

FY 2019 3rd Quarter Financial Report



"Inspiring a Vibrant Community"

City of Cottonwood

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City of Cottonwood
Fiscal Year 2019 – 3rd Quarter Report
For The Period Ending March 31, 2019

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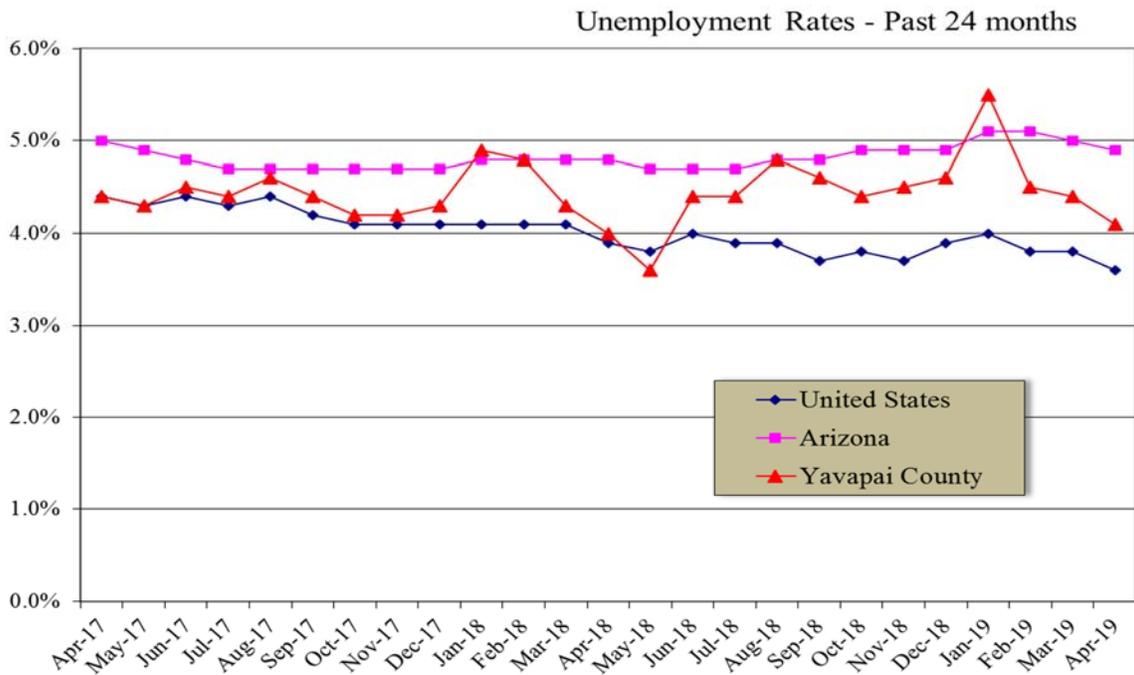
EXECUTIVE SUMMARY

This unaudited quarterly report at mid-year highlights notable items and issues impacting the overall City’s financial picture. The report includes Cottonwood’s major funds. Those funds being the General Fund, Highway User Revenue Fund (HURF), the two Enterprise Funds, the Capital Improvement Fund, and the Debt Service Fund. All funds are reflected in the attached printout.

¹Unemployment Information:

Yavapai unemployment numbers were slightly better than the state but weaker compared to the overall national numbers. Even though the current unemployment numbers are good, the lower the unemployment rate the more difficult it is to find reasonable employment or qualified help. These lower numbers also play a big factor in some of our overall cost for services. Unfortunately, most available jobs are still mostly minimum wage jobs. As a reminder, the minimum wage in AZ is \$11.00/hr. as of January 1, 2019 and will be going up to \$12.00/hr in January 2020.

Monthly	United States	Arizona	Yavapai County
Apr-17	4.4%	5.0%	4.4%
May-17	4.3%	4.9%	4.3%
Jun-17	4.4%	4.8%	4.5%
Jul-17	4.3%	4.7%	4.4%
Aug-17	4.4%	4.7%	4.6%
Sep-17	4.2%	4.7%	4.4%
Oct-17	4.1%	4.7%	4.2%
Nov-17	4.1%	4.7%	4.2%
Dec-17	4.1%	4.7%	4.3%
Jan-18	4.1%	4.8%	4.9%
Feb-18	4.1%	4.8%	4.8%
Mar-18	4.1%	4.8%	4.3%
Apr-18	3.9%	4.8%	4.0%
May-18	3.8%	4.7%	3.6%
Jun-18	4.0%	4.7%	4.4%
Jul-18	3.9%	4.7%	4.4%
Aug-18	3.9%	4.8%	4.8%
Sep-18	3.7%	4.8%	4.6%
Oct-18	3.8%	4.9%	4.4%
Nov-18	3.7%	4.9%	4.5%
Dec-18	3.9%	4.9%	4.6%
Jan-19	4.0%	5.1%	5.5%
Feb-19	3.8%	5.1%	4.5%
Mar-19	3.8%	5.0%	4.4%
Apr-19	3.6%	4.9%	4.1%



¹ United States <http://data.bls.gov/timeseries/LNS14000000>
 Arizona <http://data.bls.gov/timeseries/LASST0400000000000003>
 Yavapai County <https://research.stlouisfed.org/fred2/series/AZYAVA0URN>

GENERAL FUND

The following tables and graphs reflect the General Fund major revenue sources. All of the information compares monthly collections for similar periods from prior years. The major revenues consist of local sales tax as well as state shared resources.

Local Transaction Privilege Tax (TPT - also known as Sales Tax)

Our local sales tax makes up over 50% of the overall General Fund revenues and is the backstop for all other funds. Currently we are at 6.55% or \$730,813 over the same period last year. This growth is partially due to the sales tax increase of .5% that was enacted in November 2018.

Local Sales Tax

	FY 2016		FY 2017		FY 2018		FY 2019			
							3% Sales Tax	.5% Tax	3.5% Total TPT Tax	
Jul	\$1,106,111	9.44%	\$1,191,580	7.73%	\$1,133,465	-4.88%	\$1,227,250		\$1,227,250	8.27%
Aug	972,558	1.03%	885,969	-8.90%	998,247	12.67%	1,192,257		1,192,257	19.44%
Sep	1,009,710	5.85%	993,048	-1.65%	1,544,902	55.57%	1,199,596		1,199,596	-22.35%
Oct	1,095,712	20.41%	1,265,041	15.45%	810,950	-35.90%	1,229,803		1,229,803	51.65%
Nov	1,044,333	-1.88%	1,037,756	-0.63%	1,168,716	12.62%	1,273,289		1,273,289	8.95%
Dec	1,167,113	2.62%	1,568,633	34.40%	1,326,537	-15.43%	1,225,661	205,350	1,431,011	7.88%
Jan	904,463	-1.00%	1,015,661	12.29%	1,211,473	19.28%	1,384,825	232,017	1,616,842	33.46%
Feb	1,066,400	10.23%	874,551	-17.99%	1,123,546	28.47%	1,169,491	195,939	1,365,431	21.53%
Mar	1,179,638	6.65%	945,395	-19.86%	1,844,340	95.09%	1,162,709	194,803	1,357,511	-26.40%
Apr	1,115,079	1.81%	1,579,624	41.66%	654,573	-58.56%				
May	1,117,243	1.50%	965,193	-13.61%	1,285,684	33.20%				
Jun	1,115,321	7.28%	1,225,499	9.88%	1,445,179	17.93%				
	\$12,893,681	5.16%	\$13,547,950	5.07%	\$14,547,612	7.38%	\$11,064,880	\$828,109	\$11,892,989	-18.25%

The Transaction Privilege Tax (sales tax) is collected on the gross receipts of business activities. Until 1987, the tax rate was one percent. In 1987, the voters approved an increase of one percent to fund the construction of the wastewater collection/treatment system. Again, in 1992, the voters approved an additional two tenths percent increase to construct a new city library. The current tax rate is three & one half percent (3.5%) after an increase of .5% this fiscal year to help fund the many needs through to the community.



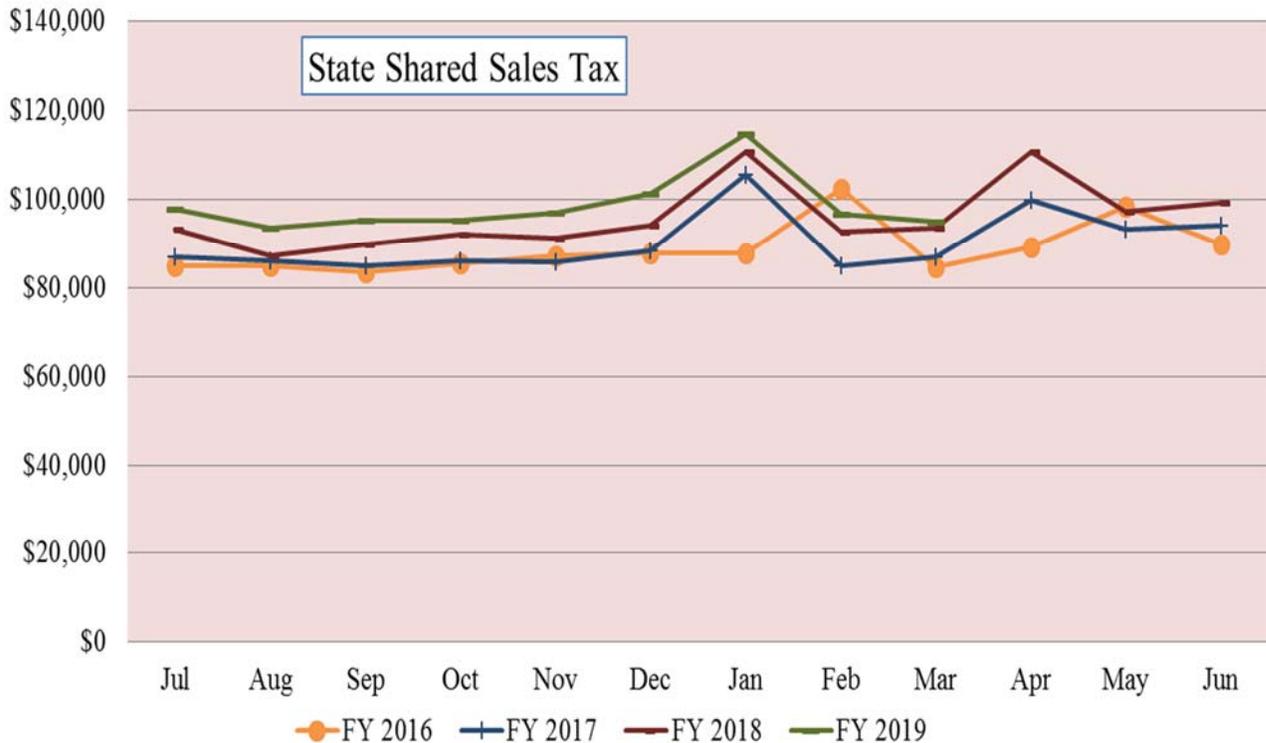
State Shared Sales Tax

This revenue is one of several state shared revenues that the City receives from the state. FY 2018 was a relatively strong year for this state shared revenue. FY 2019 is anticipated to continue that trend.

	FY 2016		FY 2017		FY 2018		FY 2019	
Jul	\$84,828	5.50%	\$87,090	2.67%	\$93,165	6.98%	\$97,708	4.88%
Aug	84,941	6.77%	86,133	1.40%	87,338	1.40%	93,595	7.16%
Sep	83,476	3.44%	84,988	1.81%	89,857	5.73%	95,331	6.09%
Oct	85,388	5.77%	85,977	0.69%	92,151	7.18%	95,196	3.30%
Nov	87,178	8.79%	85,674	-1.73%	91,265	6.53%	96,964	6.24%
Dec	87,828	2.64%	88,436	0.69%	94,223	6.54%	101,166	7.37%
Jan	87,828	-12.59%	105,505	20.13%	110,597	4.83%	114,576	3.60%
Feb	102,375	26.60%	84,848	-17.12%	92,819	9.39%	96,599	4.07%
Mar	84,585	-3.52%	86,921	2.76%	93,622	7.71%	95,064	1.54%
Apr	89,187	-7.57%	99,950	12.07%	110,581	10.64%		
May	98,486	13.01%	93,328	-5.24%	97,208	4.16%		
Jun	89,929	0.29%	94,197	4.75%	99,161	5.27%		
	\$1,066,029	3.56%	\$1,083,047	1.60%	\$1,151,987	6.37%	\$886,198	-23.07%

As a reminder, it took over nine years to recover and surpass our 2007 State Shared Sales Tax numbers. Our FY 2007 was our high point of collections for state shared source before the “Great Recession.” This revenue is 4.9 % or \$41,161 over last year at this same time.

Description - Arizona cities and towns share a portion of the total amount collected from the State Sales Tax. A city's portion of the State Sales Tax is based on the relationship of its population to the total population of all cities and towns within the state. The State has a separate tax code that differs from the City. For example, the State does not tax food whereas the City does. There is no direct correlation between City sales tax and State Shared Sales Tax.



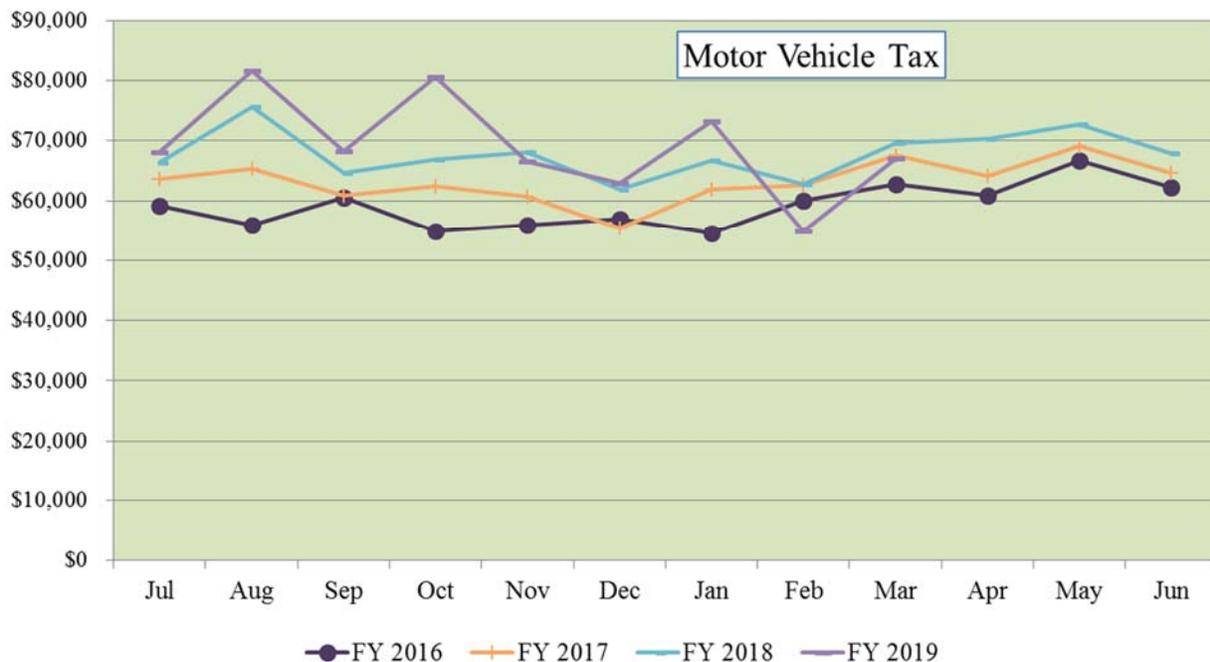
Motor Vehicle Tax

The Motor Vehicle Tax seems to have settled down from FY 2015 where every month was a wild guess where that number would end up. This revenue source has seen some improvements over the past three years with a steady 6%+ growth from year to year.

Currently, we are trending at 3.6% or \$20,835 over last fiscal year at the same time period. Our local dealerships have strongly supported our local economy, particularly during the long and deep economic downturn.

Arizona cities receive a 25% share of the net revenues collected for the licensing of vehicles in their related county. Each city's share within their county is determined based on the city's population in relation to the county as a whole. These revenues are distributed by the State Treasurer.

	FY 2016		FY 2017		FY 2018		FY 2019	
Jul	\$59,097	80.83%	\$63,603	7.62%	\$66,387	4.38%	\$68,098	2.58%
Aug	55,848	3.60%	65,283	16.89%	75,539	15.71%	81,549	7.96%
Sep	60,435	13.69%	60,894	0.76%	64,625	6.13%	68,232	5.58%
Oct	54,904	-4.31%	62,471	13.78%	66,875	7.05%	80,647	20.59%
Nov	55,965	27.43%	60,684	8.43%	68,117	12.25%	66,448	-2.45%
Dec	56,941	7.87%	55,292	-2.90%	61,815	11.80%	62,936	1.81%
Jan	54,518	7.29%	61,963	13.66%	66,733	7.70%	73,273	9.80%
Feb	59,933	18.46%	62,586	4.43%	62,666	0.13%	54,901	-12.39%
Mar	62,670	5.98%	67,629	7.91%	69,586	2.89%	67,093	-3.58%
Apr	60,801	3.37%	64,186	5.57%	70,281	9.50%		
May	66,727	18.99%	69,029	3.45%	72,776	5.43%		
Jun	62,316	-31.90%	64,651	3.75%	67,963	5.12%		
	\$710,155	7.47%	\$758,271	6.78%	\$813,363	7.27%	\$623,178	-23.38%



General Fund – Revenues vs Expenditures

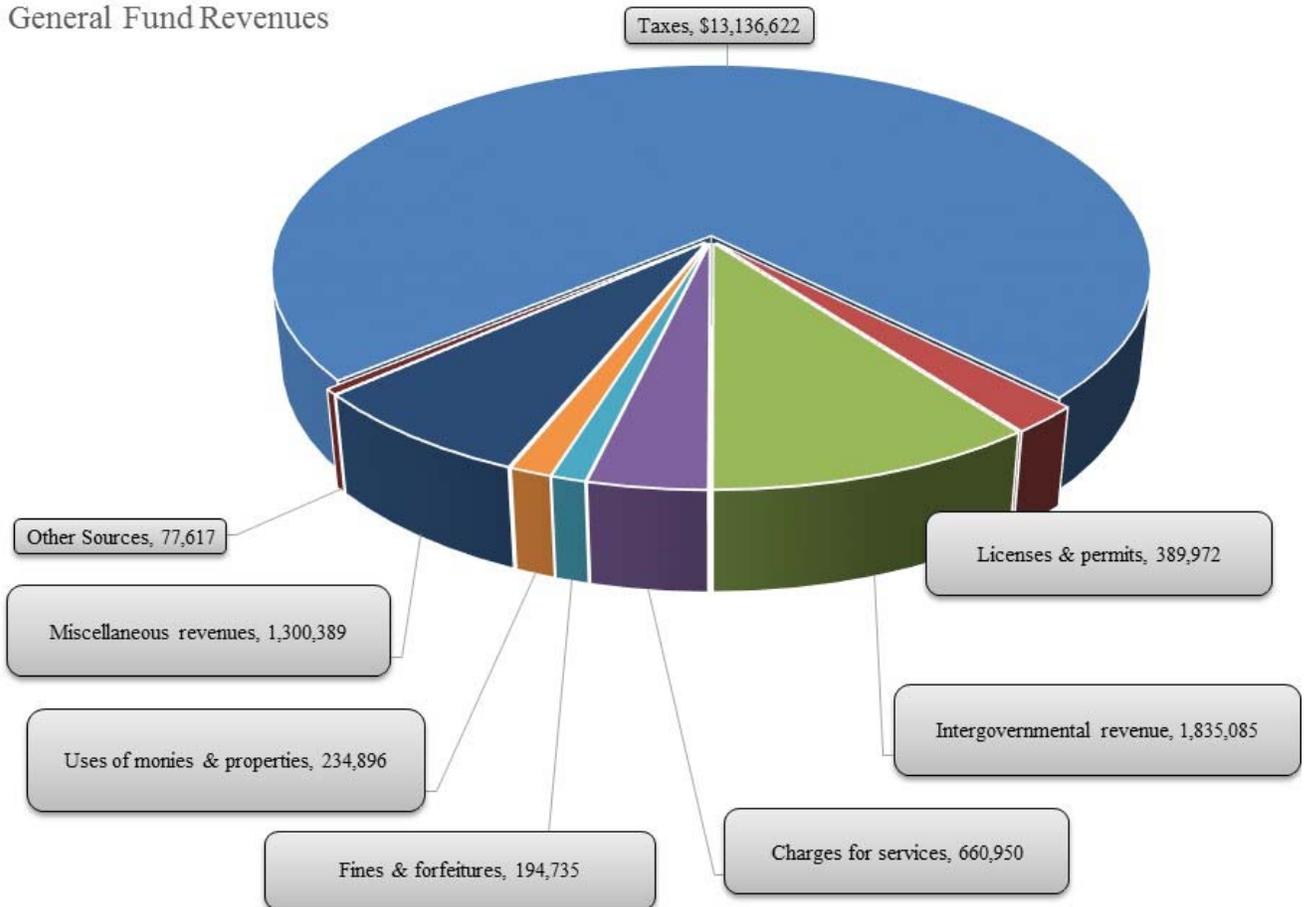
We are pleased that our General Fund operating revenues are currently trending better than our expenditures. At the end of the second quarter our fund balance has increased by \$736,297. One factor contributing to the increase are projects that have not started, that will however transpire over the course of the second half of the year.

Capital items are still moving forward beginning with those that carried over from FY 2018. These carry over items became a priority in the 1st and 2nd quarters. Another factor is that staff is committed to help reduce costs wherever possible.

<u>Revenues & Other Sources</u>	
Taxes	\$13,136,622
Licenses & permits	389,972
Intergovernmental revenue	1,835,085
Charges for services	660,950
Fines & forfeitures	194,735
Uses of monies & properties	234,896
Miscellaneous revenues	1,300,389
Other Sources	77,617
Revenues & Other Sources	\$17,830,266

Regardless of finishing the 3rd quarter in relatively good shape, we continue to look for savings wherever possible to help our fund balance. The 0.5% increase in Transaction Privilege Tax (TPT also called “Sales Tax”) initiated in November will help.

General Fund Revenues



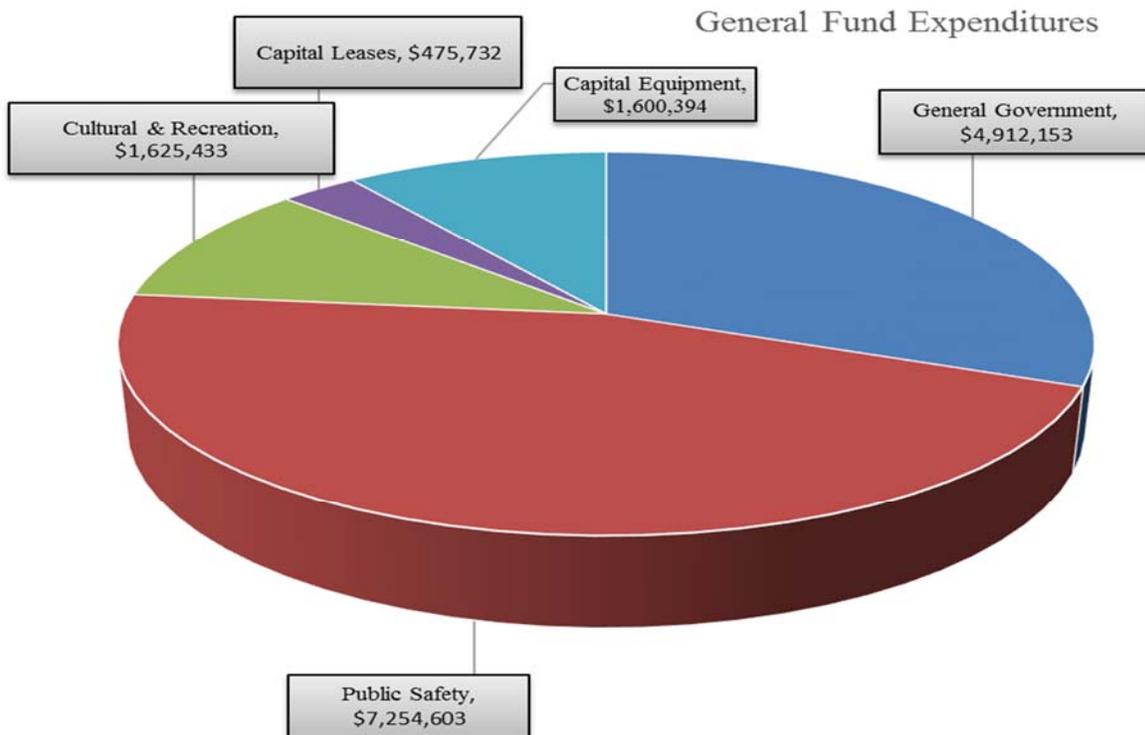
Despite the slowly improving economy, the General Fund is still in a good financial position. Our current unaudited General Fund balance has remained basically the same as the beginning of the fiscal year \$3.9M.

<u>Expenditures & Other Uses</u>	
General Government	\$4,912,153
Public Safety	7,254,603
Cultural & Recreation	1,625,433
Capital Leases	475,732
Capital Equipment	1,600,394
Expenditures & Other Uses	\$15,868,315

Moving forward, we need to keep in mind the concerns caused by Governmental Accounting Standards Board (GASB) Statement #68 – Accounting and Financial Reporting for Pension Plans. This ruling, now several years old impacts all municipal entities using Arizona State Retirement System (ASRS) and / or Public Safety Personnel Retirement System (PSPRS). All entities are now reflecting any pension plan

underfunded liability on their respective financials. Current Comprehensive Annual Financial Reports (CAFRs) show a significant decline in net position. The concern as to how our city will deal with it in future years. Currently we are on track to fully eliminate our unfunded pension liabilities in the next 18 years.

Unfortunately, the City of Cottonwood does not have control over the two retirement systems. Their actuaries perform the actuarial calculations and provide the City with the percentage of contribution that needs to be submitted to provide the pension with sufficient revenues to stay solvent. During the “Great Recession” the markets did not provide sufficient returns to keep them fully funded causing much of the liability we are seeing today. Our overall fund balance continues to be fully funded in the General Fund. Other funds do not meet the established Fund Balance Policy due to weak revenue generation. This weakness is something that will continue discussing revenue generation.



SPECIAL REVENUE FUNDS

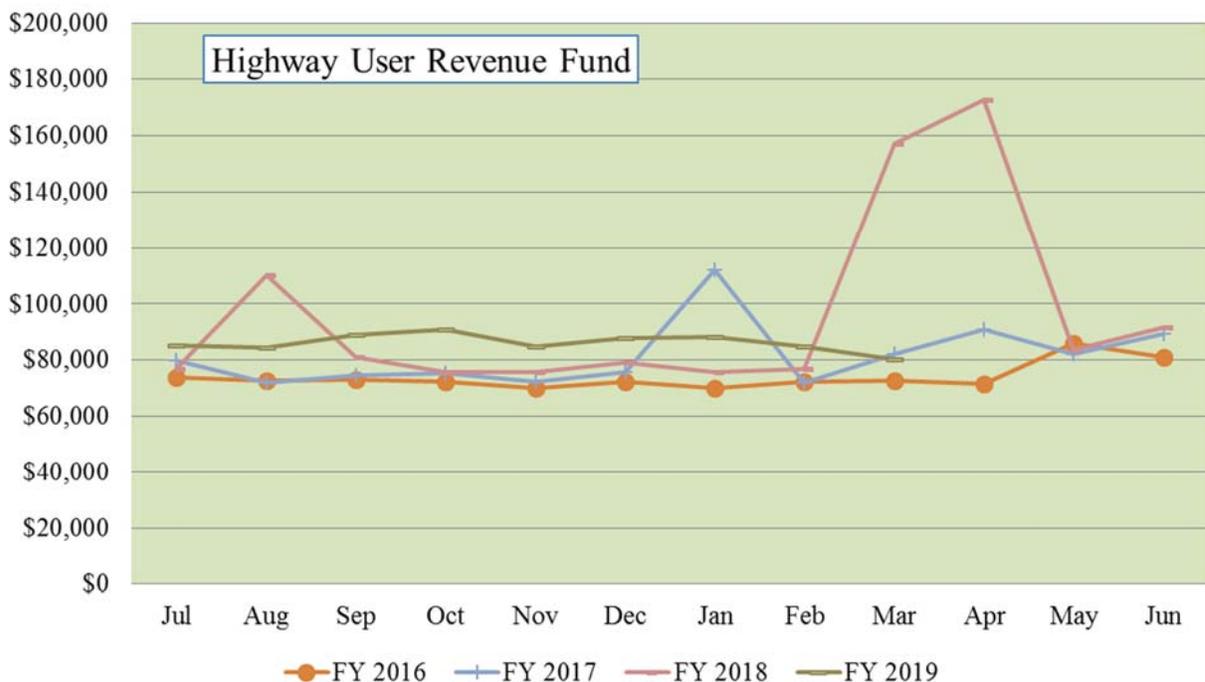
Special Revenue Funds consist of the Highway User Revenue Fund (HURF) and several other smaller funds, including CAT/LYNX, Library, Cemetery, Airport, and Grants.

Highway User Revenue Funds - HURF

This state shared revenue source is commonly called the Fuel Tax. It has had some improvement over the years. For FY 2019, the State continues to use a portion of the HURF that is designated for cities and towns to assist with cost to the Department of Public Safety. At the end of the 3rd quarter, we are down by 4% or (\$32,777) over last year at this time.

	FY 2016		FY 2017		FY 2018		FY 2019	
Jul	\$73,939	2.00%	\$79,891	8.05%	\$76,735	-3.95%	\$85,233	11.07%
Aug	72,631	4.88%	71,771	-1.18%	110,067	53.36%	84,599	-23.14%
Sep	73,174	6.52%	74,612	1.97%	81,121	8.72%	89,068	9.80%
Oct	72,153	8.68%	75,381	4.47%	75,723	0.45%	91,057	20.25%
Nov	70,008	4.32%	72,477	3.53%	75,933	4.77%	84,968	11.90%
Dec	72,337	6.72%	75,781	4.76%	79,242	4.57%	87,841	10.85%
Jan	70,008	-3.05%	112,090	60.11%	75,691	-32.47%	88,124	16.43%
Feb	72,337	5.54%	72,084	-0.35%	76,849	6.61%	84,865	10.43%
Mar	72,864	6.31%	82,147	12.74%	157,367	91.57%	80,196	-49.04%
Apr	71,495	-16.82%	90,781	26.98%	172,899	90.46%		
May	86,054	-0.89%	82,364	-4.29%	83,589	1.49%		
Jun	80,919	-2.54%	89,360	10.43%	91,480	2.37%		
	█ \$887,919	1.27%	█ \$978,739	10.23%	█ \$1,156,696	18.18%	█ \$775,951	-32.92%

Description - Arizona cities receive a share of State Motor Vehicle Fuel Taxes (Highway User Revenue Funds). The formula is based on two separate calculations; the first half is based on a city's population in relation to the State's total population, the second is based on the county in which the revenues were generated. These funds must be utilized for the construction and maintenance of streets and highways.



Special Revenues Funds - continued

The following tables depict the other funds that make up the Special Revenue Funds group in the City of Cottonwood budget. All of these funds have the General Fund as a backstop which covers any shortages in their bottom line. Most of the negative numbers are grants, transfers, or receivables that are currently outstanding and are anticipated to be received within the next 60 – 90 days. HURF will be using General Fund transfers as it continues work on the Mingus Avenue project, as well as monies from the City of Cottonwood 2015 bond issue.

	Special Revenue Funds					
	HURF		CAT		Library	
	Budget	3rd Qtr Actual	Budget	3rd Qtr Actual	Budget	3rd Qtr Actual
Revenues	1,771,585	1,313,492	\$1,447,260	\$1,289,566	\$175,805	\$104,106
Operating Expenditures	913,045	623,538	1,803,280	1,299,131	1,054,660	759,228
Capital Outlay	2,860,000	323,483	135,000	15,573	0	75
Debt Service	432,950	335,166	0	0	0	0
Revenues over (under) Expenditures	(2,434,410)	31,304	(491,020)	(25,138)	(878,855)	(655,198)
Other Funding Sources & Uses	207,520	155,640	492,480	369,360	878,855	659,141
Revenues & other funding sources & uses over (under) Expenditures	(2,226,890)	186,944	1,460	344,222	0	3,943
Beginning Fund Balance	1,965,848	1,965,848	0	0	0	0
Ending Fund Balance	(\$261,042)	\$2,152,792	\$1,460	\$344,222	\$0	\$3,943

	Special Revenue Funds					
	Cemetery		Airport		Grants	
	Budget	3rd Qtr Actual	Budget	3rd Qtr Actual	Budget	3rd Qtr Actual
Revenues	\$700	\$450	\$117,890	\$252,871	\$709,225	\$96,523
Operating Expenditures	56,050	24,949	118,400	239,108	0	0
Capital Outlay	0	0	0	0	854,005	159,254
Debt Service	0	0	0	0	0	0
Revenues over (under) Expenditures	(55,350)	(24,499)	(510)	13,764	(144,780)	(62,731)
Other Funding Sources & Uses	55,350	41,513	510	0	0	159,254
Revenues & other funding sources & uses over (under) Expenditures	0	17,014	0	13,764	(144,780)	96,523
Beginning Fund Balance	0	0	72,150	72,150	9,483	9,483
Ending Fund Balance	\$0	\$17,014	\$72,150	\$85,914	(\$135,297)	\$106,006

CAPITAL IMPROVEMENTS FUND

	Capital Improvements	
	Budget	2nd Qtr Actual
Revenues	\$144,500	\$8,150
Operating Expenditures	0	0
Capital Outlay	152,000	3,246
Debt Service	0	
Revenues over (under)		
Expenditures	(7,500)	4,904
Other Funding Sources & Uses	(1,878,510)	0
Revenues & other funding sources & uses over (under)		
Expenditures	(1,886,010)	4,904
Beginning Fund Balance	537,964	537,964
Ending Fund Balance	(\$1,348,046)	\$542,868

This fund is traditionally in good fiscal shape. With the Riverfront Water Reclamation facility completed and awaiting final permitting, this fund’s budget numbers show a large transfer to the Wastewater Treatment Facility for the last of the costs for the Riverfront Reclamation Facility in FY 2018. There is, however, monies available from an excise tax bond for street construction.

The Riverfront Water Reclamation Facility is expected to treat approximately 300k gallons of wastewater daily. It will provide reclaimed water to the area’s sport complex green areas and to replenish our aquifers using injection wells. The initial injection wells were not successful at

Riverfront Park. We will continue to use the Mingus Injection well sites until a more suitable location is found.

Some of the fund balance from the issue of the excise tax bond is to take care of much needed street improvements. Another project funded by the bond was the Regional Communications Center that has been fully operational and is providing services to area fire services and our police department.

Below are capital outlay items funded through Yavapai Flood Control District Tax. These projects that were not fully completed in FY 2018 are rolled over into this fiscal year for completion.

Over the past couple of years slightly over \$11,500,000 has been transfer from this fund to the Wastewater Enterprise Fund to pay for the construction of the Riverfront Water Reclamation Facility. That amount is not shown on the schedule below since it is a capital expense reflected in an Enterprise Fund. As a clarification, the Riverfront Water Reclamation Facility has not used any water revenue to fund its construction. Approximately \$1.5M of wastewater utility operational and General Fund monies are expected to be used to complete the Riverfront Water Reclamation Facility.

	Adopted Budget		
	Y-T-D	% Used	
Expenditures:			
Capital outlay:			
Investment Expenses	9,000	4,468	49.65%
Railroad Wash Improvements	143,000	0	0.00%
Total Expenditures	152,000	4,468	2.94%

ENTERPRISE FUNDS

Water & Wastewater

the Water Enterprise Fund has been operating in the black since the City Council approved the last rate increases. FY 2013 was a turning point for the Water Enterprise Fund. There has been little improvement in our revenue generation for the Wastewater Enterprise Fund. Though the rates cover the operational and administrative portion of the department, many capital improvements need to be made.

	Enterprise Funds			
	Wastewater		Water	
	Budget	3rd Qtr Actual	Budget	3rd Qtr Actual
Revenues	2,684,980	2,170,074	\$8,272,890	\$6,002,423
Operating Expenditures	2,508,975	1,362,195	8,797,145	2,511,750
Capital Outlay	2,054,515	274,658	11,596,185	544,353
Debt Service	0	0	1,808,345	1,376,859
Revenues over (under) Expenditures	(1,878,510)	533,221	(13,928,785)	1,569,461
Other Funding Sources & Uses	1,878,510	0	0	0
Revenues & other funding sources & uses over (under) Expenditures	\$0	\$533,221	(\$13,928,785)	\$1,569,461

The Water Utility refinanced their Municipal Property Corporation (MPC) Water Revenue Bonds, Series 2004 and 2006 a few years ago. There were substantial savings to utility customers over the life of the new Water Infrastructure Finance Authority (WIFA) loans.

The 2015 WIFA refinancing of the 2004 MPC Water Revenue Bonds will save approximately \$1.7M in interest expense, and there was \$550k in forgivable principle included in that refinance package, totaling over \$2.2M in savings. The WIFA loan required less debt service reserves, allowing an additional \$111,000 transferred from debt service reserves to the water utility's unrestricted fund reserves.

The completed refinancing of the 2006 MPC Water Revenue Bonds using a WIFA Loan included a \$1.9M waterline that WIFA granted along with \$800K in forgivable principle. The interest rate went from 5.0% to 1.7% and removed about \$5M in liability from the City of Cottonwood books and allocated it to the Town of Clarkdale where it belonged. This refinance package will save our utility customers approximately \$3,619,000 in future interest payments and allowed \$1,461,000 in debt service reserves to be put back into unrestricted fund reserves.

The Wastewater Utility has a different set of issues. Financial resources are needed to accomplish the estimated \$7M worth of repairs needed at both the Mingus treatment facility and the five lift stations. The \$8.7M depicted in the chart is designated for the final payments of the Riverfront Facility.

DEBT SERVICES FUND

This fund starts off the year in good shape; with sales taxes and interest income providing some of the revenue. Fund balance provides the remainder of necessary resources. Expenditures consist of principal and interest on general government loans and bond issues. Also included are any trustee fees assessed for managing the debt service accounts.

	Debt Service	
	Budget	3rd Qtr Actual
Revenues	\$1,645,620	\$1,234,630
Operating Expenditures		
Capital Outlay		
Debt Service	1,647,070	1,236,613
Revenues over (under)		
Expenditures	(1,450)	(1,983)
Other Funding Sources & Uses	0	0
Revenues & other funding sources & uses over (under)		
Expenditures	(1,450)	1,234,630
Beginning Fund Balance	159,310	159,310
Ending Fund Balance	\$157,860	\$1,393,940

The Recreation Center - Greater Arizona Development Authority (GADA) Bonds were refinanced over two years ago and will provide a savings of over \$1M in future interest payments. The debt service for the Recreation Center is solely funded by sales tax revenues, as part of the excise tax pledge on this debt issue. The refinance changed the loan to a bond issue. The sizeable debt service payment in the budget is the payoff of the GADA loan using the excise tax bond proceeds received in FY 2017. As a note, utility debt service is funded through user fees and other operational revenues, and therefore the debt service of the Enterprise Funds.

BRIEF OVERVIEW

As we complete the 3rd Quarter of 2019 fiscal year, we are pleased to be in such a good position financially. Our economy is still growing at a slower but steady pace and we continue providing outstanding services to our community. Many projects have just started and older projects are reaching final completion.

We do, however, have some uneasiness over our current revenue generation and the ability to sustain the growth of our expenditures. Our lack of reserves is of some concern. Our local sales tax growth is not meeting the 3% increase that were part of our budget projections but still looks positive at 2%. Some of the other revenues are not keeping up with the growth. As we move forward in the new budget year, we are looking seeing that the increase to our TPT rate will be beneficial with helping our reserves and funding future projects. As always we will continue to look for strategic reductions to services and operations to help maintain a positive outlook for future years. .

The City continues to be fiscally conservative in its everyday business. Staff is always looking for ways to reduce costs, while still providing quality essential services. It continues to maintain reasonable reserves in its General Fund for unforeseeable emergencies as is prudent.