



Wednesday, May 10, 2023, 8:00 a.m.

OFFICE OF THE COCONINO COUNTY BOARD OF SUPERVISORS

SPECIAL SESSION MINUTES (BUDGET)

**In Person at Highlands Fire Station
3350 Old Munds Highway, Flagstaff (Mountainaire), AZ 86005**

Present: Chair Patrice Horstman, Vice Chair Jeronimo Vasquez and Supervisor Judy Begay were present in-person. Supervisor Lena Fowler arrived at 8:21 a.m. in person and Supervisor Matt Ryan joined the meeting virtually at 12:22 p.m.

Also Present: County Manager Steve Peru, Deputy County Manager Sue Brown, Deputy County Manager Andy Bertelsen, Finance Director Siri Mullaney, Budget Analyst Erin Beckett, Budget Analyst Chris Bringard, 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 meeting to order at 8:12 a.m. The Supervisors introduced themselves.

1. Health and Human Services FY24 Budget Presentation and Discussion

Health and Human Services (HHS) Director Kim Musselman introduced her staff that was with her. She thanked various departments and staff throughout the county that assist her department and explained how HHS work with them on various things. She also thanked the Board for supporting the public's safety as well as the County Manager's Office.

Supervisor Lena Fowler arrived at 8:21 a.m.

Director Musselman spoke about the strategic priorities of HHS, which included quality improvement, workforce development, service delivery, sustainability, and marketing and outreach. She explained that these tie into the Department's strategic plan. She also spoke about the department's organizational chart, and certain positions being funded by grants and so positions may be held until the funding occurs, and how they have been scaling their staff when needed, especially since there are 25 grant positions that are slated to be discontinued over the next couple of years. She explained that they are mindful of looking at what the needs are in the community and looking at what programs need to be ramped up or scaled back based on the community's needs. She spoke about social determinants of health, including education access and quality, health care access and quality, economic stability, social and community context, neighborhood and built environment and how they tie into all the

services the department provides, as they focus on whole health from a multi-systems approach. Director Musselman went over the various locations where they have offices in the county, and the various locations where they have outreach services and virtual service locations.

Director Musselman provided information on the administration program. She spoke about the accomplishments of the administration division/program including completing the strategic plan, filling the division manager positions for newly restructured organization chart, and apprenticeship program implementation successes. She explained what division and positions have benefited from this program, and how HHS programs are data focused. She went over the Administration program's goals and objectives, which included staff training, staff growth, data utilization, policies and procedures, strategic plan, and services. Upon a question from Chair Horstman, Director Musselman explained that they did hire an agency to do their strategic plan because it is required to be done.

Director Musselman provided information on the community action division and what services are under that program. She spoke about the accomplishments, goals and objectives of the program. She answered questions regarding the program and whether positions are funded by American Rescue Plan Act (ARPA).

Director Musselman provided information on the population health division and the services provided under that division, the division accomplishments, goals and objectives. Upon a question from Supervisor Fowler about where people go that can afford healthcare, Director Musselman explained that they are tracking where people live who use their services. She explained that they work with community-based healthcare centers and that they have the health and wellness van, and that they know the clinics where people go, but not the usage of those clinics. She also stated that they have program flyers and are trying to target locations. Director Musselman answered questions from the Supervisors. Vice Chair Vasquez stated he is impressed with the van, and asked about COVID vaccines and if there is still a need there. Director Musselman stated that they are still going to provide the COVID services; however, things may change due to cost. Chair Horstman complimented HHS and the good job done getting the COVID vaccines out. Supervisor Fowler stated that she hears from citizens in remote areas that wonder what the county does. County Manager Peru stated they will do a better job explaining what the county does. Chair Horstman stated it is everyone's job to inform people what the county does. Director Musselman stated that they will inform the Supervisors where they are working in the county and provide a schedule. Vice Chair Vasquez also thanked HHS for their hard work and outreach and spoke about providing services in urban area and rural areas and there may still be gap. Supervisor Begay spoke about communications and outreach to people.

Director Musselman provided information on the recovery and resiliency division. She went over the accomplishments, goals, and outcomes of the program. She spoke about the pathways program and the success of the program. Director Musselman provided an example of a case that showed how the programs and staff from a variety of departments were successful in helping someone. She stated that they are aware of issues and the opportunity to address those issues. Supervisor Fowler stated that at the National Association of Counties (NACo) they learned about businesses having Narcan to give if anything happened in their place of business and provided that to businesses. Director Musselman stated that Narcan absolutely saves lives.

Director Musselman provided information on the community health and prevention program and spoke about the program's accomplishments, goals and objectives. Director Musselman explained that with funding changes the dental program is sizing down.

Director Musselman provided information on the services provided under the outbreak response division program and the need to maintain a level of staff to be able to respond if an outbreak happens. She spoke about the accomplishments, goals and objectives of the program related to communicable disease, public health emergency response, and epidemiology.

Director Musselman provided information on the medical examiner division, their goals and objectives and accomplishments. Upon questions she also provided information on their intern program for the medical examiner's office. Director Musselman also provided information on the regulatory health division and explained that this is the division in which they are struggling to get staff. She explained that due to the difficulty in getting staff, they are not able to get out and do the number of inspections they need to be doing and instead are just responding to complaints. Upon questions, she explained why it is difficult getting staff, because it is regulatory, and they need to be sanitarians which requires science degrees, and the food code has changed so things are more stringent. Director Musselman explained that they are trying to bring in people and utilize an apprentice program. Director Musselman also spoke about the accomplishments of the division during the various emergency services, including flooding, fires, COVID and monkey pox.

Director Musselman spoke about the trends/challenges and needs of the Health and Human Services Department including trends/challenges being inflation burden on budget, housing/cost of living, and the needs, including advocacy at the federal level and workforce mental health and well-being investment. Director Musselman also went over the department's increment request and explained that they have a request to replace one vehicle that is a specialty equipment vehicle. She also provided information on the financial overview of the funding source for the Health and Human Services Department.

Upon questions from the Supervisors, Finance Director Siri Mullaney stated that general fund dollars do go to the Health District. She also answered questions regarding vehicles for the department and that for the most part they share in vehicle pool checkouts. She answered additional questions from the Supervisors.

Supervisor Lena Fowler spoke about how the Board of Supervisors can advocate and that they should be adding some of the issues Director Musselman brought up to their legislative agenda. She also spoke about food prices being high. Vice Chair Vasquez stated that he appreciates seeing how each division provides services and appreciates the collaboration with community partners, and that it is good work. Supervisor Begay stated that they need packets put together for them so when they go out on their trips, they can speak to the services provided and the needs. Chair Horstman stated that she appreciates that they have a measurement to look at their success and how HHS is social safety net for the county. She also stated that there is always more outreach and marketing and more they can do to get the information out about the services, which the Board can help with.

County Manager Peru stated that the Manager's Office recommendation is for the specialty vehicle to be paid from the capital list and does recommend the recurring expense.

Director Musselman thanked the Board and thanked staff and explained that it was a group effort. She took a moment to speak about how expressing gratitude helps mental health.

Chair Horstman called for a break at 10:16 a.m. and then reconvened the meeting at 10:28 a.m.

2. FY24 Budget Discussion and Presentation

For item 2, the Board received information specific to the Public Works Department budget.

Public Works Director Christopher Tressler presented on how the road maintenance program is funded and provided information on the service delivery of public works and explained that they have needed to be flexible as there is a balance in juggling the latest natural disaster with their usual workload. He explained that Public Works maintains approximately 600 miles of gravel road. He also spoke about how they are expanding their radio communications. He provided information on the goals and objectives of the road maintenance division and how it is important that road crews get the training they need. He spoke about road maintenance on Navajo Nation roads and the Bureau of Indian Affairs (BIA) road maintenance program, and the Navajo Nation capital match fund program, of which the county increased the amount provided to \$500,000 as a match.

Supervisor Begay stated that the county may need to help make the connection that the money is there for use. She stated that they need to have a cooperative agreement. Supervisor Begay explained that the Western Navajo Agency does not get much at all in road work and that the Nation knows what the issues are, and money is sitting there, but nothing is happening. She stated that this concerns her, and they need a meeting with the Nation and BIA. She stated that she met with the Navajo Nation President's Office to express her concern and advocate for projects on the western agency. Director Tressler stated they will continue to have meetings and want to work with them to get projects done.

Director Tressler provided information on the road projects on the Navajo Nation roads, including N21, and N16 and also spoke about a future project of a low water crossing and N6730. He showed a map to show the locations of the projects and Supervisor Fowler also explained the locations.

Director Tressler spoke about the accomplishments of the road maintenance division, as well as the performance measures. Director Tressler answered questions from the Supervisors.

Supervisor Begay spoke about the hardship of the distance of routes and that the county needs to create a cooperative agreement and work with the council, and that council delegates should be involved in the meetings.

Director Tressler provided information on the heavy equipment shop division and explained the services they provide. He stated that they expect to spend about \$3.6 million on new equipment and the shop is getting an upgrade for life safety and new lifts. He spoke about the performance measures of the division and how they have vacancies. Director Tressler also provided information on the road maintenance sales tax and the 10-year financial plan and how they are spending down the fund balance- a significant spend down over next 10 years.

Supervisor Begay asked if the road maintenance tax is only used for road maintenance or if it can be used for cattle guards. She also stated that if this is where the \$500,000 comes from for the Navajo Nation, then she thinks it should be increased to give more to the Nation. Director Tressler explained that they have had salary savings on the Nation and are using those funds to haul material out there. He also went over the transportation fund, ten-year financial plan, and explained what Highway User Revenue Funds (HURF) pays for and explained that this is where operations for guard rails and cattle guards is paid for.

Director Tressler provided information on the mechanical services program. He explained that they had turnover in fleet services division and that there is an increase in vehicle cost and how fleet services handles repairs and they don't have electronic vehicle mechanics but are training staff. He stated that they are also working with the Facilities department to expand electric vehicle stations. Director Tressler answered questions from the Supervisors.

Supervisor Fowler stated that they are getting a lot of requests from departments for vehicles, and how the need is there and is essential for them to be able to provide services. County Manager Peru explained that it is a charge back to the department and how they encountered an issue with the cost of fuel and vehicles being so high that it is creating a deficit for departments. He stated that employees are also using their own vehicle and charging the county. Vice Chair Vasquez asked Director Tressler about the vacancy rate of the Public Works department and Director Tressler responded that their vacancy rate is at 30% currently. Director Tressler explained that they are in the middle of analysis and talking about strategies in dealing with the vacancy and looking at the culture of the department to determine why they have the vacancy.

Director Tressler provided information on the department's performance measures. He explained that they are trying to hold onto vehicles and heavy equipment longer, but this increases the repair budget. Director Tressler answered questions related to the performance measures.

Administrative Services Division Manager Jeremy Floyd presented information on the 10-year financial plan for mechanical services. He explained that the balance is trending well and looking good. He answered questions.

Director Tressler provided information on the solid waste program and the services provided under that program, including a green waste site, community cleanups and community wildfire defense. He also went over the performance measures for the program. Chair Horstman stated that she would like more information on the grants related to this program and to look at alternatives to those grants if needed.

Director Tressler went over the carryover and increment requests for the Public Works department. He explained that they are requesting a trades worker position and also an increment request for an in-house sign maker for \$50,000. Vice Chair Vasquez asked how the requests affect the expenditure limit and Finance Director Siri Mullaney explained which funds affect the expenditure limit. Vice Chair Vasquez stated he is grateful for the work of the Public Works department and the work being done on Herrold Ranch Road. Chair Horstman stated she also appreciates the work done this winter with back-to-back storms and staff being out there plowing, and that she appreciates staff trying to solve problems and respond to citizen concerns. Supervisor Begay thanked staff and stated that the 6720 road is ready to be paved, and that the community is appreciative. Supervisor Fowler thanked Director Tressler for his work and presentation, and she thanked the county voters for passing proposition 406, because that is where a lot of the funding comes from, and that the community put trust into Public Works to do the work that they are doing. She also stated that the county has a unique partnership with the tribe.

County Manager Peru stated that the Manager's Office recommendations are for approval of the Public Works Department's requests.

*Chair Horstman called for a break at 11:44 a.m. and then reconvened at 12:22 p.m.
Supervisor Ryan joined the meeting virtually at 12:22 p.m.*

The Board continued to listen to presentations under item 2 on the expenditure limit overview and capital plan, as well as tax exempt debt information from financial consulting firm Stifel.

Finance Director Siri Mullaney provided information on the expenditure limits the county has. She provided information on the history of the expenditure limits and use of carryover for compliance, and unaudited expenditure limit information and use of carryforward for compliance. She spoke about the road maintenance sales tax and how that became a new revenue source, but with that, the county was not given the authority to spend the money and the county can't spend, without asking for additional authority to spend. Director Mullaney provided information on the expenditure limitation report and what it details. Chair Horstman asked what other counties have road districts, and Supervisor Ryan answered the question. Director Mullaney provided information on the annual expenditure limitation report and explained when they can deduct, the challenges with the report and how complicated it is. Director Mullaney also explained that there are expenditures for disasters declared by the Governor, and what the county can do for a one-year solution to the expenditure limit. Director Mullaney spoke about local revenues and what is subject to the expenditure limits. Supervisor Fowler asked if the court is subject to the expenditure limit even though they are state and Director Mullaney explained that the money the state gives is not but when the county backfills, yes, it is. Director Mullaney also went over the non-local revenues that are subject to the expenditure limit and subtracted expenditures that are subjected.

Director Mullaney also spoke about the flood district loan provided from the general fund and explained that it is not subject to the expenditure limit. She spoke about needing to manage the expenditure limitation management, county financial planning and needing to do mandates, wages, and benefits, and core operations, and then other stuff.

Director Mullaney explained the options in dealing with the expenditure limit:

- exceeding the expenditure limit would result in a dollar-for-dollar revenue penalty for a future fiscal year (not recommended)
- cutting the budget to stay under the limit could result in substantial budget reduction (not recommended)
- FY24 & FY25: continue budget with short-term financing for expenditures outside of the limit (recommended)
- county places a question on the ballot in November 2024 for a permanent base adjustment to the expenditure limit which increases our spending authority to modern levels (recommended – effective FY26, if passed).

Director Mullaney also provided an update on the financial summary of FY2023.

Chair Horstman stated that there was road maintenance and capital that was a greater cost this year. Public Works Director Christopher Tressler spoke about the projects that would make up \$50 million. Chair Horstman stated that she knows all of it is needed but would like a breakdown, as she is trying to be diligent in how the money is being used. County Manager Peru stated it has not been a good year to do projects and how there has been a delay due to the weather conditions. Director Tressler stated it is a mixture of both carrying over and needing more money, because they have been carrying over funds for grant match for projects, trying to position themselves in a positive position to take advantage of grant funds but knowing what they now know, may not have been the best strategy.

Supervisor Begay asked why the issue with the expenditure limit has not been presented to the Board in the last two years. Director Mullaney answered questions from the Supervisors.

Director Mullaney provided information on FY2023-2025 capital costs.

Vice Chair Vasquez asked why they should be concerned about a higher fund balance when looking at the expenditure limit. Supervisor Matt Ryan spoke about being locked into the base number and it has been a constant struggle for that county that they have been working through. He explained that when they did the capital plans a while back that they had a similar issue and some Supervisors wanted to do a pay as you go option, but it took 5 years. He explained that if they finance then they can work it in over a number of years and he stated that county staff have been very dynamic as to their recommendation. Supervisor Ryan spoke about the Public Safety Personnel Retirement System (PSPRS) and how the county set up a financially beneficial situation. Supervisor Ryan explained that there is a tool to be able to use the funding and still have an option for the future to see if they can set up a better financial situation. He stated that he thinks they have a really good recommendation and that they just didn't realize the county was going to be in this situation so soon. Supervisor Ryan stated that they have listened to the departments, and they are struggling with the cost of living and that will accelerate salary and benefits for employees. He stated that they are in unique times and that is a piece they are being confronted with. Chair Horstman stated there is a cost to debt service, and for PSPRS they were going to save a substantial amount of money into the future and that is not the case in this current situation. She stated she wants to look at cost savings and hopes that if they are prudent and limit the budget that will help. Chair Horstman asked if they are in danger of exceeding the expenditure limit this fiscal year and Director Mullaney answered it will be close. Supervisor Fowler stated it would be good to see all the information on one sheet. Director Mullaney answered questions from the Supervisors and Supervisors expressed their immediate thoughts on the options presented regarding the expenditure limit issue.

Finance Director Siri Mullaney introduced Mark Reader from the financial consulting firm, Stifel. Mr. Reader presented information about the Arizona expenditure limitation and exemptions and how other counties have found themselves in the same situation. He explained that financing would be a short-term solution. He explained that it involved going into the marketplace and selling bonds and the shorter the length of the financing then the lower the interest rate. He stated he believes they would be looking at a 4% interest rate, which is not bad. He explained that when the transaction is closed, they would immediately invest the money in government securities that will allow them to earn a lot of money on the bond money before draining it down. He explained that Maricopa County has been at their expenditure limit issue for many years, and they have done a number of these short-term borrowings. Mr. Reader about the preliminary calculations for Coconino County to do financing at a total amount of \$80 million and how the county would need to draw that down and how the goal is to reduce the interest cost and that this is part of the cost of doing business for the counties as they address their challenge.

Vice Chair Vasquez asked that if it will initially cost the county but through the process the county will actually make interest on getting the bonds and Mr. Reader answered yes, they will sell the bonds at 4% and then the clock starts ticking and on day one they will craft and develop a portfolio of government securities that will earn interest at 4.41%. Vice Chair Vasquez asked what the risks are if they go into a recession and Mr. Reader answered that the risk is low as the federal government will go out and borrow money to pay their bills, but if the federal government ever defaults, then there is a

risk. Mr. Reader stated that he and the firm have monies in government securities, and it is a minimal risk to the county.

Mr. Reader provided information on early payments of principal on the bonds and prepayment estimated date and amounts. He explained that the county has sufficient cash to make payments to get this off the books, and that Finance Director Mullaney has indicated a rather rapid repayment. Mr. Reader provided information on the financing overview and policy objectives and requirements, final exemption amount needed is \$80 million, how the county has sufficient cash to make debt service payments, county has strong underlying credit ratings. Mr. Readers also spoke about revenue bonds versus lease purchase, financing alternatives comparison and recommendation. He stated the recommendation to the Board is the revenue bonds. Director Mullaney answered questions from the Supervisors. Mr. Reader provided information on the preliminary debt structure, the required debt service with financial institution, four-year amortization, how it would be structure for 3-4 years, but shortened because revenues are up and once they close the bond issue, the county is going to work extremely hard to pay off the debt. He went over the investments/cash flow overview, the estimated interest rate at 4.0%, estimated interest earnings at 4.41%, and the estimated net cost would be \$861,649. Chair Horstman asked if that amount is if it is paid off in 3 years and Mr. Reader answered yes. Mr. Readers stated he is pleased with the numbers, and that it is a tool given what the market is and where the interest rate is. Mr. Reader spoke about the timing and the financing calendar that showed deadlines.

Mr. Reader introduced the County's bond attorney, Paul Gales, and Mr. Gales spoke about the ability to change out projects, in response to a question from Supervisor Fowler.

Supervisor Begay left the meeting room at 2:22 p.m. and returned at 2:24 p.m.

Supervisor Ryan stated that sometimes you get projects out to bid and they may not come in, so the flexibility is good. County Manager Peru stated it does provide some nimbleness. Supervisor Fowler stated that she asked because the bridge collapse needed to be dealt with. Supervisor Fowler also stated that they may also work with the attorney general to see if there is a different interpretation than previous interpretation.


County Manager Peru stated that is all the information they had planned to present today and then went over the schedule for tomorrow. Supervisor Begay stated she wants to know the cost of the compensation plan recommended.

Chair Horstman adjourned the meeting at 3:01 p.m.

COCONINO COUNTY BOARD OF SUPERVISORS




Patrice Horstman, Chair

ATTEST:

Lindsay Daley, Clerk of the Board of Supervisors