



# KEARNY, ARIZONA

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### Executive Budget Summary

To The Honorable Mayor and Town Council:

It is with pleasure that I present to you the fiscal year (FY) 2015-16 (16) annual budget for the Town of Kearny. This budget continues the commitment of the Town Council and Town staff to provide best quality services that we can provide based on our resources to our citizens in the most efficient, fiscally responsible manner. As with prior years, Town staff has continued to look for ways to reduce their expenditures in their line items while not comprising service levels to our citizens. The major revenues in the General Fund are starting to see slight increases but unfortunately our Enterprise Fund expenditures are outpacing our revenues

The preparation of the budget has been a collaborative effort between the Town Manager, Town Staff and the Town's Consultant, Pat Walker over the past 4 months. The first step in the budget process was estimating the year to date revenues and expenditures for each of the funds in the Town. Every revenue source and every expenditure line item in the budget was reviewed by looking at the current FY15 budget, the year to date revenues and expenditures, the projected year end revenue and expenditures, and the proposed line item increases or decreases. The maximum amount that a department may spend within each fund is outlined on the Auditor General Budget Forms and any transfers from one department's budget to another require Council approval. Line items within the department's budgets will be managed by each Department Manager with review and approval from Town Manager.

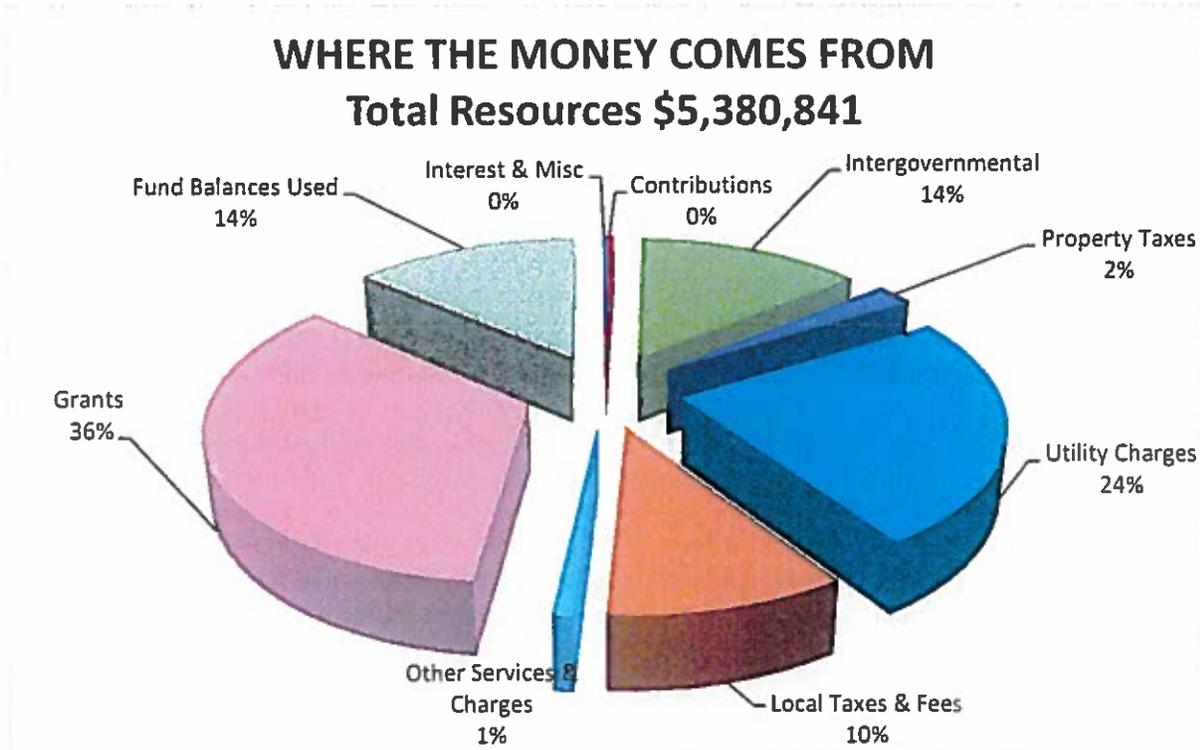
In FY16, the Town is continuing to decrease in many of their revenue categories. General Fund revenues collected in FY 15 decreased from FY14 collections, and the Town is projecting a slight increase over the FY15 collections primarily due to state shared income tax.

Employee salary and benefits make up approximately 30.2% of the Town's total budget and approximately 67.7% of the General Fund budget. The Arizona State Retirement System (ASRS) slightly decreased the contribution level rates for both employee and employer. Contribution rates for the both the employee and employer will decrease from 11.60% to 11.47% of an employee's annual salary, with both the employer and employee making the same contribution of 11.47% for a total of 22.94% going to ASRS.

The Public Safety Retirement System (PSRS) contribution for Police Officers for the Town's contribution is based on an actuarial prepared specifically for the Town of Kearny. Prior to the most recent 2011 actuarial, the Town's contribution rate had increased dramatically from 18.34% to 21.18%. After the 2011 actuarial, the rate decreased slightly to 21.08% but was up again to 21.5%. In 2015, the rate slightly decreased to 20.95%. Unfortunately, due to the settlement of the "Field's Case," the percentage has increased to 30.02% to account for the Town's portion of the unfunded liability. This is a \$6,464 increase over FY15 budget contribution.

**Fiscal Year 2015-16 Budget**

The total budget for the Town of Kearny is proposed at \$5,380,841 which is 6.11% increase over the prior year's budget of \$5,071,087. This budget is made of a variety of funding sources from the General Fund, Enterprise Funds, Special Revenue Funds and Capital Project Funds. A variety of revenues sources are contained in these funds. The largest category of revenues for the budget are Grants, Utility Charges, Local Taxes & Fees, Intergovernmental Revenues which includes state shared revenues, and fund balances estimated to be brought forward from the prior fiscal year. The chart presented below titled "Where the Money Comes From" is a breakdown on a percentage basis of the revenue categories for all funds in the Town projected for FY16.

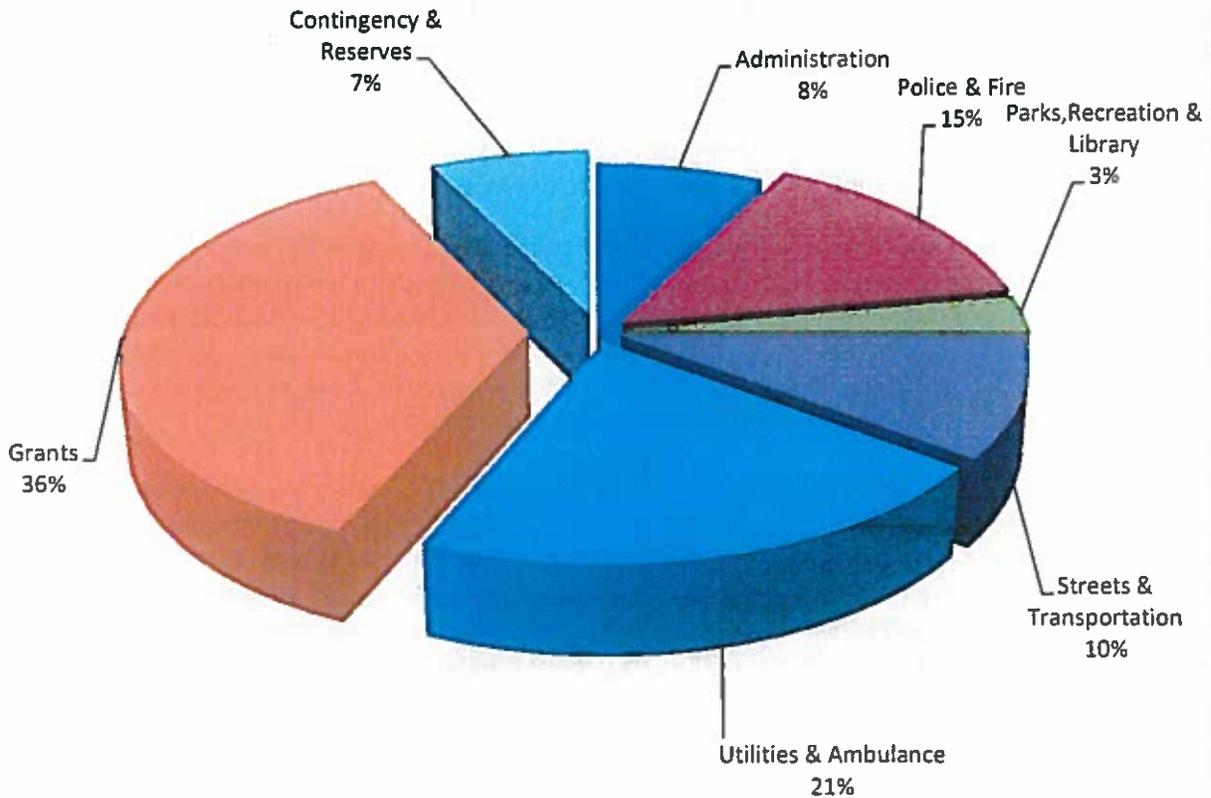


The Chart of the next page presents "Where the Money Goes" by departmental category

The largest expenditure category for the Town for FY16 is Grants at 36%. This includes \$1.8 million of appropriation for potential grants for water, sewer, community development, etc. The next highest category is from utilities funds such as water, sewer, sanitation and ambulance funds of which revenues are 21% of the budget. Police and Fire expenditures make up 15% of the FY16 budget. According to Arizona State Statutes, Towns and Cities must adopt a balanced budget. As a result, the expenditure allocation totals \$5,071,087 and is presented on the next page.

## WHERE THE MONEY GOES

Total Uses \$5,380,841



### GENERAL FUND

#### GENERAL FUND REVENUES

The General Fund, where most of the municipal services are expended, is \$1,696,706 which is 31.5% of the total Town budget. There is a 5.97% decrease from the FY15 budget to the FY16 budget as a result of a decrease in projected revenues from contract from the Town of Hayden decreasing and less inter-fund transfers from other funds. The primary revenue categories in the general fund are local taxes, which includes sales taxes for retail, construction and bed taxes, and intergovernmental revenues that are state shared revenues given to cities and towns based on a formula using the Town's population, such as shared sales tax, income tax, and auto lieu tax. These revenues represent the majority of the total revenues in the General Fund FY16 budget. Local sales taxes is estimated to have a modest decrease from the FY15 estimate of \$493K compared to the FY15 budget of \$546K, primarily as a result of a one-time payment of construction sales tax. We are projecting \$495K for FY16 which is a modest decrease of over 9.4% from the FY15 budget of \$546K. State shared revenues that include state shared income, sales and auto lieu tax showed a slight decrease in actual receipts in FY15 in the amount of \$497K for all 3 categories from the projected budget of \$503K; however state provided estimates are showing an overall increase anticipated in FY16 in the amount of \$521K. The primary increase is in the State Shared Income tax as job growth has improved in the State. Even though these state shared

revenues are higher than FY15 receipts at \$503K, they are still below the amounts received in FY 11 in the amount of \$528K which was prior to the census.

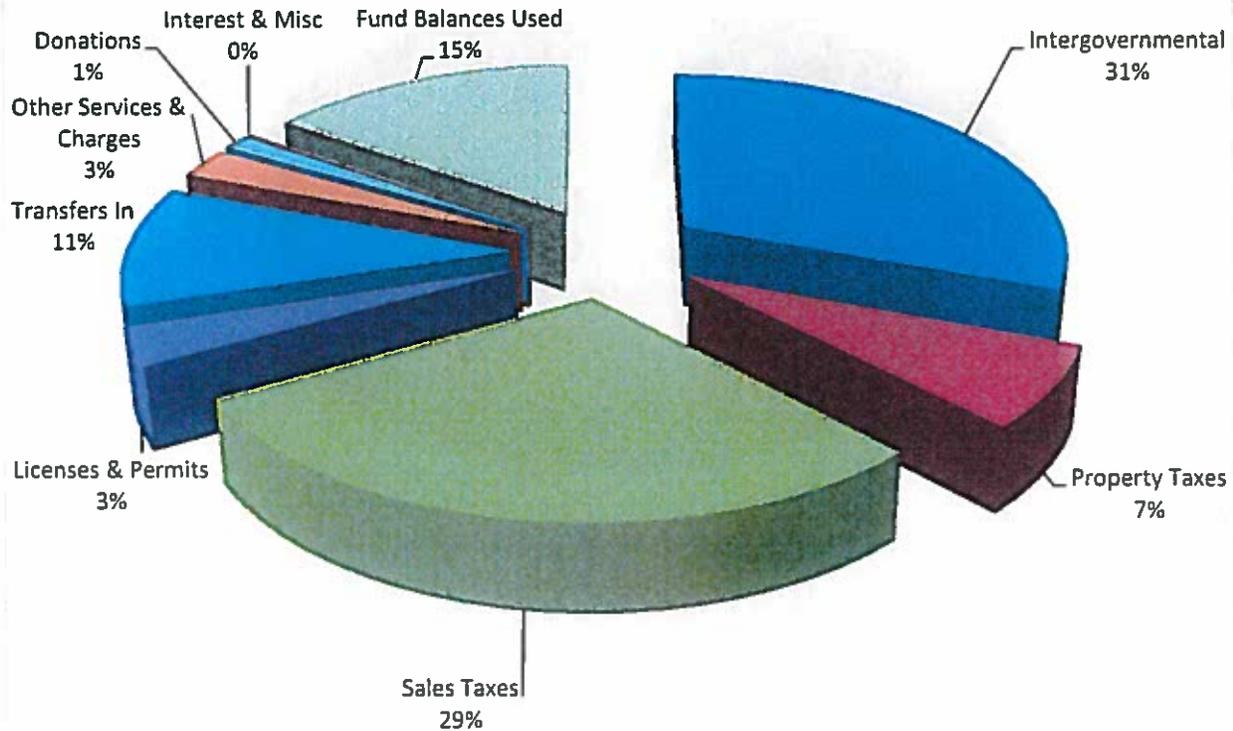
The Town's property tax levy is estimated to be \$120,761 in FY16. However, assessed valuation in the Town has decreased and in order to keep the tax levy the same for the Town, the property tax rate must go from \$1.9909 per \$100 of assessed value to \$2.1069 per \$100 of assessed value. The property tax assessed value for FY15 was \$6,065,733 and the property tax assessed value for FY16 is at \$5,731,665. As a result, a homeowner with an estimated value of \$75K home currently pays approximately \$150 a year in property taxes and with the decrease in property values and keeping the property tax rate the same, will still pay approximately \$150 a year for local property taxes.

Interfund Transfers are revenues received from the Highway User Fund (HURF), Utility Fund, Sanitation Fund and Ambulance Fund for services provided by the General Fund to these funds. However, due to the Utility Fund incurring significant expenses for repairs, and the HURF and Ambulance Funds not having sufficient funds to transfer, the interfund transfers to the General Fund was significantly reduced. The FY15 and actual transfers made was \$71K compared to an estimated budget for FY15 of \$216K. For the FY16 Budget there is a slight increase over the FY15 actual collections to \$179K.

Fund Balances, which is 14% of the total General Fund revenues, are funds that are not expended in FY15 and have been carried forward in FY16, similar to a savings account. In FY16, \$98K has been included in the contingency reserve in the event of revenue shortfall or unanticipated emergencies compared to \$289K in FY15. This decrease in the Town's reserve is a result of using the Town's "savings account" to assist in funding the Ambulance Fund and to complete pool repairs as well as adding expense by transferring a position from the utility fund to the general fund.

This information is depicted in a graph on the next page. A breakdown of all major revenue categories are provided in the Auditor General Forms which are also attached to this Executive Budget Summary.

## WHERE THE MONEY COMES FROM General Fund Resources \$1,696,706

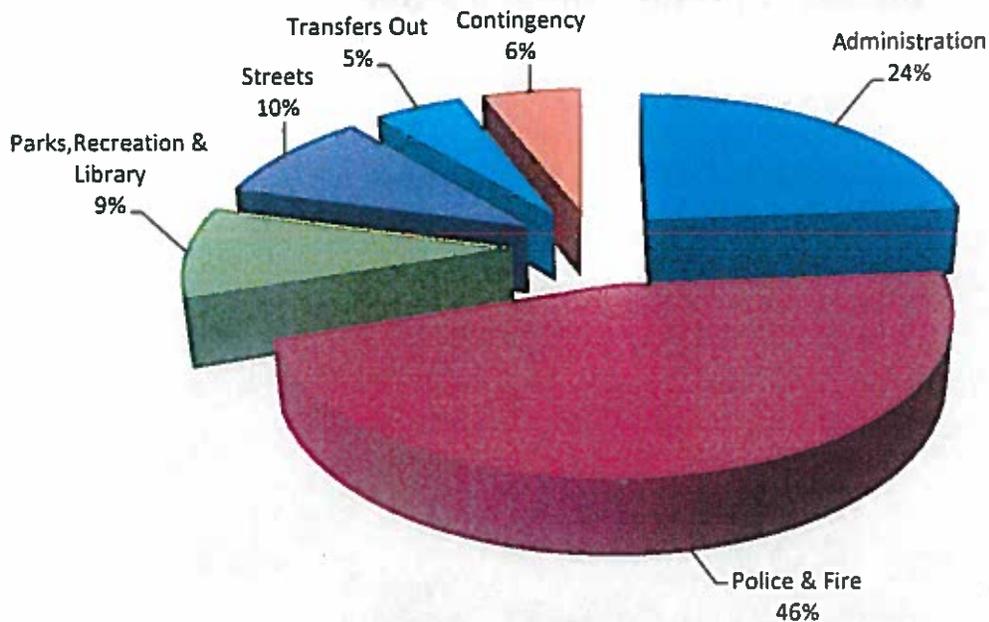


### GENERAL FUND EXPENDITURES

The total General Fund expenditures total \$1,696,706 which is a 5.97% decrease over the prior year General Fund budget. The decrease is primarily the result of a decrease of interfund transfers from the Utility and Ambulance Funds as well as a decrease in the revenue from Hayden and a continued decline in fines and forfeitures.

The majority of the General Fund budget expenditures (see chart on next page "Where the Money Goes") are made up of Public Safety expenditures which is 46% for Police, Fire & Ambulance, the next is 24% for Administration which includes Mayor and Council, Town Manager, and Finance and then Parks, Library, Recreation and Library at 9% with Public Works, Streets at 10% and contingency reserve at 6%.

## WHERE THE MONEY GOES General Fund Uses \$1,696,706



### Department Expenditures

The departments included in the General Fund are as follows:

- Mayor and Council
- Town Manager (Administration) & Town Attorney
- Magistrate
- Police & Dispatch
- Fire
- Public Works Parks and Recreation
- Library
- Public Works Streets

The Town of Kearny has 36 full time equivalent positions in the FY16 Budget. This year, the budget does contain a 2% cost of living adjustment for all employees with a cost of approximately \$19.5K for the General Fund and \$29K for all funds.

The Town of Kearny has appropriate \$98K in the contingency reserve budget for unexpected emergencies or revenue shortfalls. This is 6% of the projected revenues which is below the goal of 12% the Town wants to have to maintain financial sustainability. Financial policies will be adopted by Council in FY16 as the Council moves forward with a strategic planning workshop in the late summer or early fall of 2015.

## **SPECIAL REVENUE FUNDS**

Special Revenue Funds are revenues that are collected and referred to as “restricted” as they must be spent on the purpose for what they were collected. Special Revenue Funds in the Town of Kearny include Highway User Revenue Fund (HURF), Transportation Tax Funds from Pinal County, Grants, and Local Transportation Assistance Fund (LTAF) that was for transportation expenses that is no longer a revenue source for cities and towns in Arizona.

### **HIGHWAY USER REVENUE FUND (HURF) FUND**

#### **HURF REVENUES**

The Highway User Fund (HURF) is state shared revenues received based on a state tax placed on each gallon of sale of gasoline and distributed to the Town based on sales within Pinal County and Kearny’s population growth. The State is projecting a slight increase .4% in HURF revenues from \$133.8K in FY15 to \$135K in FY16.

#### **HURF EXPENDITURES**

The expenditures for the HURF fund are restricted to only be used for street maintenance and improvements and indirect support for the street department. The direct street department expenditures have not decreased overall, but the transfer from the HURF fund to the General Fund has decreased from \$130K to \$53K in FY14 but slightly increased in the FY15 budget to \$59K. However, due to the amount of expenditures in the fund in FY15, the HURF fund was only able to transfer \$21K to the General Fund. For FY16, we have estimated that the HURF fund will be able to return to transferring \$59K to the General Fund. This year, a contingency reserve within the HURF fund has been appropriated in the amount of \$6,745 for unexpected expenditure emergencies or revenue shortfalls which is only 5% of revenues. The majority of the funds are for the operation and maintenance of the street department. There is \$80K in the budget for street maintenance, but the majority of street maintenance for the Town is paid out of the Transportation Sales Tax Fund.

### **TRANSPORTATION SALES TAX FUND**

The revenues for this fund are received from Pinal County as a distribution of the transportation tax and are restricted to be used only on street expenditures. The revenues are projected to increase from \$63K in FY15 to \$73K in FY16. However, there is approximately \$187K in fund balance appropriated in FY16 creating a total budget of \$260K for street maintenance expenditures.

## GRANTS

Grants are revenues received from federal or state agencies that “grant” revenues for a specific purpose and must be expended as outlined in the grant agreement within the time period specified. Grants can also be in the form of a low cost loan as the grant portion is considered the lower interest rate.

Historically, the Town has made extensive use of federal and state grants as well as low interest cost loan programs. Projects that have been funded from these sources include airport, wastewater reclamation plant, lake and campground improvements, ATV campground, park and water system improvements, Town Hall, police and fire station, street improvements, fire trucks and all are examples of grants and loan programs the Town has taken advantage of over the years. In FY16, it is anticipated that the Town may receive utility grants for water and sewer projects. It is important to remember that if grant funds are awarded, there may be a Town match required, or additional operation and maintenance costs associated with it. That is why it is important to weigh benefits associated with each grant/loan and provide all the information to Council before they make the decision to either apply or accept the grant or loan program.

Since the Town of Kearny is under the state alternative expenditure limitation program (Home Rule) where the expenditure limit for the Town is the adopted budget approved by voters for 4 years beginning in FY16, any grants anticipated to be received must be included in the budget if they are to be expended. For FY16, we have included an appropriation of \$1.8 million in the event the Town would receive federal or state grants. The reason is that if grants were received and the funds were not appropriated, the Town would not be able to spend the funds. The amount appropriated for grants for FY16, \$1.8 million is a slight increase from the FY15 Grant budget of \$1.4 million.

## ENTERPRISE FUNDS

The Enterprise Fund category contains Utilities (Water & Sewer), Sanitation and Ambulance Funds and by definition are to be self-supporting where the fees collected in the funds cover the operation, maintenance, debt service and contingency reserve. The Utilities Fund has now completed fifteen years of operation of the wastewater reclamation plant and nearly eight years in operation of the water treatment plant. The revenues needed to meet the expenditure requirements in the Utility Funds were actually operating at a deficit, using fund balance to cover revenue shortfalls. Unfortunately, in FY15, the water and sewer fund has drained its fund balances and must either increase revenue, decrease expense, or do a combination. In FY16, expenses were reduced by transferring a position from the Utility Fund to the General Fund Streets Department. However, if the CAP fee is kept, the Town must increase their water rates to balance the FY16 budget. ADEQ and EPA regulations and compliance directives continue to increase. It is imperative that the Council complete the current water study and conduct a sewer financial plan and rate study in FY16 which will ultimately cause an increase in rates to eliminate this deficit and plan for the future maintenance and replacement costs that the Town will face as the plants begin to age.

On January 1, 2013, the Town implemented a flat rate fee of \$6.25 per utility customer account to purchase Central Arizona Project (CAP) water for the Town in the event of a drought. This will raise approximately \$62,250 annually. Through FY15, the Town had collected \$176K in CAP fees.

## **WATER & SEWER FUND**

### **WATER & SEWER REVENUES AND EXPENDITURES**

In FY16, expenses were reduced by transferring a position from the Utility Fund to the General Fund Streets Department. However, if the CAP fee is kept, the Town must increase their water rates to balance the FY16 budget. The contingency reserve appropriated in the fund is at its lowest level of \$3,983 for unexpected emergencies or revenue shortfalls which is unacceptable to maintain financial stability in the utility fund. It has also put back in the indirect cost allocation to the General Fund in the amount of \$83K. In other words, if that transfer is not made in FY16, then the General Fund will be short by \$83K. There have already been loans to the Utility Fund from the General Fund, Sanitation and Ambulance Funds of approximately \$313K that the Council needs to determine if they will be considered a loan or a permanent transfer to the fund as it completes the water study in FY16. As mentioned in the above paragraph, it is imperative that the Town complete the water study and conduct a sewer rate study as soon as possible in FY16.

## **SANITATION FUND**

### **SANITATION REVENUES AND EXPENDITURES**

The sanitation fund is to provide residential refuse pickup, landfill costs as well as partner with Pinal County for the "free dump day." In FY15, the budgeted revenues were approximately \$263K. In FY16, it is estimated the revenues will be \$267K, a slight increase of 2% from the FY15 budget. There is \$13,605 appropriated for contingency reserve which is 5% of revenues which is very low, and \$37,000 remains as a transfer to the General Fund for indirect costs. It is recommended that a sanitation rate study be performed in FY16 to insure that operating revenues are covering operating expenditures plus reserve requirements in FY17 as a large portion expenses in the fund are to cover landfill costs, and garbage trucks will continue to be maintained and replaced in the future.

## **AMBULANCE FUND**

### **AMBULANCE REVENUES AND EXPENDITURES**

Ambulance revenues for FY16 are projected to be approximately \$347K, a 4.8% increase over the FY15 budget of \$332K. The primary reason for the increase in revenues is the expected collections of past due ambulance charges. The rates for the ambulance are set by the Arizona Department of Health Services (ADHS) based on actual costs provided by the Town.

In both FY15 and FY16, the Ambulance Fund expenditures have exceeded its revenue collections. Unlike the General Fund, it no longer has a fund balance to draw from. In fact, in FY16, the Ambulance Fund has revenues of \$347K and expenditures of \$390K and the difference is being made up with General Fund revenues. It is also important to point out that the \$390K in expenditures no longer includes the \$37K indirect cost allocation to the General Fund and a zero fund balance. The structural deficit in this fund must be addressed in FY16 or the General Fund will need to contribute additional funds that are also depleting in the General Fund.

### **MAINTAINING FISCAL SUSTAINABILITY**

As with prior years, the Town of Kearny has balanced its budget by looking for ways to reduce expenditures, increase revenues where possible, and maintain adequate service levels. The Town has been able to have some reserves, but only as a result of the carry forward of fund balance from prior years, which is dwindling. In essence, they are using their savings account to pay for their "on-going" expenditures. Slow growth in the economy, price increases, and on-going demands for quality services will continue to challenge the Town in coming years.

### **Further Analysis/Items for FY16**

During the budget development and presentations to Council, numerous items were noted for further review and consideration during FY16. To summarize, the items the Town Manager will set up a strategic financial workshop with Council late summer or early fall to address the following financial issues:

- Water financial plan and sewer, and sanitation rate study must be completed during FY16 to provide financial stability and sustainability for the utility and sanitation fund.
- The Ambulance Fund expenditures will need to be reviewed from a "zero base budget" process as well as reviewing billing, collection, adjustments and write offs from the outside firm that does the Town's ambulance billing to determine if there are areas for improvement of revenues.
- Review potential to implement local business licenses for control and administration of business sales tax reporting

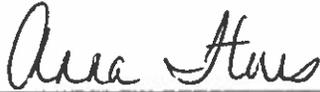
- Indirect cost allocation and fee study is needed to determine “true” indirect costs for funds supported by General Fund as well as analysis to determine true cost to provide specific services
- Review of police/court fines to determine reason for continued decrease over the past 3 fiscal years and develop recommendations for the future
- Develop financial policies for the Town such as future contingency reserve requirements, operating, reporting and debt policies

These are items that were identified during the FY15 budget process and as the Town moves forward, there may additional items added to this list per Council directive.

### Acknowledgements

I would like to take this opportunity to thank the Mayor and Town Council for their guidance and support throughout the development of this proposed budget. With the Town’s guidance, and Town’s staff’s collaborative effort, we were able to bring forward a balanced budget for fiscal year 2015-16. I am looking forward to the discussions in FY16 to continue to bring financial sustainability to the Town of Kearny.

I would also like to thank all of the Town employees for the tremendous job they do every day in delivering services to the citizens of Kearny and for the support I have received in my first year as Town Manager in Kearny.



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Anna Flores, Town Manager