



Monday, April 24, 2023

OFFICE OF THE COCONINO COUNTY BOARD OF SUPERVISORS

SPECIAL SESSION MINUTES (BUDGET)

10:00 a.m.

In Person at Highlands Fire Station

3350 Old Munds Highway, Flagstaff (Mountainaire), AZ 86005

Present: Chair Patrice Horstman, Vice Chair Jeronimo Vasquez, Supervisor Matt Ryan, Supervisor Lena Fowler and Supervisor Judy Begay were present in-person.

Also Present: County Manager Steve Peru, Deputy County Manager Sue Brown, Deputy County Manager Andy Bertelsen, Deputy County Manager Lucinda Andreani, Finance Director Siri Mullaney, Human Resources Director Erika Philpot, Assistant County Manager Esliir Musta, Budget Analyst Erin Beckett, Special Assistant to the County Manager Corey Ringenberg, and Clerk of the Board of Supervisors Lindsay Daley were present in-person.

Call to Order:

Chair Horstman called the Special Session to order at 10:11 a.m. and thanked staff for being there and thanked Fire Chief Todd Miller for the hospitality of the Fire District. She had the Supervisors introduce themselves.

Chair Horstman spoke about one of the main responsibilities of the Board being the budget and she thanked staff for putting the materials together for the budget meetings. She stated it will be informative and they will learn a lot.

Highlands Fire District Fire Chief Todd Miller spoke about the importance of their partnership with the County and spoke about the Bear Jaw crew along with the Public Works department doing pine needle cleanup in the community.

Highlands Fire Board Chair Tom Hanecak provided welcome comments as well. He also spoke about the great partnership between the Fire District and the County. He provided history on the facility, including it being a poll place. He also thanked the Board for American Rescue Plan Act (ARPA) funds that have assisted the Fire District.

Supervisor Matt Ryan spoke about the mutual cooperation between the County and Highlands Fire District including when the Brins Fire occurred that was heading toward the Kachina and Mountaineer neighborhoods and how it was stopped before getting into the community. He also explained that this happened with the Slide Fire. He spoke about there being a lot of work behind the scenes between the County and Fire District. Supervisor Ryan also spoke about the ARPA funds in relations to the district being first responders during the COVID pandemic. He also spoke about how County Community Initiative funds have been allocated to the district for digital signs that are coordinated with emergency management. He spoke about the Kachina and Mountaineer communities being where community cleanups started.

Deputy County Manager Sue Brown spoke about how to use microphones.

Tom Hanecak spoke about parking at the facility, where the bathrooms are located, where the kitchen is located, and that he may have a tour of the facility at some point.

County Manager Sue Brown spoke about the work done by the budget team, including former staff members, as well as Information Technology (IT) Department staff for setting up the facility with necessary equipment, and Facilities staff for getting the room set up. Sue also went over the meal logistics for the budget meetings.

Chair Horstman had everyone who was present introduce themselves.

County Manager Peru went over the budget meeting schedule for the week, which was provided to them in their packets. He answered questions regarding the schedule. He thanked the Department Directors and Elected Officials for providing the information for the meeting packet.

Finance Director Siri Mullaney spoke about the budget material documents that were handed out this morning as well as the increment requests. She explained that all of the departments are in alphabetical order in their meeting books. She pointed out the sheet with original increment requests as well as the list of requested carryovers from departments. She also pointed out the unawarded grants list that departments may be applying for. She spoke about the budget ceiling and being tied to what can be spent by the County. She also pointed out the history of Full-time employees (FTEs) for the departments.

Chair Horstman stated that she knows there are vacancies and asked if the FTE list includes the current vacancies. Director Mullaney answered that the list does include all positions including the vacancies. Chair Horstman requested that they get a list of the vacancies within the departments.

Finance Director Mullaney thanked budget staff for their work with the Department Directors and for getting the information for their budget materials. She provided a handout titled "Expenditures by Department and Program" and she spoke about what materials are included for each department in the Board's budget books.

1. FY24 Budget Kickoff Presentation - 10:00 a.m. – 12:00 p.m.

County Manager Steve Peru presented a PowerPoint titled: Coconino County FY24 Budget Development, May 2023 presentation. He first provided some introductory remarks. He spoke about the Board looking at budget through different lenses as the organization experiences different events such as the COVID pandemic, fires and emergency response, ARPA funds and the reality of transitioning away from those funds in 2024. Manager Peru also spoke about the expenditure limit impacting the budget and how it has been a long time sense the County has had a normal year for budget that has not somehow been impacted by emergencies and how the County has gotten good at pivoting and managing and that the one thing that has not changed is the organization. He spoke about the accomplishments of the county, including the Pipeline fire and flood mitigation efforts, elections, passing of the jail district tax extension, flood control tax increase and critical project implementation, compensation and recruitment and recovery, emergency management- snow melt this year, employee forums, employee engagement survey, facilities master plan update, implementation of ARPA programs, shoring up criminal justice programs and mental health programs, pathways to community program, progress on short term rental ordinance, Criminal Justice Coordinating Council (CJCC) collaborative work with indigenous community, continued COVID pandemic response and the residual effects, congressionally directed funding, emergency response trainings, weather response summits with Navajo Nation and National Weather Service, and continuing audit work. County Manager Peru spoke about transitioning the organization from COVID response to resilience and having a resilient organization and resilient employees. He spoke about continuing Finance Department work, needing to establish a new relationship with the new Governor and new President and Administration/Council of the Navajo Nation. He said he is looking forward to departments speaking about their accomplishments, trends, needs and concerns. He stated that what the Manager's Office has heard so far are concerns with sourcing and supply chain, cost of vehicles, inflation and benefit and retirement increases. He also spoke about the Board being active and working on behalf of their district.

Chair Patrice Horstman mentioned that it has been a busy year. Supervisor Matt Ryan spoke about looking forward to the departments presenting information. Supervisor Judy Begay thanked staff and stated it is important to establish relationships and with the new building in Tuba City happening in the future and the need for a tribal liaison. She also spoke about the County needing to evaluate how employee evaluations are being done. Vice Chair Jeronimo Vasquez thanked County Manager Peru for information provided and spoke about going from one emergency to another and that he appreciates the information provided and looking at accomplishments as well as what needs to be worked on. Supervisor Lena Fowler thanked the Fire Department for hosting them. She spoke about how the county has been on a rollercoaster for so long, accomplishments of departments being learned through the budget meetings, their limitations with the budget and the need to go back to state legislators regarding county limitations with budget. Chair Horstman spoke about the desire to do tours of the departments.

County Manager Peru moved forward in presenting the PowerPoint. The first half of the PowerPoint was regarding expenditure limitation and in relation to FY24 budgeting. He explained that the FY24 budget is being developed and recommendations are made in the context of a balanced financial plan with a recessionary outlook. He explained that prior to FY24 the budget was developed based on financial planning model and that now from FY24 moving

forward, the budget is developed based on financial planning model and expenditure limitation outlook. He explained that it is being done this way now because spending exceeded the expenditure limit starting in FY2006, prior years carryforward was used to cover the difference between allowable local expenditures and actual local expenditures and that carryforward will be exhausted during FY2024. County Manager Peru also spoke about the expenditure limit definitions, including expenditure limit calculation, local money, exempt, carryforward, short-term debt, and tax-exempt debt.

County Manager Per also spoke about the background and requirements for expenditure limits which were created in the 1980s. He explained that expenditure limits for counties is statutory, the base of the limit is calculated by using a formula which takes into consideration population growth or decrease and inflation, all expenditures using local revenue (property tax, state shared sales and county sales tax) must be included in the expenditure limitation report. He spoke about expenditures made with non-local revenue such as funds from federal or state agencies being exempt from the expenditure limitation, expenditures within special districts mostly being exempt from the County limit on spending of local revenues, carryforward being used in the final expenditure limit calculation by subtracting necessary carryforward from the total expenditures subject to the limit. He also spoke about having known available carryforward being necessary to calculating each expenditure limit report and calculation.

County Manager Peru spoke about the expenditure limit report that the County must provide the state. He explained that each year's expenditure limitation report requires an audited carryforward amount from the prior year, a current expenditure limit report can only be drafted once the prior year audited expenditure limit has been released, sue to the reliance on carryforward. He also explained that the expenditure limit report must tie to the audited financial statements so the expenditure limit report cannot begin until the audited financial statements have been drafted each fiscal year and staff is certain there will be no further changes to those statements. He explained that counties have the most complex expenditure limit calculation.

County Manager Peru went over the e factors contributing to expenditure limit pressure. This included operational costs growing over time since the base limit of the expenditure limit was created in 1980, expenditure limit calculation not being considered a major concern due to significant carryforward in the past. He also explained that in 2104 the voters approved the Road Maintenance Sales Tax, which was previously considered exempt; however, in 2018 that changed and how this new opinion resulted in an additional \$9 to \$13 million per year in additional expenditures under the expenditure limit which was not clarified until now.

County Manager Peru went over the options for ongoing expenditure limit management. He went over the options not recommended by county staff including exceeding the expenditure limit, which would result in a dollar-for-dollar revenue penalty for a future fiscal year, cutting the budget to stay under the limit which could result in substantial budget reductions. He also went over the options that staff does recommend including continue the FY24 and FY25 budget with short-term financing for expenditures outside of the limit and placing a question on the ballot to voters in November 2024 for a permanent base adjustment to the expenditure limit which increases spending authority to modern levels, and this would be effective in FY2026.

County Manager Peru also went over budgeting in the context of the expenditure limit including developing budget recommendations based on financial planning model, identifying proposed budgeted expenditures subject to the expenditure limit, calculating anticipated expenditures in excess of the expenditure limit (net of any carryforward), calculating short-term financing to cover the gap, ensuring 10-year financial plan is in balance with all budget recommendations and including financing costs.

Chair Horstman stated that she wants to make sure that this budget year the County has not exceeded its budget limit. County Manager Peru explained that the County will slow down spending for the remainder of FY23 and that the County will not exceed its budget limit this fiscal year. Chair Horstman stated she would like to know the amount now without the carryforward. Finance Director Mullaney answered that it is dependent on how the county ends this fiscal year and that they can get a number. Chair Horstman explained that the county is going to have to look at combinations of cuts and short-term debt and that she thinks it would be helpful to have the county legal team look at this to see where the county can make adjustments. She stated that the county made a loan to the Flood Control District, and she is wondering if the county can back that out to not exceed the expenditure limit. Director Mullaney stated that the County did it as a loan so the way it was done was the best way. Supervisor Ryan stated he disagrees, that this issue is not new, that the county has been nimble and cutting edge with finances and the county has worked within a small range, and with changes and time it has caught up. He explained that when one looks at the visitation to the county that the organization is having to cover a population that is a metro population in an area with a small tax base. He spoke about the county filling the gap with the Sheriff's Office and judicial offices depending on what happens on federal lands. Supervisor Ryan explained that he will look at the options, but the county has also been constrained.

Supervisor Ryan asked if the County has the money and just can't expend it because of the expenditure limit. He used an example of having money but not being able to spend it on something like road projects because of the expenditure limit. County Manager Peru stated that the County will be seeking a re-interpretation of the road funds and that the Flood District has been funded congressionally. He explained that every time the County responds to an emergency those expenditures come out of the general fund. Chair Horstman spoke about that being something for the County to take a look at to see if in order for events to be exempt it needs a Governors declaration which has to meet a threshold. Chair Horstman asked if the County can go back and amend carryforwards. Finance Director Mullaney explained that they have not done this since FY2018 to the present and that some of the records may not be available and that they need to balance the process for opening prior audits. Supervisor Ryan asked if Public Works and their projects currently fall under the expenditure limits. Manager Peru answered yes that they do. Chair Horstman spoke about needing to go out for a vote and needing to be cognoscente as they move forward and pick up any debt. Supervisor Fowler spoke about getting another Attorney General opinion and it potentially benefiting all counties and that this issue should be included in their County Supervisor Association (CSA) discussion. Supervisor Fowler spoke about every aspect of peoples' lives being affected by service of the county. Supervisor Begay spoke about looking at what is important and looking at CSA intervention. Supervisor Ryan spoke about other counties having property tax ten times what Coconino's is. Vice Chair Vasquez spoke about the expenditure limit issue coming in late and needing to digest the information and

utilize the tools available to navigate through the situation and planning for next year. Finance Director Mullaney stated that the County will be under the expenditure limit and will not have a penalty and that slowing down spending will be beneficial to next year. Chair Horstman stated that the penalties are huge if the County goes over the expenditure limit and needing to do report submittals by May 22. She stated that this information needs to be given to the Board to make sure they are in compliance and so the Board can help- if there is anything the Board can do.

Chair Horstman called for a lunch break at 11:53 a.m. The Chair then reconvened the meeting at 1:05 p.m.

2. FY24 Budget Kickoff Presentation Continued - 1:00 – 4:00 p.m.

County Manager Peru spoke about the process of analyzing what departments can pull back on and that the Auditor General will be releasing the audit report. Supervisor Ryan asked if Manager Peru could explain more about the audit and Manager Peru explained that the County will be submitting FY2018-2022 expenditure limit reports in May so the County will be caught up.

Supervisor Fowler asked how the reports were not submitted. Finance Director Mullaney explained that the expenditure limit reports have historically been done in house and that the position that would work on them was vacant for 18 months. She explained that the Auditor General's Office requested that the County focus on financial audits, while the County did not have staff to do the expenditure limit reports. Director Mullaney explained that the County engaged with a consultant in FY2022 and FY2023 but that they now have expertise in house. She explained that the assumptions the County were working on were not on target with what they thought and needed to slow down and that the assumptions have changed a great deal.

Chair Horstman stated that the Board just needs to know this and that it hit some of them by surprise and that they want to be able to help. County Manager Peru stated that it is his responsibility to communicate to the Board and that he will take steps to provide that information moving forward. Supervisor Fowler stated that this is a great example of staff needs and what can happen if the County does not have the right staff, then things can get delayed. Supervisor Begay stated she felt the information should have been shared from the get-go and that it is important to do the reports on time regarding compliance as funds are used to help people. Supervisor Ryan stated that he is relieved to hear that the County is on track, which being aware is helpful and that the County is running into everything else such as cost of living for employees and needing specialized people in certain positions and the barriers in attempting to provide the appropriate service. He stated that it is hard to recruit right now and that it is good that the County is about ready to get caught up on the reports.

County Manager Peru spoke about the key dates of the budget process, this included March 20-31st in which the County Manager's Office met with departments, April 21st – May 11th the Board of Supervisors budget meetings with departments, June 6 adopting the tentative budget, June 27 truth in taxation hearings and final budget adoption, July 1 the beginning of the new fiscal year and August 15 the tax rates being adopted.

Supervisor Ryan stated he will be traveling but will be present for the vote on the tentative budget adoption and final budget adoption in June. Chair stated that will be the same situation for her.

County Manager Peru went over the desired outcomes of the financial planning including maintaining service continuity independent of annual revenues, preserving the general fund, planning for compensation and prioritizing employees, avoiding layoffs and recurring budget cuts, avoiding the grow/reduce/grow model and avoiding exceeding the expenditure limitation.

Finance Director Mullaney provided information on the FY2023 forecast. She spoke about the General Fund with forecasted revenue and transfers in being \$91.2 million, forecasted expenditures and transfers out being \$120.8 million, a net change in fund balance of \$29.6 million forecast, budget variances and factors in net change. Manager Peru explained that in summary the County is on track; however, that it would be a different story if the Jail District Tax initiative did not pass.

Director Mullaney spoke about the other major funds including the revenue, expenditures, change in fund balance and budget for the Public Health Services District, Jail District and Transportation fund. She also spoke about the major revenue trend with County sales tax collections and that it is in alignment with the forecast presented last year. She explained the fluctuation between the months. She also went over the state shared sales tax collections. Supervisor Ryan stated that it looked like there was a little bit more of a dip in numbers and Director Mullaney answered yes. Director Mullaney also spoke about the Highway User Revenue Fund (HURF) collections and explained that gas prices have impacted this amount. Lastly, she spoke about Vehicle License Tax collections in which the County is down in revenue for that.

Director Mullaney spoke about the FY2024 budget outlook and major assumptions. She explained the County primary property tax rates per \$100 in comparison to other counties and the county having the lowest primary property tax rate in the state. She spoke about the limitations of the tax rate. She also went over the changes in assessed valuations of property and the rate for the various districts such as Public Health Services District, Library District and Flood District. Director Mullaney explained that the Library District requested that a rate increase be included in the 10-year plan and that has been built into the plan and that can be modified by the Board. She also explained that for the Flood Control District, the County does not have personal property in it, so valuation is different.

Director Mullaney presented the sales tax outlook and the recessionary model for FY2024 and FY2025. She spoke about the actual amounts of revenue and the forecasted amounts for upcoming years. She explained that during times of growth revenues are stronger and it is based on the Consumer Price Index (CPI). She explained that the County is trending high for sales tax revenue currently. Supervisor Ryan stated that the County is seeing a slightly upward trend but if the County gets into a recession, then they will have to make cuts. Director Mullaney explained that while the County has higher revenues, the County conserves so that when we are not collecting as much then the County does not have to make cuts to personnel.

Director Mullaney spoke about the FY24 Expenditure Assumptions and the expenditure budget with “base” budget methodology, mandate increases and increment recommendations. She also spoke about unawarded grants that make up a total of \$187.

Human Resources Director Erika Philpot went over the WXYZ Compensation Plan (FY23). She explained how the county used four different ways to address compensation that made up the WXYZ Plan, including W - the adjustment to pay ranges and individual employees (\$2,000 annual), X - adjustment to move employees deeper in the ranges (\$1,750), Y - longevity adjustment, and Z- merit adjustment following performance evaluation (2%). She went over the timeline of this Plan including the compensation funding plan at 2.5% increases from FY2024-FY2027. She also spoke about how the County brought back the performance evaluation process and how a pay increase of 2% came with that being completed. She explained that there were several comments regarding the WXYZ Plan implementation and that employees were very appreciative. She also explained that the Plan changed the lowest grade entry and now it is at \$19 an hour but doesn't include temporary positions. She also spoke about the average employee salary shifting to \$65,457 due to the Plan. Director Philpot went over the employee survey that was done and some of the responses and how some employees are having to move further away to find affordable housing.

Chair Horstman asked if the WXYZ Plan has helped to keep employees. Director Philpot went over the statistics from FY2008 to current and explained that FY2022 was the highest for turnover rate but in FY2023 the turnover rate went down 15.01%. She explained that the County is getting more applications for positions. Chair Horstman asked how many vacancies were in place before the WXYZ Plan was implemented. Director Philpot stated she can get those numbers to show vacancies before the WXYZ Plan. Director Philpot mentioned that in FY2021 there were 31 retirements and in FY2023 there have been 12 retirements so far. She explained that outside of retirements the County has reduced the number of employees who are leaving.

Director Philpot spoke about minimum wage history and the changes in minimum wage between FY2016 to the present. She also spoke about the Arizona State Retirement System (ASRS) share for employees to pay is going up from 12.17% to 12.29%. She explained how the County will never have the highest pay but that benefits are provided. He spoke about the lower grade positions in the county and how grade 7 has over 100 employees in it- so 10% of employees are in grade 7. Supervisor Ryan asked what the recommended minimum pay rate increase is. Director Philpot explained that the recommendation by the Manager's Office is a 2.5 % pay rate increase. Chair Horstman stated that the benefit package provided by Coconino County is really good. Supervisor Ryan stated that people need to be informed that the County works hard to try to keep employees whole and that he Board needs to pay attention to the percentages so it doesn't begin a downward slide for employees as it can be a constant up and down.

Director Philpot went over the employee benefit rates for FY2024 and spoke about how the benefit rates usually go up each year. She went over the increases of each of them and stated that the County contributes more than any other entity in the trust. She explained that it is a percentage of premiums not a percentage of salary. She also went over a take home pay table for an employee making the median income amount, which included the difference in net pay between FY2023 and FY2024 with the increases in benefit rates plugged in. She also went over

the different percentages for what a compensation increase would look like between a 0%, 1%, 2% and 2.5% increase for employees at the median compensation amount as well as the new hire/entry level compensation amount.

Chair Horstman asked what the percentage is of employees in grade 7 and 8. Director Philpot stated she is not sure on the percentage but that there are 100 employees in grade 7 and 100 in grade 8. Director Philpot also listed the position titles for those positions in grade 7 and 8. Chair Horstman asked how many employees are currently at the new hire compensation amount. Director Philpot answered that the pay rate is \$19 an hour and that she will have to get back to them on the number of employees currently at that compensation amount. Chair Horstman stated that if it is 5-6 people it may be less important than if it is 100 people. Director Philpot explained that the County has employees who never get to the mid-point of their grade and many that retire that never get to the mid-point. She explained that there is compression. She also stated that they are proud of the WXYZ Plan because it has been impactful on the turnover rate and that it helped people with the variety but also with flat amounts, it kept the range tighter together and that it was very creative at that time. Director Philpot explained that there are 65 positions open right now and went over the numbers of the positions currently posted. She explained that 459 jobs have been posted and they get an average of 9 applications per job, which is a low number. She also spoke about it being difficult to find highly specialized people for positions like HVAC positions, accountants and more. Chair Horstman stated that she is interested in seeing with the economy slowing down, if that will improve the County's hiring.

County Manager Peru spoke about inflation going up. He also spoke about the cost of the compensation plans at the various increase rates. He then spoke about the recommendation of the Manager's Office for compensation which would be a 2.5% increase, a one-time department increase of 10%, budgeted increments with a one-time \$6.5 million from the general fund and recurring cost of \$650,000 from the general fund. He also explained that when looking at the requests from the departments this year that it is modest.

Finance Director Siri Mullaney spoke about the 10-year financial plan. She went over the projected revenues and FY2023 and FY2024 transfers in as well as the transfers in for Flood Control District loan repayments for FY2025-FY2029. She also went over the general fund 10-year plan expenditures. She explained that it includes all the budget recommendations for FY2024 and FY2025, FY2023 Flood Control District loan transfers out, includes anticipated financing costs for FY2024 and FY2025 and the compensation fund developed in FY2023 to fund the 5-year compensation plan. She explained that the goal is to remain in balance for 10 years and look at deficit forecast – and that in the presented budget recommendation they do not have a structural deficit. She also spoke about the General Fund 10-year Plan and the fund balance including anticipating use of revenue smoothing in FY2025 and FY2026, balanced forecast by FY2032 balances returning to policy level.

Supervisor Ryan stated that structural alliance is a key piece, and that the County has long-term deficits for capital and that there is no capital in the financial plan so everything is not planned out when it comes to capital. Chair Horstman stated that the information provided was very important information and thanked Director Mullaney and Director Philpot.

Supervisor Ryan stated he is still processing the information and that with the compensation fund and looking at it long-term how it spends that if the County keeps it then it would require a supplement. He also stated that he would like staff to keep notes of issues that bubble up for items for items they can't solve at the moment regarding the budget discussion.

County Manager Peru stated that there has been an idea to do an entire county capital plan and that as a tool to manage the expenditure limit that the County needs a capital plan. Chair Horstman agreed that a capital plan is needed. Supervisor Ryan stated that one of the areas in which they did a det aside of funds for was the Kachina wetland and that they have a chance while in the area the next couple of weeks to see it as it is one of the few year-round wetlands in the state. Vice Chair Vasquez stated that he appreciates the presentations and that they have a lot of tough decisions to make.

There being no further discussion, Chair Horstman adjourned the meeting at 2:45 p.m.

COCONINO COUNTY BOARD OF SUPERVISORS

(SEAL)



Patrice Horstman, Chair

ATTEST:



Lindsay Daley, Clerk of the Board of Supervisors

