

Minutes of the Special Meeting of the Gallup City Council, City of Gallup, New Mexico, held in the Council Chambers at City Hall, 110 West Aztec, at 4:00 P.M. on Tuesday, May 24, 2010.

The meeting was called to order by Mayor Harry Mendoza.

Upon roll call, the following were present:

Mayor: Harry Mendoza

Councilors: John J. Azua
Mike Enfield
Allan Landavazo
E. Bryan Wall

Also present: R. David Pederson, City Manager/City Attorney

The Mayor and Councilors conducted a Work Session to discuss the following topics:

1. Fiscal Year 2011 Budget – R. David Pederson, City Manager/City Attorney & Judi Starkovich, Executive Director, Administrative Services Division
 - a. Budgetary Matters Concerning the Joint Powers Agreement with McKinley County for the Operation of the Adult Detention Center – R. David Pederson, City Manager/City Attorney

Mr. Pederson said there are concerns from members of the Council regarding the proposed use of the City's cash reserves to balance the budget for the next fiscal year. As proposed during the last regular meeting, the City would use about \$520,000 of its cash reserves to balance the budget which would result in maintaining a 9% cash reserve which is 1% above the State's requirement. Last week, the City was informed by the County concerning a financial deficit in the operation of the Adult Detention Center and the City would need to cover 30% of the operational loss in the amount of \$220,000. The County also estimates that there will be a \$250,000 deficit in the upcoming fiscal year. There were no provisions made by the City in this fiscal year's budget or in next fiscal year's budget to cover the City's portion of the operational losses at the Adult Detention Center. Mr. Pederson said Councilor Azua and Robert Cron, Chief of Police, the City's representatives on the Jail Advisory Board, did not receive advanced information concerning the jail's financial deficit.

Mrs. Starkovich said adjustments have been made in the current fiscal year's budget to cover this year's operating losses for the jail. The City has a correctional fees fund with a balance of \$350,000 that has not been used in previous years which may be used to cover the expenses for a municipal jail.

Mayor Mendoza said the County will be working towards obtaining prisoners from outside agencies to house at the Adult Detention Center. Mayor Mendoza also said the

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County's portion of the loss is 70% and cannot support such a loss. Councilor Landavazo expressed his concerns with the County and the Jail Authority Board allowing the jail to operate at a deficit. He also expressed concerns with the County having an unbalanced budget for the Adult Detention Center for next fiscal year and why the County is not making changes for the jail to at least break even. Mayor Mendoza said the County Commission never received financial statements for the operation of the jail. The County Commission became aware of the financial deficit when the previous Jail Administrator retired last month. Councilor Landavazo asked why the County Commission would expect to operate at a deficit next fiscal year and not make any changes to prevent the deficit. Mayor Mendoza said the County will be making changes by attempting to house more prisoners from outside agencies since the County does not want to have a financial loss either. Councilor Azua said there were 3 or 4 jail facilities in the state that recently opened which resulted in the loss of prisoners being housed at the Gallup Adult Detention Center. With the loss of bed space at the local jail, it is up to the County to aggressively pursue contracts with other agencies to house their prisoners to reduce the overall operational cost of the jail. Councilor Azua also said the \$250,000 projected loss for next fiscal year is a normal projection for having excess bed space. Mr. Pederson said when the City operated the local jail, the City always operated at a loss. When there were three private contractors operating the jail, the contractors quit because they were not making a profit. Councilor Enfield asked if the City could require the County to downsize the jail facility under the current Joint Powers Agreement. Mr. Pederson said the Agreement requires the County to use its best efforts in aiding the Jail Authority Board with marketing efforts to sell excess bed space to help reduce the overall operational cost of the facility. Councilor Enfield asked if there should be a cost ratio or a formula to determine the number of correctional officers required for a certain number of prisoners. Mayor Mendoza said the County will evaluate the operational costs and will determine whether they will need to downsize the jail. Councilor Landavazo referred to paragraphs 22, 23, and 24 of the Joint Powers Agreement which requires the annual budget, certified financial statements and quarter activity reports to be submitted by the Jail Authority Board to the City and County. Councilor Landavazo said he has never seen any of the previously stated documents since he has served as a Councilor. Mayor Mendoza recommended addressing the issues raised concerning the Joint Powers Agreement with County officials. Mr. Pederson said he was uncertain of how all three County Commissioners serve on the Jail Authority Board and how the financial information was to be generated and disseminated. Mr. Pederson said Mrs. Starkovich has never received any of the information specified under paragraphs 22, 23 and 24 of the Joint Powers Agreement. Councilor Landavazo asked who should be responsible for monitoring the Joint Powers Agreement. Mr. Pederson said since the City has not received a bill from the County for any financial loss for four years there were never any questions raised concerning the matter. Mr. Pederson said he was uncertain of how the financial information of the jail is to be provided and how the agreement is to be monitored. Councilor Landavazo said

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gate keepers need to be identified with all of the agreements the City has. Councilor Landavazo also said he believes the City will work with the County to resolve this matter; however, he does not believe in writing a check to the County just because the County asked the City to do so. Mr. Pederson said he does not approve of such actions and wants an explanation of how the situation with the jail surfaced. Mayor Mendoza said he met with County officials earlier in the day and requested detailed information concerning the matter. Councilor Enfield asked how long the City has been accumulating funds in the correctional fees fund. Mrs. Starkovich responded over ten years. Mr. Pederson said there is a \$4 charge on every citation issued that are channeled into the fund and he will need to do research on the proper usage of the fees collected. Councilor Enfield said he does not believe the City should allocate money for a deficit in the operation of the jail in next year's budget since the County needs to take action to prevent a financial deficit. Mayor Mendoza said the City will work with the County in taking steps to prevent a financial deficit in operating the jail since the County does not want to experience a financial loss either. Mr. Pederson said the County has a larger incentive in preventing a deficit at the jail since the County's loss is 2½ times larger than the City's. Mr. Pederson also said he does not recommend budgeting for a \$250,000 loss in next year's budget. Councilor Azua said he agreed with Councilor Landavazo concerning paragraphs 22, 23 and 24 of the Joint Powers Agreement and assumed that the reports were being supplied to the City. Councilor Enfield said the required reports need to be supplied to the City next year and steps need to be taken to lay-off employees in the event the number of prisoners decline. Councilor Wall asked how the correctional fees fund was discovered. Mrs. Starkovich said the correctional fees have been collected for a number of years and was uncertain why the fund was never utilized when the City operated its own jail. Mrs. Starkovich said when the County took over the jail, the jail made money since the previous Jail Administrator was aggressive in pursuing contracts with outside agencies to house their prisoners. Councilor Wall suggested obtaining the assistance from the Northwest New Mexico Council of Governments in finding a solution to this problem. Councilor Wall asked where the \$220,000 for this year's deficit would come from. Mrs. Starkovich said unused funds from the Information Technology Department, Utility Processing Department, Parks Department, Red Rock Park, Police Department and the Golf Course will be used for the deficit.

Mayor Mendoza asked the Councilors for recommendations for balancing next fiscal year's budget since there are concerns from the Councilors regarding the use of cash reserves to balance the budget. Councilor Landavazo expressed his concerns with proposed increases in the general fund as follows: 64% increase for the Legal Department, 39% increase for the City Clerk's Office, 22% increase for Sworn Police, 33% increase for Wastewater Systems and a 26% increase for Water Systems. Councilor Landavazo said he will not support balancing a budget with the use of cash reserves. Councilor Landavazo said the City needs to spend money within its means

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and believes cuts can be made to operate within the City's revenue stream and expense base. Mrs. Starkovich said the proposed increase in the Legal Department's budget is for legal expenses since Mr. Pederson is not able to handle all of the City's legal matters due to his added responsibilities as City Manager. Mr. Pederson said he would like to increase the Legal Department's budget knowing that expenses are going to be high rather than appropriating a low amount and having to adjust the budget at a later time. Mrs. Starkovich said the increase for the City Clerk's budget is for the next Regular Municipal Election and a run-off election if needed. Councilor Wall said he recommended a proposed Charter Amendment last month which would eliminate run-off elections due to the costs that are involved in conducting elections. Mrs. Starkovich said the increase for the Police Department is for the lease of the law enforcement building and for materials and supplies for an increased police force. Mrs. Starkovich said the Wastewater and Water Systems do not operate with funds from the general fund; however, adjustments will need to be made to include the contract for the operation of the Wastewater Treatment Plant. Lance Allgood, Executive Director, Gallup Joint Utilities (GJU), said the contract with Severn Trent Environmental Services was not finalized at the time when the budget for next fiscal year was prepared for the Wastewater Treatment Plant; therefore, the numbers in the proposed budget will need to be updated. Councilor Landavazo said there is about \$1.4 million recommended by the Budget Committee to spend on capital outlay for GJU. Councilor Landavazo asked about the possibility of spending less money on capital outlay and for GJU to contribute more to the general fund to balance the budget. Mr. Allgood said he believes GJU already contributes more than its fair share to the general fund of over \$4 million in shared services, franchise taxes and direct transfers. Mr. Allgood also said funds taken away from GJU affect the ability to maintain and repair utility lines and affect future improvements such as the Navajo-Gallup Water Supply Project. Overall, Mr. Allgood said GJU maintains a reserve, maintains funds to pay debt service for utility bond issues and pay-as-you-go projects. Mr. Allgood discouraged the use of enterprise revenue funds to support the general fund. Councilor Landavazo asked if the department heads developed a tight needs budget rather than including "wants" in their budgets. Councilor Landavazo said if department heads are not willing to budge, then drastic measures to balance the budget, such as laying-off employees, may have to be taken. Councilor Landavazo said taking money from GJU to balance the budget was not the only answer but he wanted to generate conversation in balancing the budget. Mr. Allgood said taking money from GJU to balance the budget is a possibility; however, utility customers should only be paying for the utility services they use rather than for things that are covered under other tax revenue. Councilor Landavazo said the City is going through a period of time where the economy is very tight as the City is very fortunate to have very few challenges in balancing its budget as compared to other cities in the state. Mr. Allgood provided an overview of GJU's budget process and how their budgets are developed based on projected revenues. Mayor Mendoza said since the City has a balanced budget which can be adjusted at anytime, he asked why the

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City should take money out GJU reserves instead of the City's cash reserves. Councilor Landavazo said GJU is another revenue stream for the City in contrast to the City's cash reserves which is an account with a fixed amount. Mrs. Starkovich said the City's cash reserves may increase if gross receipts tax revenues are up as they were for the month of May 2010 (+1.6%). If revenues in June 2010 increase by 2% compared to June 2009, the City could make up the \$500,000 that is being taken out of cash reserves to balance the budget. The City will also realize additional savings since expenditures have been cut for the remainder of the current fiscal year. Mr. Pederson said during the past five years the City's actual expenditures have been between \$1 million and \$1.2 million every year which shows the City has demonstrated strong fiscal control. Mr. Pederson said the department heads have carried out directives given to them to develop their budgets based on needs rather than wishes. Capital outlay requests for next fiscal year have been cut by 85%. Mayor Mendoza said cuts would be made to funding allocations for outside projects such as CARE 66 and the Northwest New Mexico Council of Governments (NWNMCOG) before laying-off employees are considered. Councilor Enfield said there should be a condition required to replace the cash reserves used to balance the budget next fiscal year prior to adjusting the budget for any increases. Mr. Pederson said once revenues increase the cash reserves used to balance the budget will be replaced as a priority. Mrs. Starkovich suggested presenting an evaluation of the cash balances during the second regular meeting in July to determine the status of the reserves used to balance the budget. Councilor Wall recommended the use of charts and graphs to illustrate each department's budget and projects for the year. Mrs. Starkovich said each department is able to print out their own budget analysis report which provides information concerning the projects budgeted for each department. Councilor Wall also discouraged cutting allocations for CARE 66 and the NWNMCOG since the CARE 66 project is vital for producing gross receipts tax revenue and the NWNMCOG is needed in pursuing grants for the City. Councilor Wall recommended additional cuts in the proposed budget for next fiscal year. Councilor Wall asked how much would it take from each department to make up the \$520,000 in cash reserves. Mr. Pederson said it would take 2% from each department to make up the \$520,000. Mr. Pederson said the problem with each department cutting an additional 2% is that the cuts are difficult for small departments to absorb in contrast to larger departments. Mr. Pederson said he does not want to hamstring the City with additional cuts since there has to be the wherewithal to address new requests that are presented to the Mayor and Councilors.

Discussion followed concerning the possibility of cutting the budget 2% across the board and to evaluate the City's cash position in July depending on the City's gross receipts tax revenue.

Councilor Enfield said it would be preferable to determine during this fiscal year whether the money budgeted for the jail next fiscal year is real or not. Mr. Pederson said if the

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City is able to use the money for the jail the money could be set aside for this year's deficit.

Councilor Landavazo said in the future the City should refrain from building a budget from budget to budget and to evaluate the real numbers that are tracking through a nine to ten month period. Discussion followed concerning the current practices being used in the City's budget process and ways to prevent wasteful and frivolous departmental spending.

Councilor Wall asked about the spaces highlighted in green on the Recommended Capital Outlay spreadsheet. Mrs. Starkovich said the highlighted spaces indicate amounts that were cut after department meetings. Councilor Wall asked if money was allocated for the driving range reseed, driving range plans and portable office for the golf course. Mr. Pederson responded no. Councilor Wall asked about the \$66,000 highlighted in green next to the Crown Victorias for the Police Department. Mrs. Starkovich said \$66,000 is for only one of the five requested Crown Victorias for the Police Department. Councilor Wall asked if organizations that request funds from the City for their event must provide a financial profit and loss statement. Mr. Pederson said all organizations requesting lodgers' tax funds are required to submit financial statements.

Councilor Landavazo said lodgers' tax packets have not been distributed since there has not been any action taken by the Council concerning the guidelines used by the Lodgers' Tax Committee. Councilor Landavazo recommended acting on amendments to the guidelines during the next regular meeting since organizations are waiting to apply for lodgers' tax funds for their events. Mr. Pederson said the item will be added to the agenda of the next regular meeting and would also like the proposed Business Regulation and Promotion Task Force to address lodgers' tax issues.

There being no further business, Councilor Azua made the motion to adjourn the meeting. Seconded by Councilor Landavazo. Roll call: Councilors Azua, Landavazo, Wall, Enfield and Mayor Mendoza all voted aye.



Harry Mendoza, Mayor

ATTEST:



Alfred Abeita, City Clerk