

Minutes of the Work Session of the Gallup City Council, City of Gallup, New Mexico, held in the Council Chambers at City Hall, 110 West Aztec, at 6:00 P.M. on Tuesday, June 14, 2011.

The meeting was called to order by Mayor Jackie McKinney.

At such meeting, the following were present, constituting a quorum:

Mayor: Jackie McKinney

Councilors: Mike Enfield
Cecil Garcia
Allan Landavazo
E. Bryan Wall

Also present: Dan Dible, City Manager
R. David Pederson, City Attorney

Presented to the Mayor and Councilors were the following discussion items:

1. Gallup Water Board Update – Larry Winn, Chairman, Gallup Water Board

Mr. Winn provided a synopsis of the Gallup Water Board since its inception as an advisory board to the Mayor and Councilors in 2003. The Water Board's primary focus is to assure the adequacy of Gallup's water supply in the future and to plan for the financial support of the supply. He asked the Mayor and Councilors for their support of future recommendations from Gallup Joint Utilities and the Gallup Water Board to increase the City's conservation efforts to enhance the available water supply by making it last longer. Securing money to finance Gallup's water needs to repair and to replace existing infrastructure and to develop new sources of water supply is increasingly difficult during hard economic times. As a result of the adoption of a progressive water rate structure in 2005, the City's water revenues increased from \$3 million to \$4.5 million when the costs for addressing Gallup's future water needs were estimated to be \$14 million per year. If local consumers use less water, consumers would incur less expense since the cost of delivering water exceeds the ability to pay for it. He asked the Mayor and Councilors to include conservation as part of the package for Gallup's water future and Gallup economic development future.

Councilor Wall said he has always been a proponent for improving Gallup's infrastructure. He asked about the dollar amounts being used toward infrastructure improvements since the rate structure increased. Mr. Winn deferred Councilor Wall's question to Lance Allgood, Executive Director, Gallup Joint Utilities. Mr. Winn also said the priority of projects submitted under the utility revenue bond issue in 2005 was handled properly overall; however, most of the bond proceeds were used for improvements of the Wastewater Treatment Plant. Councilor Wall said he believes in

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conservation; however, the City cannot set the price of water so high because it would hinder economic development. Mr. Winn agreed with Councilor Wall and said that he was not recommending an increased rate structure for water but recommending enhanced conservation measures for the City. Discussion followed concerning the City's need for funding to address infrastructure improvements and additional water supplies. Mr. Winn asked the Mayor and Councilors to embrace the proposed conservation measures that will be presented by Gallup Joint Utilities staff in the future.

2. Fiscal Year 2012 Budget – Dan Dible, City Manager

Mr. Dible said revenues have been on a slightly downward trend since 2008 as expenditures have exceeded revenues during the past fiscal year. In the proposed Fiscal Year (FY) 2012 Budget, there is a \$2.8 million deficit in the General Fund in which cash reserves are being used to balance the budget. He does not believe in using cash reserves to balance the budget by covering recurring expenses with non-recurring revenues. He expressed concerns with the lack of budgeting to replace vehicles since it may result in a financial time bomb that may detonate as the need to replace vehicles occurs in the future. Since FY 2007, personnel expenses have increased 24.13%, operations expense increased 28.58%, transfers are up 11.13% and capital outlay is down 28.41%. The large increase in personnel expense during FY 2010 was due to ill advised labor relations. He presented an overview of the departmental budget requests for FY 2012 and the percentages of growth or reduction in expenditures for each department from FY 2007-2012. The expenditure growth of 111.44% for the Human Resources Department is misleading since the department's budget was previously part of the Finance Department's budget. The expenditures for the Fire Department have experienced a significant growth of 54.32% as the General Fund has experienced an overall growth of 20.96%. As a result, the FY 2012 budget needs to be revised. Staff budget hearings will be conducted on June 20-21, 2011 and the revised budget for FY 2012 will be distributed to the Mayor and Councilors by June 29, 2011. He proposed a Special Meeting to be held on July 5, 2011 for budget hearings with the Mayor and Councilors and the final budget adoption to take place at the Regular Meeting on July 12, 2011. Staff will also provide cost estimates to the Mayor and Councilors for policy options concerning a wage freeze and benefit changes for employees. He is proposing a budget management strategy that will consist of quarterly financial reports, monthly gross receipts tax projection updates, staff reduction by attrition and quarterly budget policy options such as furloughs and other recommendations. He presented an overview of the Special Revenue Funds, Capital Project Funds, Debt Service Funds and Enterprise Funds as such funds may be able to relieve the burden on the General Fund in limited ways. Overall, he discouraged utilizing the Electric Utility Revenue Fund to relieve the burden on the General Fund

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since the City will need to renegotiate a new power supply contract in 2013. He does not see where the City's revenues will considerably increase but the City can reduce expenditures in a manner that will least affect services over time.

Councilor Landavazo said he was disturbed about the City's financial condition since the Mayor and Councilors have previously sent a clear message to City staff that reserve funds were not to be used to balance the budget. He said it was important that a more transparent and accurate picture of the City's finances be presented to the Mayor and Councilors in the future. Mr. Dible concurred with Councilor Landavazo.

Councilor Wall said there is duplication of expenses for some departments since various departments have similar equipment that is not being used at the same time. He recommended that all departments pool their equipment and share their resources as a cost saving measure.

Mayor McKinney asked Mr. Dible to advise City staff of the overall consensus of the City Council to cut expenditures to the bone and to identify the expenses that the City does not need to incur.

3. To Sell or Contract Out the Fitness Center – Councilor Mike Enfield

Councilor Enfield said he does not want the City to dispose of the Fitness Center; however, the facility needs to be managed in a more efficient manner to where it can at least break even. The average annual loss to the City for operating the Fitness Center is over \$60,000 per year since 2001. He recommended developing a Request For Proposals (RFP) to either lease or sell the Fitness Center to another entity that can manage the facility more efficiently.

Councilor Landavazo said in light of Mr. Dible's presentation on the budget, the Mayor and Councilors should strongly consider Councilor Enfield's recommendation.

Mr. Dible said he has instructed the Finance Department to prepare a financial report on all of the City's facilities which will be distributed to the Mayor and Councilors in the near future. He said the Fitness Center is more fiscally sound than most of the other City facilities.

Councilor Enfield said the operation of the Fitness Center could be better managed by the private sector rather than the public sector.

Councilor Landavazo said of all City assets, the Fitness Center would be at the top of the list that could be privatized.

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Councilor Wall said most cities have private entities operate their facilities as a business operation in order to turn a profit.

Councilor Garcia said he would like assurances from a private operator leasing or purchasing the Fitness Center that the rates to the public will not increase significantly. He said the users of the Fitness Center are complaining about the rates that are currently being charged. Councilor Enfield said if the City elects to proceed with an RFP to either sell or lease the Fitness Center, the City could negotiate a contract with the private operator to address the rates that are charged to the patrons of the facility as well as other issues. Councilor Garcia agreed with the idea to either sell or lease the Fitness Center because the facility has not been operated properly since he has been a Fitness Center member.

Mr. Dible said he has received inquiries about the Fitness Center being closed during the holidays. He said privatizing the facility would enable the operator to open the Fitness Center during the holidays at a lower cost.

Mayor McKinney said the Council has to bear in mind that the Fitness Center has extra acreage of land that would need to be separated from a proposed lease. The Fitness Center is an asset that would be a viable facility for a private entrepreneur in the physical fitness business to operate. Regarding the possible sale of the Fitness Center, the appraised value of the land, building and equipment may be out of reach for a private operator.

Councilor Enfield recommended leasing the Fitness Center to a private operator. In the event the private operator has a financial downfall, the City could either re-lease the facility to another operator or re-open the facility itself.

4. Funding for Restroom/Concession Building at Indian Hills Park – Councilor Allan Landavazo

Councilor Landavazo said members of the City Council and City staff conducted on-site visits to City facilities over a year ago. The purpose of the on-site visits was to determine possible improvement projects to be funded by a bond issue. One of the sites visited was the Indian Hills Park since the construction of a new eastside fire station was under consideration as well as the replacement of the existing concession unit. For the last 40-50 years, the park has never had a restroom resulting in portable restrooms being used during the past several years. He said Ron Caviggia, Purchasing Director, never received any direction to proceed with the construction of a new concession and restroom facility. Councilor Landavazo presented a cost estimate

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from DePauli Engineering and Surveying, LLC, that was e-mailed to him from Mr. Caviggia. The scope of work which would include the demolition of the existing structure, installation of a new modular building, site work including asphalt surfacing around the new building and engineering/architectural services, would cost \$248,543.75. The total project cost for the new fire station was originally estimated about \$2.1 million as the construction contract awarded for the project came in under \$1.5 million. Since the construction costs for the project is under the original estimated cost, Councilor Landavazo recommended using the difference of about \$600,000 for the replacement of the concession unit at Indian Hills Park.

Councilor Wall asked if City employees would be able to build the facility themselves. Mr. Allgood said the City has found the use of preassembled modular units to be more cost effective than constructing a new building. Mr. Allgood also said City staff could perform the work; however, the City would not be able to permit itself since it does not have a licensed contractor and would have subcontract the electrical and mechanical work for the proposed project.

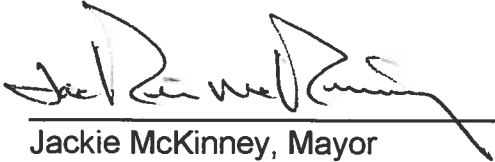
Mayor McKinney asked if there are any scheduled leagues utilizing the ball field at Indian Hills Park. Councilor Landavazo said Little League has teams utilizing the field in question. Mayor McKinney said he would like to obtain additional information on the usage of the field and if the \$600,000 difference between the estimate and the actual cost for the fire station project could be presented as facts to the Council.

Mr. Dible recommended proceeding with the budget revision process in order to obtain information on the City's facilities. He also said there may be another project which has the full support of the Mayor and Councilors that may require funding since there is a wide range of possible use of the bond proceeds. Mr. Pederson said the City has advertised bids for only two of the proposed projects from last year's bond issue. Councilor Enfield said additional money that is available may have to be used for the Northside Neighborhood Center Project since the construction costs may exceed preliminary cost estimates. Mr. Pederson also said there may be a portion of the ¼ cent tax increment available that is not being used for the debt service of the bond issue.

Mayor McKinney said Councilor Landavazo has the Council's focus on the proposed project. Mayor McKinney also said the Council will need to verify the City's financial condition in the upcoming weeks.

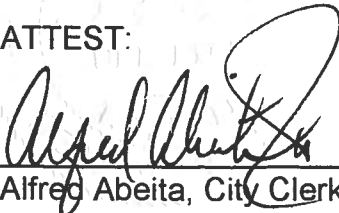
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Due to time limitations, the Work Session adjourned.



Jackie McKinney, Mayor

ATTEST:



Alfred Abeita, City Clerk

Approved 6/28/2011