecasting a modest 5% growth in recurring revenues
- Forecasting a \$3.8 million decline in non-reoccurring revenues (income tax; construction sales tax)
 - The City is conservative when calculating these numbers
- Overall anticipating a \$1.9 million decrease (2%) in general fund revenues in FY2026 due to the decline in the State Shared Revenues
- Proposing the maximum allowable property tax levy
 - A policy decision and from a budgeting standpoint the City will always propose the maximum property tax levy to maximize our revenues
- Unassigned Fund Balance of \$30.5 million

General Fund Expenditures

- Proposing a \$3.5 million (3%) increase in operating expenditures
 - Personnel (what is driving a lot of our increases)
 - 9% increase in Health Insurance Premiums
 - 15 new full-time employees (only 6 were added in FY25)
 - Attempts are made to manage this, but the addition of employees addresses the needs in the community
 - Second half of Labor Market Study (LMS) implementation in January 2026
 - The first half was implemented in January 2025

- Allows for delays if revenues continue to drop
- Operating
 - Inflationary pressures
 - Technology cost increases
 - Software subscription costs
 - Looking into AI based Microsoft products
 - Liability insurance cost increases

Personnel Expenditures

- A \$3 million increase in personnel expenditure in the General Fund
 - Proposing 15 new full-time employees
 - 1 Code Enforcement Manager
 - Due to restructuring in Community Development
 - 3 Parks and Recreation positions
 - 2 of the positions are for the East Mesa Park and will be added when the park is complete
 - 9 Firefighters and 2 Administrative positions added mid-year
 - A Safer Grant is being sought for the nine new firefighters, but if that is not successful there is contingency in the budget to add the nine positions
 - Chief Fields and Simonton agreed to hire the two administrative positions at the same time as the nine firefighters to aid the Fire Department without having to make other cuts to the budget
 - Leave Buy-Back Program in December
 - One of the first things trimmed out of the budget if the revenues stay flat or don't increase
 - Tuition Reimbursement Program
 - Popular program for the employees
- Capital Expenditures
 - Removed all new vehicle additions to the fleet
 - Includes several large pieces of maintenance equipment (Parks)
 - Replacement vehicles \$9.7 million
 - Funded through the Equipment Replacement Fund
 - YPD take-home vehicle has been paused for a year due to the expenditure limitation issues
 - Carry Forward of approximately \$5.0 million
 - Due to supply chain delays
- Capital Improvement Program (CIP)
 - Several highly anticipated project under construction in FY26
 - Desert Dunes Expansion – Completion expected in Spring 2027
 - East Mesa Park – Completion expected in Spring 2026
 - Police Evidence Storage – Completion expected in Fall 2025
 - Hotel Del Sol Project – Expected start of construction in Fall 2025
 - A good P3 Partner has been located

- Desert Hills New Irrigation System – currently underway with completion expected in September 2025
 - The Par 3 will be done in a few months then will move on to Desert Hills
- Progress With A Purpose
 - Budget reflects changes faced due to our Annual Expenditure Limitation
 - Continues to meet the community's needs
 - Addressing needs on the East side of town
 - Additional Fire Fighters
 - Setup Medic 7
 - Includes the possible use of more than \$80 million in grant funding
 - Heavily reliant on grants for operations and equipment
 - Grants are exempt from the Expenditure Limitation
 - The 2% Fund is not sustainable given the current demands within our Parks and Recreation system
 - The General Fund is going to have to supplement more of the Parks operations – currently a 50/50 split
 - Maintaining or increasing our level of service in our parks will require a shift to the General Fund

Discussion

- An increase in the AEL would allow the City to spend more money and add additional full-time employees, revenue permitting. (**Martinez/Simonton**)
- The AEL would take effect in FY2028 if it passes in 2026. (**Mayor Nicholls/Simonton**)
- City matches to grant funds are exempt from the AEL. (**Smith/Simonton**)

FY2026 REVENUES

General Fund

Simonton reviewed the General Fund Revenues for FY 2026 highlighting the following:

- Recurring revenues increased by 5% which equates to \$5.6 million
- Nonrecurring revenues include construction, sales tax, permits and investment income.
- Total Revenues for FY2026 (Recurring and Nonrecurring) is \$125,018,417
- Operating Expenditures (Personnel, Operating and Capacity Outlay) is \$114,503,759
- Personnel increased by \$3 million and includes raises and the new employee positions
- Departments were asked to shave expenses off their budget; however, Operating expenditures still increased by 4% - compensating for increased costs.
- The CIP is \$9.5 million
- Total expenditures, including contingency and PSPRS Unfunded Liability is \$138,572,574

Discussion

- Construction permitting is projected as flat and is historically calculated conservatively even though the number of building permits/meters sold are up. (**Mayor Nicholls/Simonton**)

- The Community Development Department is being reconstituted to include Building Safety, Planning, Neighborhood Services and Economic Development. The Facilities Management Division will be separated from Community Development to become a stand-alone department. **(Morales/Simonton)**

Special Revenue Funds

- Highway User Revenue Fund (HURF)
 - Revenue in this account is flat
 - Tax is on gallons purchased not a percentage of the sale.
 - Electric vehicle owners pay nothing into this fund
 - The legislature has not adjusted the .18 cents per gallon since the 90s
 - The operating expenditure jump accounts for pavement preservation that normally has come out of the Road Tax Fund; The reason it was moved here was because HURF are exempt from the expenditure limitation; A corresponding decrease in the Road Tax Fund will be seen.
 - The slight increase in personnel accounts for the health insurance increase and pay increases.
 - The slurry seal program will shift back to the Road Tax Fund next year to allow the HURF to build back up
- City Road Tax Fund
 - Is a sales tax
 - Project the same level of increase
 - Is a driver of all our road CIP projects to upgrade our road system
 - Debt service of \$4.3 million will sunset (be paid off) after FY2027
 - Will allow some capacity to bond a future road project
- Public Safety Tax Fund
 - Cannot be used for personnel; can only be used for equipment and CIP projects such as buildings
 - May want to consider asking the voters to expand and/or increase the use of this tax to include/add additional personnel as public safety uses all our general sales tax collections to operate both departments.
 - This would offset the needs in the General Fund for other areas
 - Must go to the voters any time we want to change these taxes
 - CIP Projects include a portion of the Evidence Storage Facility and backup dispatch center
- Two Percent Tax Fund
 - The fund most concerning
 - Revenues are flat
 - The charges for services, fees and sales is for ramada rentals, money collected at the golf course and Civic Center etc. and is not subject to sharing with Visit Yuma
 - Some of the personnel costs have had to shift to the General Fund
 - Capital Outlay costs include much needed equipment to maintain some of the large fields
 - Two percent CIP projects are subject to the AEL

- Maintenance Improvement Districts
 - Shows construction of homes is still increasing
- Mall Maintenance Fund
 - Used to offset the cost of maintaining the downtown area – parking lots and grounds
 - Subsidized by the general fund
 - Properties acquired by the County in this area reduces the valuation because the County does not pay property taxes.

Discussion

- It would be valuable to quantify the offset should those properties be in private ownership so a conversation could be had with the County (**Mayor Nicholls/Simonton/Allen**)
- Grant Funds
 - Revenues of \$80 million are programmed to be spent
 - Does not guaranty we will spend this fiscal year. An example includes the Del Sol Project
- ARPA Funds
 - Many hours were spent making sure of compliance with Federal Law
 - The East Mesa Park project is the final project to come out of this account
 - The City was able to accomplish a lot with those funds
- Debt Service Funds
 - Shows the City's debt and where the funds come from to pay it
 - \$34 million is what we pay annually and includes the PSPRS and Desert Dunes bonds
 - A contingency is included this year in the event we want to pay them off early
- Development Fees - Capital Projects
 - Fees collected to pay for projects in what we call the Infrastructure Improvement Plan collected beforehand such as anticipated or actual bond proceeds, developer deposits and development fees.
 - Once a project is in this fund, the City has to expend the collected amount within 10 years.
 - Fees collected are too low and need to be looked into; staff will begin researching the issue this year
 - A political subject – growth needs to pay for growth

Discussion

- Look into whether the subsidy by the General Fund can be offset if grant funding is obtained for an Infrastructure Improvement Project. (**Mayor Nicholls/Simonton**)

Enterprise Funds

- Water Fund
 - Enterprise Funds are not exempt from the AEL
 - Revenues are staying consistent
 - Water and Wastewater operations are heavily CIP driven and capital intensive
 - Operating increases include costs of chemicals and electricity which are out of the City's control

- The Water Fund has a healthy fund balance
- Bonding capacity is available for future projects such as wells
- Bonded funds do not fall under the AEL
- Water Capacity Fund
 - Water Capacity fees work just like development fees; a fee is collected every time there is a new connection to the system and those fees pay for capacity increases to the system
 - The Agua Viva bond will be paid off soon
- Wastewater Fund
 - Revenues are not as high in this fund as there are many customers that we provide water for, but not sewer
 - Many CIP projects were done in FY 2025
 - It's necessary to let the fund build up again
- Wastewater Capacity Fund
 - Intended to help offset the cost of building new facilities in future years
- Yuma Regional Communication System (YRCS) Fund
 - All member agencies pay into this fund based off of the number of radios they have
 - The fund is managed by the City of Yuma including payment of all invoices
 - The account is solvent and is a self-funded operation

Discussion

- There are small increases built into the YRCS account each year (**Mayor Nicholls/Simonton**)
- Solid Waste Fund
 - 3% rate increase as approved several years ago for inflation
 - Self-funded operation
 - FY 2027 a new route will be added – new routes are needed every 2-3 years due to growth
 - Healthy fund balance
- Internal Service Funds – Equipment Replacement Fund
 - Includes trucks, police cars and other vehicles we already have that have reached their useful life
 - Budgeted \$9.7 million in capital outlay which is money already accumulated by rents paid into this fund by each department

Discussion

- The proceeds from vehicles that are auctioned go back into the account they were originally taken from and not back into the Equipment Replacement Fund. For example, if the road tax fund was used the money would go back into the road tax account. (**Mayor Nicholls/Simonton/Allen**)
- Internal Service Funds - Equipment Maintenance Funds
 - Every department that has vehicles maintained pays a fee into this fund, regardless of if the vehicle goes into the shop or not.

Discussion

- Discussions with Yuma Proving Grounds (YPG) to maintain some of their large vehicles has gone quiet. **(Mayor Nicholls/Simonton)**
- YPGs contract would include paying for the number of mechanics needed to service their vehicles. **(Mayor Nicholls/Simonton)**
- Internal Service Funds – Insurance Reserve Fund
 - Projecting a hefty increase this year of \$400,000 to insurance premiums
 - The City may have to research going into the State pool sometime in the future, but at this time it still makes sense to stay where put

Discussion

- The insurance deductible requirements are not set by state statute; staff is looking into costs savings by going from a \$300,000 to a \$500,000 deductible; once researched, the information will be brought back to City Council. **(Mayor Nicholls/Simonton)**
- Internal Service Funds – Workers Compensation Fund
 - A healthy fund balance in a requirement since we are self-funded.
 - Minimizing accidents and injuries is at the forefront but as a large organization we do have cases come up.

Discussion

- The CIP and tentative budget are scheduled to be on the May 21st agenda with the final budget adoption scheduled for June 18th. The tax levy item will be on the July 2nd agenda. **(Mayor Nicholls/Simonton/Allen)**
- The May 1st agenda is when the ceiling is set on the budget. **(Morris/Allen)**

ADJOURNMENT

The meeting adjourned at 6:05 p.m.

Lynda L. Bushong, City Clerk

APPROVED:

Douglas J. Nicholls, Mayor

Approved at the City Council Meeting of:

City Clerk: _____