



“The mission of the City of Safford is to make Safford
a great place to live, work, and visit”

**CITY OF SAFFORD CITY COUNCIL WORK SESSION MINUTES
MONDAY, SEPTEMBER 26, 2011 @ 6:00 PM
PHELPS DODGE ROOM - LIBRARY**

PRESENT: Wyn “Chris” Gibbs, Mayor; Jason Kouts, Vice Mayor; Councilmember’s Danny Smith, Jacque Attaway, Ken Malloque, Mary Bingham and Gene Seale.

CITY STAFF PRESENT: David Kincaid, City Manager; Sandra Findley, Executive Secretary; Don Knight, Director Management & Budget; Ann Waite, Finance Director; John Griffin, Police Chief; Christine Fisher, Personnel Director; Rob Chesley, Public Works Director; Randy Petty, City Engineer; Jan Elliott, Library Director; John White; Ray Patton, Jr.; Sam Napier, Lead I.T. Specialist; Michael Faunce, Materials Management Supervisor; David Faulkner, Street Supervisor; Lisa Suter, Accounting Specialist; Marion Gauna, Lead Accounting Specialist; Tisha Clark, Accounting Specialist; Vicki Foote, Library Operations Supervisor; Sally Holguin, Library Operations Supervisor; Dustin Welker, Planner/Downtown Manager; Kim Larkey, Information Processing Supervisor; and Georgia Luster, City Clerk. Tom James, I.T. Specialist assisted with the audio/video recording of the meeting.

OTHERS PRESENT: Preston Clonts, Kenny McKinney, and Reed Larson. Corey Arvizu, Heinfeld & Meech, & Company, was present to offer a presentation regarding internal service charges and other budget matters.

- 1. WELCOME AND CALL TO ORDER:** Mayor Gibbs called the meeting to order at 6:00 p.m.
- 2. ROLL CALL:** A quorum of the Council was present (7).
- 3. PLEDGE OF ALLEGIANCE TO THE FLAG:** Mayor Gibbs led the Pledge of Allegiance to the Flag.
- 4. OPENING PRAYER:** Preston Clonts offered the Opening Prayer.
- 5. COMMITTEES AND BOARDS:** Discussion of appointment of Councilmembers to Committees and Boards. (Mayor Gibbs requested)

The Council reviewed the list of appointed councilmembers to committees and boards.
The Mayor's Historic Preservation Committee no longer exists.

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| • Airport | Kenneth Malloque |
| • PAC Committee for the Development of the Safford
Regional Airport Master Plan Update | Kenneth Malloque |
| • Boys and Girls Club | Jason Kouts |
| • Chamber of Commerce | Chris Gibbs |
| • Development Review | Jason Kouts |
| • Downtown Association | Danny Smith |
| • Fire Department Liaison/Firemen's Pension Board | Danny Smith |
| • Gila Valley Recreation Foundation | Gene Seale |
| • Graham County Community Foundation | Danny Smith |
| • League of Arizona Cities and Towns
Resolution Committee | Danny Smith |
| Executive Committee | Chris Gibbs |
| • Library Board | Chris Gibbs |
| • Loss Control and Safety | Gene Seale |
| • Mayor's Historic Preservation Committee | Chris Gibbs |
| • Mount Graham Safe House | Jason Kouts |
| • Public Lands (Interface with BLM, Forest Ser., etc.) | Jacque Attaway |
| • Pride of Safford | Mary Bingham |
| • SEAGO | Jacque Attaway |

Jason Kouts continues the Vice Mayor position by consent of the Mayor and Council.

6. **PRESENTATION** : Presentation and Discussion by Heinfeld, Meech & Co., P.C. regarding Internal Service Charges and other budget matters.
INFORMATION

City Manager Kincaid stated he just received notice that the Graham County Board of **Supervisor's** has called a joint work session to discuss and receive an update regarding proposed redistricting, both Legislative and Congressional Districts. The meeting will be held Monday, October 3rd at 8:30 a.m. in the General Services Building. A variety of proposed maps were distributed to the Council for review. Secondly, information to further discuss proposed alternatives for the intersection improvements of Hollywood Road, Highway 70 and 8th Avenue; and potential projects for the **City's** next submittal for Transportation Enhancement funds were provided to the Council to review prior to the work session of October 24, 2011. Thirdly, an update on the **City's** water availability situation due to the prolonged drought will be discussed at the October work session. Finally, sometime in the near future a discussion regarding the **City's** rate structure philosophies and rates going forward is necessary because the City

is facing the issue of water conservation.

City Manager Kincaid introduced Mr. Corey Arvizu of Heinfeld, Meech & Company who shared Pros and Cons regarding the City's Use of Internal Service Funds.

Mr. Arvizu started the discussion by providing a background on internal service funds, why governmental entities use internal service funds, how internal service funds came about, and the Pros and Cons of using internal funds. He noted internal service funds are specifically designed to recover costs. He referred to the Internal Service Funds that the City currently uses: Interagency Motor Pool (Capital intensive), Warehousing, Administrative Services and Engineering Services. This information is provided within the City's Comprehensive Annual Finance Report. He noted the detail is not required and is additional information provided for the Council and its constituents. He commented that the City's reporting system is very transparent and elaborate. (PowerPoint Presentation attached)

Background:

- Internal service funds report activities that provide goods or services to other funds/departments or the government for fee to reimburse costs
- Simply a means of accumulating costs for a given activity so that the costs may be allocated to those benefiting funds/departments in the form of a fee or charge
- Specifically designed for when the government intends to fully recover all costs of the service provided

Additional Guidance

- Intended to operate similarly to enterprise funds (i.e. utility funds) except **that the "customers" are internal rather than external**
- Commonly used when utility funds are present (set fees to recover full costs)
- Internal service funds that are not capital asset intensive will typically operate on a break-even basis (Administrative and Engineering Services)
- Internal service funds are included in the State of Arizona budget forms and expenditure limitation report
- Financial activity of the internal service funds is included within the scope of the annual audit

Government Finance Officers Association

“The use of internal services is never required under generally accepted accounting principles. Nonetheless, internal service funds commonly are used for a wide variety of activities, including central garages and motor pools, duplicating and printing services, information services, purchasing, and central stores.”

A comparison of use of Internal Service Funds by Arizona Municipalities was presented. Municipalities with utilities do use Internal Service Funds.

Resources for GFOA’s Elected Officials were provided. The website is: www.gfoa.org.

Mr. Arvizu commented that this type of accounting is dependent upon the Council and Management. “Does this help us account for certain cost? Are we properly charging funds and departments using such funds”? He noted a capital intensive internal activity such as the motor pool accounts for depreciation. He cautioned the Council to seriously consider depreciation because depreciation fully captures the costs for utilizing capital assets that will be replaced.

Questions:

There was discussion regarding motor pool depreciation.

For example, City Manager Kincaid stated that this year \$1.1 - \$1.2 million will be expended to replace capital assets in the Motor Pool (two fire trucks, garbage truck and dump truck). Otherwise, if internal service funds had not been accumulated over the years, \$1.2 million would have originated from the general government budget which would have significantly changed the budget. He commented that internal service funds are essentially a restricted fund that allows the City to replace its rolling stock assets as they need to be replaced. Every piece of equipment/vehicle is listed on a depreciation schedule. They each have a different life based on the type of equipment/vehicle and use of equipment/vehicle. He stated staff will move forward to whatever policy decision the Council wishes. However, from a general government standpoint, it **doesn’t** make sense to go to two different accounting methods because costs will truly not be accountable to every department. Two different accounting methods can be done but may not be as practical. If internal service funds are eliminated, it would be very difficult to track the true costs to maintain each of the five utilities.

