

**MINUTES
EAGAR TOWN COUNCIL
WORK SESSION
22 W. 2nd St., Eagar, AZ
April 5, 2016 – 6:00 P.M.**

The Work Session was called to order.

COUNCIL PRESENT: Bryce Hamblin, Mayor
James Nelson, Jr., Vice Mayor
Steve Erhart
John O. Phelps
Debra Seeley
Winslow McNeill
Allen Browning

STAFF PRESENT: Tami Ryall, Town Manager
Bruce Ray, Public Works Director
Katie Brady, Finance Manager
Eva Wilson, Town Clerk
Mike Sweetser, Interim Police Chief
Jeremiah Lloyd, Community Development Administrator
Frank Adams, Fire Chief

1. WORK SESSION TO DISCUSS THE FISCAL YEAR 2016-2017 TENTATIVE BUDGET

Utilities

Town Manager Tami Ryall started the work session by recapping with information presented at the March Work Session.

Ms. Ryall began with by describing sewer usage by category. The number of sewer customers is made up of 91% residential users followed by commercial users at four percent.

Sewer rates fall into four categories with a flat rate to residential users of \$29.95 per residence; there is another category besides single-family residential that has been called the multi-residential. Multi-residential is a main residence with an added secondary or more structures that can be occupied as living quarters.

Commercial trailer parks and apartments, churches and schools, and mobile home parks and apartments are all charged \$5.09 per 1,000 gallons of water used. All calculated based on a four-month average of the winter months when exterior water usage is thought to be lowest – November through February.

In determining relative costs by user type it was realized that additional categories were needed separating who the payers are by looking at apartments and mobile home differently than commercial. The multi-residential are the highest users with more than one residence

per account at 11.46% usage, followed by single residential at 5.54%, commercial residential at 4.43%, and commercial at 3.79%. Outliers are churches and school because they use much of their water during the summer months. The bulk of the usage is the during a four-month window in spring and summer. Councilor John Phelps speculated that the schools may have conservation policies in place, however, Ms. Ryall is unaware of their conservation practices.

In reviewing the water system usage, residential is again the largest user. The Town-owned usage needs to be tracked better in the future because this non-billed water is a significant amount. Billed water is at 162,331,000 gallons, followed by Loss at 7,451,897, Non-billed water at 4,323,620, with other usages being the cemetery, water trucks/equipment, and tanks and lines. In preparing this presentation it was obvious that the amount of water lost in the system noted as "Loss". This could be due to metering that is not 100% accurate and normally at a 20% inaccuracy.

Councilor Steve Erhart asked for clarification on the difference of Non-billed and Loss. Finance Administrator Katie Brady stated that all of the Town of Eagar accounts are billed and tracked, however, the Town is not billing itself. There are circumstances such as agreements the Town has made for water usage in trade and water being drawn from these agreements are not being billed and are called Non-billed. Non-billed is not billed but is recognized in the system and is known where it is going. The Loss is water not accounted for or billed. Public Works Director Bruce Ray stated that in 2012 ten of the older meters were tested and the loss averaged 20% so these older meters are only 80% accurate. The Town currently has a lot of old meters in use. The water crews will continue to research the accuracy of water meters over the next several months. With such a significant loss, the Town will continue to pursue the reasoning and seek other avenues of clarification besides the accuracy of meters. Councilor Erhart asked what the loss shown on the slide would equal to in residential rates. Ms. Brady referred to the next slide showing utilization where 9,152,983 gallons of residential water is worth \$36,585.

Councilor Phelps asked who would be responsible for replacing inaccurate meters. Ms. Ryall stated this responsibility would fall on the Town, however, the Town's goal is not to replace these meters, as they fall in acceptable margins and because the Town probably does not have the resources to replace all those meters for the revenue it would generate, but to ensure there is not something else in the system causing the loss. If there is wide-spread problems with meters, it would be discussed during the capital improvement project (CIP) discussions. Councilor Phelps also voiced concern about meters that are replaced and increasing citizen's utility bills by the 20% and the repercussions of that happening.

The utilization slide presents gallons of usage broken down by the various categories user types and assigned the revenue those gallons represent in those categories; the residential use and revenue, as well as the schools and churches were most obvious. The user categories may be further separated out to include parks and cemetery, and town buildings and right-of-ways in the future.

Councilor Erhart asked what the category “Pastures” entailed. Ms. Brady stated there are approximately 40 pasture accounts that are open land, with no structures upon it, with only water being utilized. They do not pay a flat rate for sewer.

In the overview of water rates the base rate is determined by meter size with an additional fee for higher usage. County residents pay a higher rate.

In order to determine if the Town’s rate structure is working for the water and sewer rate, an evaluation determines that by not including depreciation in utilities it generates a surplus. When depreciation is included, the system is not meeting what should be depreciated. The newer systems constructed with the newer Water Infrastructure Financing Authority (WIFA) bonds are depreciating at a higher schedule. The annual sewer depreciation is \$245,090 and the annual water depreciation is \$180,686. The reason to include depreciation is it’s an essential part of the rate structure that generates the maintenance and future repair now so that more debt is not incurred. Some funding of depreciation is always needing to be recognized.

The bottom line is:

- The system is operating, operationally and financially, within acceptable margins.
- The Town can continue to provide the sewer freeze for another year.
- The Town will analyze the impact of calculating commercial users on the lowest four months of the year rather than just winter.
- Conduct further research and improvements to reduce the loss in the system.
- Fix historical anomalies within the system. Look at agreements that justify free water to certain users and bill users as circumstances may have changed.
- Start tracking users by category.
- Continue to apply the extra \$75,000 per year in addition to scheduled payments to pay off the remaining WIFA loans within five years.

Councilor Phelps reiterated that last year there was a freeze on sewer rates with another freeze recommended in the coming year. When there is a need for a rate increase will the rate be exponentially higher because of these two years of freezes? Ms. Ryall stated the goal is to have the system operating sufficiently, pay off the debt to reduce the debt service, and the residents should realize these benefits from the reduction in costs and sustained low rates.

Councilor Erhart wanted further explanation why pastures are not charged a flat rate sewer. Ms. Brady stated they do not have the ability to put any of their water usage into the sewer system. Councilor Erhart wanted further explanation of why a pasture with no ability to use sewer and a house that has no water turned on, thus no sewer usage, would be charged. After a brief discussion the argument leaned toward a house does have the potential and ability to use sewer because they are hooked to the system, whereas a pasture does not have any sewer usage ability. There has to be a way to pay for the maintenance of the system which service or have the potential to service homes. Ms. Brady stated that everybody has the ability to stop the billing by requesting a “flagging of an account”, but is not recommended for less than two months because it costs \$40 to process the account to turn the water back on. Minimum

charges from zero usage can be avoided by requesting a flagging of account and is normally used by the summer residents.

Employee Compensation

After receiving several inquiries about the direction of employee compensation Ms. Ryall will present this process. The Town looked at all the communities in the region of Apache and Navajo counties. The Town then looked at a sampling of comparable communities from similar counties – not just by population due to metropolitan cities with non-similar experiences; and reviewed the League of Arizona Cities and Towns (the League) 2015 Salary and Benefits Survey. As well as, looking internally to the Town's history, inflation information, and what has been done within the region.

The Town's employee compensation is in fairly good shape, with just a few outlier positions; it's neither grossly under nor over in compensation. The 2013 market adjustment was comparable to the region and similar county's compensation. Historically the Town provided in 2006 a three percent cost of living adjustment (COLA), in 2007 a three percent COLA, and a three percent COLA in 2010. In December 2013 the Town conducted the classification and compensation study. This compensation adjustment was variable with some employees receiving a significant adjustment and some of the employees not receiving any adjustment. In the course of the next year, the Town will determine a clearer path of pay ranges for the positions and bring back to the Council next year.

Last year regionally, there were two organizations, besides Eagar, that did not provide increases. Show Low provided a four percent increase, Winslow and Springerville provided a three percent increase, Taylor and St. Johns provided a two percent increase and Pinetop-Lakeside provided a two to three percent increase. Councilor Erhart inquired whether these increases were categorized by employees with similar positions and similar years of service in those positions coming up, to be comparable to Eagar. Ms. Ryall stated they were all across the board, except for Pinetop-Lakeside.

Inflation is steadily trending upward and the same can be said for the Consumer Price Index (CPI), however, not so steeply as to cause alarm.

The bottom line cost of a one percent increase for employee compensation to the General Fund is \$14,824; HURF \$3,687; and Utility \$5,311. A three percent increase for employee compensation would cost the General Fund \$44,471; HURF \$11,061; and Utility \$15,932. Each one percent point would cost approximately \$24,000, all accounts combined. The Town could afford a three percent increase in the base budget without going into deficit with a remaining \$65,000 in the black.

Mayor Hamblin inquired if we knew what the regional communities had provided in increases in the previous three years. Ms. Ryall stated we only know last year. Mayor Hamblin stated it is possible these communities did not provide increases previously. Ms. Ryall stated many of these organizations, besides having a yearly increase, have a step program that provide automatic increases for each position. The increase discussed in this

presentation is inflationary only. Eagar's system has minimal outliers, falling well within the range it should be; however if the system is not maintained on a regular basis, there becomes a significant gapping between adjustments costing several times more to correct than maintaining the system.

Councilor Erhart estimated that the market adjustment in 2013 cost approximately \$78,000. Regardless of what percent of increase any organization provided last year, what are the pay rates, how do they compare to Eagar's after the proposed increase? Ms. Ryall stated that each one of our actuals was falling in comparable ranges with others. Ms. Ryall stated she does not have the information to compare actual to actual, but information to compare range to range, our actual to their range and we are not showing significant outliers.

Councilor Phelps asked if one of our maintenance workers could go to Show Low and make more income for the very same job. Ms. Ryall stated that cannot be determined for the entire system, but she can speak to a recent antidotal, whereas a police officer left Eagar to go to Show Low and had an increase of \$6 per hour, it is unknown if there is an increased workload or increased danger to justify that extra \$6 per hour.

Councilor Debra Seeley explained her reasoning that compensation should be performance based to be based on the supervisor's observations and determinations. Councilor Winslow McNeill stated that this was the direction Council wanted pursued from a couple of years ago – merit or performance based compensation.

Councilor Allen Browning suggested a consistent minimal COLA annually that could be in addition to a merit adjustment. This could be beneficial to the Town as well as the employees. Ms. Ryall stated philosophically it is easier to maintain a system this way, it is harder to present to the Council each year to justify a compensation increase due to inflationary trends.

Ms. Ryall stated that she can only make the recommendations, and Council will need to decide when or how to implement increases, keeping the system in shape so the compensation doesn't fall behind again. It is difficult not to compensate employees when employees are seeing other costs go up as there is an expectation that employee salaries keep pace with inflation, depending on the Council's idea of how much that inflation equates to. Ms. Ryall is bringing a recommendation of three percent as this has been the historical trend, it keeps the budget balanced, and it falls in range with the regional communities.

Vice-Mayor James Nelson doesn't believe it is wise to significantly tie increases to inflation as inflation can fluctuate dramatically. A three percent increase this year, given it's been three years since some employees have realized an increase, is within an expectable range and the Town can afford it. If the Town doesn't continue to improve the employee's ability to live here, perform their job functions and be financially stable, employees will seek employment elsewhere. The cost of hiring and training new employees, especially police officers, is significant compared to maintaining a compensation system. A step increase system could be reevaluated as well, and implemented through employee evaluation.

Councilor Browning added that the employees should be incentivized to stick with the Town and that the newer employees are still at the indecisive point whether to stay with the Town.

Councilor Erhart asked if there has been any merit increases since 2013. Ms. Ryall stated no there has been no increases since 2013.

Councilor John Phelps asked if employees are being held accountable for their job performance. Ms. Ryall stated the discipline system is being used but is separate than a performance evaluation system. The performance evaluation system is not used to deal with discipline; the evaluation system is used to award performance.

Councilor Erhart stated that he is not opposed to providing increases, however, revenues for the ensuing year have been projected as flat. He would like to see the option of where increases would come from. Ms. Ryall stated they are out of the base budget where some line items were not spent, it was found within the existing budget without adding any other source. State shared revenues amounts have not yet been released but there is an additional \$110 million dollars to be divided, we just don't know what our relative share of that growth is.

Mayor Hamblin asked what savings the Town would realize without 24-hour police coverage. As there is not 24-hour coverage now, he revised that to ask what would be the savings if the police did not work a graveyard shift, and paid for on call at \$2.50 an hour instead. Councilor Erhart inquired about overtime. Ms. Ryall stated that overtime is not a significant part of expenses. It is tracked every month and currently the police department is experiencing a high overtime period due to the shortage of personnel. Wildland fire overtimes is reimbursable. Councilor Erhart asked for a budget with overtime figured in per percentage point.

Councilor Phelps agrees with Vice-Mayor Nelson that the expense of hiring and training new employees would be better served in competitive compensation. Mayor Hamblin stated that there are some departments Eagar can't compete with because of the size of their budgets, we can only get creative such as only having an on-call police officer from midnight to six instead of a shift officer working. The employee related expense increase last year amounted to more than one police officer position.

Ms. Ryall added that organizations with a step program have the advantage of showing a new employee the predetermined increases in a set number of years with the exception of a COLA. Eagar's salaries and ranges are fine, it's just that the employees are not being moved through the ranges. With a COLA increase the classification as a whole is moving, not moving employees through the ranges within the classification program. Long-term that type of system causes compaction where salaries are almost the same reflective to an employee's years of service. Ms. Ryall was informed when she started that this was not the type of system desired. But that is an easy program to construct and follow. In reply to Councilor Phelps' concern that step increases are received automatically, Ms. Ryall expanded on how the performance evaluation would play an integral part in compensation. If an employees is

not undergoing discipline, they should be receiving a meets expectation and or above on their performance evaluation which moves employees through the steps.

Councilor McNeill clarified if annual performance evaluations are being completed. Ms. Ryall stated they have not been since no compensation increases of any kind have been implemented as employees have an expectation of a salary adjustment upon receiving annual reviews. After a brief discussion Council specified that performance evaluations need to be performed annually whether compensation is tied to the evaluation or not, to ensure employees are performing their jobs, receiving the proper training for their current position or a promotion, and to ensure expectations on the employee and employer side of the employment agreement are being met regularly.

Miscellaneous changes to tonight's proposed budget have included:

- An added \$2,000 for support to the county fair.
- An added \$1,500 for 4th of July Fireworks for a total contribution of \$3,000.
- Updated LGIP delta to reflect amounts received in March for grant reimbursements.
- The General Fund LGIP balance will be \$577,000 after the Ramsey Park North payoff. This number will only go up with \$170,000 recently received.
- Expecting \$50,000 in reimbursements in the near future to be realized in all three funds.

Ms. Ryall reviewed the 2016-2017 budget timeline whereas the tentative budget is scheduled to be considered on May 3, 2016. Ms. Ryall asked if the Council wanted another meeting before May 3rd. Council was agreeable to this. Items to come back for May 3rd include:

- Overtime shown or added into budget for clarification for proposed COLA adjustment of three percent.
- Savings of an on-call officer only from midnight to 6:00 a.m. instead of 3:00 – 6:00 a.m.

The Council planning session adjourned at approximately 7:20 p.m.

Attest: _____

Mayor: _____

Vice-Mayor: _____

Council: _____

