

MINUTES
Work Session
San Luis City Council
San Luis Council Chambers
1090 E. Union Street
February 5, 2025
5:00 p.m.

1. CALL TO ORDER/ROLL CALL

Mayor Nieves Riedel called the Work Session to order at approximately 6:00 p.m.

PRESENT: Mayor Nieves Riedel
Vice Mayor Tadeo Azael De La Hoya
Council Member Luis E. Cabrera
Council Member Maria Cecilia Cruz
Council Member Esteban C. Rosales – via Zoom
Council Member Lizeth Servin
Council Member Javier Vargas

OTHERS PRESENT: Jenny Torres, Acting City Manager
Kay Marion Macuil, City Attorney
Melissa Lopez, Deputy City Clerk
Adela Cortez, Director of Human Resources
Angel Ramirez, Fire Chief
Angelica Cifuentes, Purchasing Coordinator
Angelica Fregoso, Ambulance Billing Coordinator
Angelica Roldan, Director of Parks & Recreation
Armando Esparza, Director of Economic Development
Bianca Zarate, Ambulance Billing Coordinator
Carolina Corral, Accountant I
Danae T. Figueroa, Magistrate
Damian Miller, Police Lieutenant
Debora Luna, Accountant II
Edgar Esparza, Billing & Collections Manager
Eulogio Vera, Director of Public Works
Francia Alonso, Public Information Officer
Jaime Frias, IT Specialist
Jorge Perez, Assistant Director of Public Works
Jose A. Guzman, Director of Development Services
Jose Antonio Maldonado, Multimedia Production & Operations Specialist
Jossue Cerda, Supervisor
Juan Leal Rubio, Assistant Director of Development Services
Karla Placencia, Accounting Specialist
Lizette Varela, Assistant Director of Parks & Recreation
Maria Sabori, Risk Manager
Mario Rodriguez, Finance Operations Manager
Miguel Ramirez, Finance Accounting Manager

Olivia Jenkins, Administrative Services Manager
Roula Encinas, Director of Finance
Saul Palacios, Accounting Specialist
Tomas Sanchez, Engineer
Victor de la Torres, Safety Officer
Alberto Leon, Resident
Christian Cuevas, Translator
Fabher Sanchez, Resident
Manuel Rojas, Resident
Martha Ulloa, Resident
Maria Gonzalez, Resident
Mark Concha, Resident

2. ITEMS FOR DISCUSSION ONLY:

2. A. Discussion and review of the financial stability of the City of San Luis for the next five (5) years. Informational session, no action. (Roula Encinas, Director of Finance)

Ms. Roula Encinas, Director of Finance, presented the city's financial stability for the next five (5) years, as the city will face several challenges in the upcoming fiscal years; staff will need to prepare for how these changes will impact the city's services and operations. Furthermore, she highlighted key issues that will affect the budget in the future. One of those issues is that the state plans to remove the food tax and take it to the voters for consideration, which will most likely get approved. She added that if the voters approve this, then the city will have a \$4 million decrease in sales tax revenues, which accounts for 21.6% of the city sales tax, which will significantly affect the city's budget. She mentioned that due to the state's flat income tax rate of 2.5%, the city's State Shared Revenue has already decreased by \$2.5 million during the current fiscal year; this revenue helps fund essential services. The city is seeing a financial strain as expenses continue to rise while revenue grows at a slower rate. Ms. Encinas stated that her department has worked on putting together five (5) financial forecasts focusing on the following:

1. Revenue projections – mainly from sales tax, state funding, and utility fees, it is expected to grow by 2% each year;
2. Expenditures Trends – the city spends funds on salaries, maintenance, and services for the community; the costs are rising every year because of inflation and the need to provide competitive wages for employees;
3. Reserves- the city keeps extra monies aside for unexpected emergencies and economic downturns; currently, there are enough reserves, but the city keeps spending more than it makes so that the savings will shrink over time. The city holds a minimum of four months for operational expenditures. Any use of reserves must include a structured repayment plan within three (3) fiscal years.
4. Economic changes - inflation, the economy, and changes in State and Federal funding will impact the city's finances.
5. Capital Improvements - the city has important projects, such as road repairs and building improvements. These projects are necessary and need to be balanced with the current budget.

Ms. Encinas clarified that for this analysis, staff used the audited fund balance for fiscal year 2024 as the beginning fund balance for fiscal year 2026 budget. The final result for fiscal year 2025 may differ; the salaries budget is based on current salary rates. She presented the Mayor and City Council with a General Fund Budget Analysis, as well as HURF, Water, Waste Water, Solid Waste, Ambulance, and Fund Balance Analysis.

General Fund Budget Analysis

Ms. Encinas explained that expenditures for the fiscal year will be \$40 million, and revenues will be \$30 million. She commented that the city's general fund revenue for fiscal year 2026 is projected to be approximately \$33.9 million, with a modest annual increase of 2%. However, expenditures exceed revenues, resulting in a structural deficit each year. The city is required to maintain at least 4 months of operational reserves to ensure financial stability. By fiscal year 2028, the operational reserves will fall below the required threshold, putting the city's financial security at risk. If spending continues at the current rate, by fiscal year 2030, the fund balance will drop to \$6.8 million, significantly below the necessary reserve level. Additionally, by fiscal year 2028, operational reserves will no longer be sufficient to cover 4 months of expenses. These projections do not account for the potential food tax reduction, which could further impact revenue levels.

Ms. Jenny Torres, Acting City Manager, informed that staff is working on a capital improvement plan for the next five (5) years. Currently, the city is going year by year depending on the needs, and even without the real capital projects needed, the city is still in negative numbers.

Mayor Nieves Riedel asked what the solution would be to fix this?

Ms. Encinas replied that the presentation would show that all funds are critical and will be harmful within the next five (5) years. Staff will have to consider a new utility rate to increase the revenues as well as other sources of revenue will be necessary. She informed that staff is proposing a property tax to be taken to the voters in a special election on May 20, 2025. She stated that the city must gain voter support as the city cannot rely only on sales tax as the main source of revenue. She also mentioned that fees need to be adjusted and that she will need to apply for more grants, but most grants require 20% of matching funds that the city needs to pay. She commented that another proposal would be to review expenses and find ways to reduce spending carefully. Another proposal is to limit funds, focus on the most critical projects, and protect the reserves. If the city plans to use the reserves, it should have a plan to repay them.

Council Member Vargas asked what would happen if the city is not able to maintain the four (4) months' reserves. What will that mean to the city?

Ms. Encinas replied that the general fund is the city's main fund and is critical because it also assists other funds.

Council Member Lizeth Servin commented that a solution would be to start being more conservative. She asked how much of a positive impact the property tax would have on the city's budget if it is approved?

Ms. Encinas replied that if the property tax is approved, \$2.5 million will be added to the city's revenues, which will help, but the city will still need to find more resources.

Mayor Nieves Riedel agreed with Council Member Lizeth Servin and mentioned that the city has been very conservative on its spending; the projects have been able to be completed because those projects were dragged from other years.

Ms. Torres explained that throughout the years, projects were not getting done, so a cushion was being built. Once projects started to get done, they cost 30% to 40% more than they used to. Staff started using those funds, but the city is running out of those funds, and there is no additional revenue coming in, which is why the numbers are negative.

Council Member Estaben C. Rosales asked which departments or services would be affected if the food tax is cut?

Ms. Encinas replied that it would affect all departments as the tax revenues would be allocated through the general fund. She explained that the general fund subsidizes and is included in other financial resources used on the non-departmental that is negative on expenses if the money that is allocated from the general fund department to enterprise departments, which are City Clerk, City Attorney, Human Resources, City Administration, Risk Management, Information Technology, Facilities, etc., for those departments certain amount is allocated as expenses to enterprise funds which are, Water, Wastewater, Solid Waste, Ambulance, HURF, and Business Center.

Vice Mayor Tadeo Azael De La Hoya mentioned that the food tax would exempt any food projects. The city would not receive tax revenues from those purchases. He added that the city has been very conservative enough; other than starting to cut programs or jobs, how more conservative could it be?

Mayor Nieves Riedel mentioned that one of the misunderstandings among residents of San Luis, Arizona, is that the city has the highest tax rate in the county. Everyone thinks that the city receives all that money, but unfortunately, this is not true. The city only receives 4% of the total tax; the rest is for the county and state. If the city was to collect the 10.8%, this conversation would not be taking place.

Council Member Javier Vargas mentioned that the City of Somerton's tax rate is 3.3%, and they do have a property tax.

Highway Users Fund (HURF) Analysis

Ms. Encinas explained that HURF remains balanced, but its funding relies heavily on transfers from the general fund. She mentioned that the decrease in revenue after fiscal year 2026 is because grant matching funds are not included in future years. This reduces the transfers in amount from the general fund, making it seem like HURF revenue is declining. She added that each year, the general funds adjust their transfer to ensure HURF remains stable; however, the general funds are facing a financial strain, and if they rely on this transfer, it may not be sustainable in the long term.

Highway Users expenditures are projected to be \$4.3 million for fiscal year 2026 and increase slightly each year, mainly covering salaries, maintenance, and special services. She stated that since highway users are balanced by the general fund transfers, spending remains stable, but any revenue shortfalls could require adjustment in the future.

Council Member Maria Cecilia Cruz commented that the gas tax has not been increasing for over 30 years, and the amount of money coming in is not sufficient for everyone's needs. She mentioned that every time one puts in a gallon of gas, the state and federal government receive \$.18 cents; it is important to support the Yuma County Infrastructure Tax; if this tax is approved, it will help the county. She mentioned that everyone wants nice roads, but if there is not enough money, this can't be done. The city needs to see this as an investment for the community.

Water Fund Analysis

Ms. Encinas explained that in fiscal year 2026, the city would receive grant money, which will increase revenues for that year; however, for future fiscal years, no grant money is included in the budget; this is why the total revenues will drop after fiscal year 2026. If additional grants are secured, this could improve. She mentioned that the most significant factor affecting the water fund is measured infrastructure investment. The city is planning a multi-million dollar water system upgrade, including a \$7 million project in fiscal year 2029, which will substantially reduce the fund balance. Furthermore, she mentioned that the water fund will start strong in fiscal year 2026 with \$12 million, but due to planned capital projects, the fund balance will drop to \$4 million by fiscal year 2030. She added that since no grant funds are currently budgeted beyond fiscal year 2026, it is important to look for new funding opportunities to offset major infrastructure costs. While upgrading the water system is necessary, staff needs to ensure that there are enough reserves for unexpected costs. If expenses keep rising and no new grants are secured, the city will have to consider adjustments to the water rates to keep the funds self-sustaining.

Council Member Lizeth Servin asked if the city is anticipating a water rate increase?

Ms. Encinas replied that staff will propose a new utility rate increase for fiscal year 2027, effective fiscal year 2028.

Mr. Edgar Esparza, Billing & Collections Manager, mentioned that it is a standard practice for all cities to do a water rate study every five (5) years. He added that water rates are increasing by 2% compared to wastewater, which increased by 12%, and solid waste, which is 13%; overall, there is an increase of 10% of the utility bill. He informed that the current rate study was adopted in 2023 and goes up to 2027, and in 2027, the city will have to do another rate study, and if the City Council decides to adopt the new rate study, the resolution has a clause that allows the city to increase the rates by 2% for an additional five (5) years. He explained that what this does, is that if a rate study is done in year 2027 and the Mayor and City Council do not adopt it, staff has the authority to increase the rates by 2% in 2027, which will be in effect until January 2028.

Mayor Nieves Riedel suggested doing a new rate study before the current study expires. She stated that staff should be proactive and not wait until the last minute.

Mr. Esparza replied that staff could analyze the city's needs, and if they change, another rate study can be done and presented to the City Council for consideration.

Council Member Luis E. Cabrera mentioned that doing a new rate study before it expires is still proactive, since the current one is through 2027. He asked how much it costs for a new rate study?

Mr. Esparza replied that the cost is approximately \$23,000.00 to \$25,000.00.

Ms. Jenny Torres, Acting City Manager, suggested that the Mayor and City Council review the current utility rate study. If there are needs, the new study will be proceeded with, but it will not be in effect until 2027.

Council Member Lizeth Servin agreed with Mayor Nieves Riedel on being more proactive, but suggested waiting until the end of the year or towards the beginning of the following year, considering all the changes that the city is going through.

Vice Mayor Tadeo Azael De La Hoya mentioned that there are necessary and unnecessary expenses, and tough decisions have to be made. He stated that he was elected to serve the residents of San Luis, but some decisions were not popular. He commented that sometimes the City Council abstains from making those tough decisions because they would instead get re-elected.

Waste Water Fund Analysis

Ms. Roula Encinas, Director of Finance, explained that staff is projecting that the wastewater fund in fiscal year 2026 and fiscal year 2027, the city will receive debt proceeds to fund the expansion of the Wastewater Treatment Plant, which is the main project for fiscal year 2026 and fiscal year 2027. Staff is working with the consultants to get a loan approved from the Water Infrastructure Finance Authority (WIFA). Revenues in those years appear high, however, after fiscal year 2027, revenues will drop because no additional debt proceeds or grants are included. She added that salaries, maintenance, and services are expected to increase by 2% each year. Furthermore, she mentioned that the largest planned project is the expansion of the East Waste Water Treatment Plant, budgeted for fiscal year 2029 for \$15.25 million; this project is necessary to support future growth, but will create a shortfall unless additional funding is secured. Ms. Encinas commented that to ensure that the city can afford the expansion, staff will have to review and adjust the wastewater rate in fiscal year 2027 to help balance the fund and avoid a financial strain. The wastewater fund is stable for now, but the large planned project will push the fund into a negative balance by fiscal year 2030, unless action is taken. A rate review in fiscal year 2027 and additional funding sources will be necessary to ensure the city can afford the East Wastewater Treatment Plant Expansion without putting too much strain on the city's budget.

Ms. Olivia Jenkins, Administrative Services Manager, mentioned that studies are conducted every five (5) years or every ten (10) years based on infrastructure needs. The current rate was based on a study of the needs from five (5) years ago. Any future infrastructure needs for water, wastewater, and solid waste will be based on a new study.

Solid Waste Fund Analysis

Ms. Roula Encinas, Director of Finance, informed that the revenues for the fund come from services charges, which are expected to grow by 2.3% each year. However, the growth is not enough to fully cover the expenses; costs for maintenance, salaries, and special services are rising every year, leading to a continued shortfall. She mentioned that in the fiscal year 2026, the Solid Waste Fund Balance would be negative \$1.6 million; even though it will continue to improve each year, it will remain negative until fiscal year 2030. The fund includes capital investment, such as new equipment that will impact the budget each year, the overall fund balance is anticipated to turn positive in fiscal year 2030.

Ambulance Fund Analysis

Ms. Roula Encinas, Director of Finance, informed that the fund will begin fiscal year 2026 with a positive balance. Still, due to rising costs and limited revenue, it will end with a negative balance. The deficit will continue to grow each year, reaching a negative balance of \$1.9 million by fiscal year 2030, as salaries, maintenance, and medical expenses get more expensive every year. She explained that most of the revenues on this fund come from Medicare and Medicaid payments, which only covers a portion of the total cost of ambulance services. Unfortunately, the reimbursement rates are low and do not fully cover the expenses. Furthermore, it was explained that federal rules do not allow the city to charge residents with Medicare or Medicaid, unless they do not meet the medical necessity criteria, and because of this, the remaining balance must be written off, and this reduces the revenues for the city. She mentioned that staff must explore other funding options to keep the ambulance services running without increasing the deficit; if changes are not made, the fund deficit will continue to grow, making it harder to maintain operations without additional support.

Fund Balance Analysis

Ms. Roula Encinas, Director of Finance, explained that this report shows the fund balances for the general fund; HURF, Water, Wastewater, Solid Waste, and Ambulance Services; it also shows the balances that can be used as operational reserves. She explained that the balance for impact fees in fiscal year 2024 is \$3.3 million; for water \$933,000; for wastewater \$1.4 million; and for the general fund \$2.3 million.

Council Member Lizeth Servin asked if the Finance Department adds 2% to the overall budget, including salaries, when preparing the budget?

Ms. Encinas replied that to be conservative, her department adds 2% as this is a regular practice that is done every year. She explained that the budget for fiscal year 2026 is a wish list from all departments, as management still needs to review all revenue and expenditures. She added that on capital projects, the city has a budget of \$59 million city-wide.

Mayor Nieves Riedel asked Ms. Encinas to explain where impact fees can be utilized.

Ms. Encinas explained that impact fees can only be used for infrastructure and can not be used for operational expenses, including salaries.

Mr. Jose A. Guzman, Director of Development Services, explained that state law restricts where they can be used. Impact fees are to pay for the impact that new developments have on the infrastructure; they can not be used for maintenance. He informed that impact fees are collected for Parks, Police, Fire, Highway Users, Water, and Wastewater.

Ms. Torres stated that, as Ms. Encinas mentioned in her presentation, the city will be financially stable for the next year, but in the third year, it will start reducing. She stated that the city needs to be conservative; if the city does not find revenues to come into the city, such as property tax, impact fees, utility rates, or other fees, then the city will have to start reducing services, capital projects, and a hiring freeze might be needed. She asked the Mayor and City Council what directions staff needed to take, what areas staff needed to be more conservative, and whether they wanted to cut capital projects or reduce services.

Mayor Nieves Riedel replied that staff should provide the City Council with options and mentioned that staff should work in conjunction with the City Council to make those decisions. She stated that she would support any recommendation given by staff.

Ms. Torres stated that staff will make a recommendation, but will need the City Council's support, as residents and employees will come and complain.

Council Member Javier Vargas commented that the city should be positive and hopeful that the voters will approve the proposed property tax. He mentioned that staff should help educate the community on this proposition, as the city needs it.

Council Member Lizeth Servin agreed and mentioned that things need to be prioritized, and the last thing she would like to see affected are the employees, as they are the greatest assets the city has.

Mayor Nieves Riedel mentioned that it might not be an option for others, but if there are no projects for employees to work on, then employees will have to be let go. Are employees going to be on the payroll just because the City Council does not want to do the right thing?

Vice Mayor Tadeo Azael De La Hoya asked if cutting personnel would be the last option for the City Council to consider, as there are no other options to obtain revenues? He commented that voters elected the City Council to make tough decisions and not for popular decisions. He added that, as a former employee, he understands, but if no other revenues are coming in, how will those expenses be sustained?

Council Member Maria Cecilia Cruz commented that the City Council has not had a chance to hear the department director's requests, but as soon as they provide the proposed projects, the City Council will make the correct decisions, and it will be very tough. She also mentioned that she does not want to see employees go, as they are very important. She asked department directors to reduce their budgets as much as possible to avoid being in the red numbers.

2. B. Presentations followed by discussion on any and all matters regarding the end of the calendar year report by city departments on capital projects, programs, and services offered to the community. (Department Heads)

The following departments made an end-of-year report on their capital projects, programs, and services offered to the community. A copy of these PowerPoint presentations is included with the complete agenda packet filed in the City Clerk's Office.

- Finance Department
- Information Technology
- Public Works
- Fire Department
- Police Department

Mayor Nieves Riedel clarified that the Police Department's new vehicle purchases have all been made through grants.

2. C. Presentation followed by discussion on any and all matters regarding the promotion and selection of the twelve (12) businesses for the inaugural Fuerza Local Business Accelerator Program. (Armando Esparza, Director of Economic Development & Government Affairs)

Mr. Armando Esparza, Director of Economic Development and Government Affairs, made a PowerPoint presentation regarding the Fuerza Local Program, which included how the program was promoted and the selection process. A copy of this presentation is included with the agenda packet filed in the City Clerk's Office.

Mayor Nieves Riedel informed that she asked Mr. Esparza to make this presentation because Ms. Guillermina Fuentes did a video where she mouthed some of the people who got selected. She asked Mr. Esparza if anybody from the City Council had approached him to tell him who to pick or interview for this program.

Mr. Esparza replied that the City Council was informed of the process. He added that a committee specializing in small business development was formed. He stated that no member of the city council came to city staff or staff from Fuerza Local and voiced for any of the applicants or had anything to do with the selection process.

Mayor Nieves Riedel stated that it is very important and is pleased that this presentation was done to clarify that. She commented that twelve (12) community members got excited because they were selected, but they found out about Ms. Fuentes' comments. She added that Ms. Fuentes is hurting this program and not Mayor Nieves Riedel. Furthermore, she thanked Mr. Esparza for making this presentation.

Council Member Luis E. Cabrera asked if those businesses selected are new businesses or businesses already established.

Mr. Esparza replied that when the application was launched, the staff was expecting new business people, but the majority were established businesses trying to make their business grow.

Vice Mayor Tadeo Azael De La Hoya asked who sets the rubric for this program?

Mr. Esparza replied that Fuerza Local sets the rubric, and that is the rubric that is followed in every community they go to.

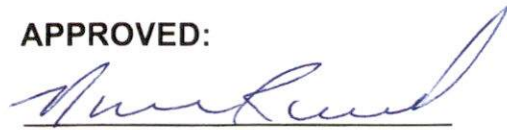
3. Adjournment

MOTION: Vice Mayor Tadeo Azael De La Hoya/Council Member Esteban C. Rosales to adjourn the meeting at 8:26 p.m. The motion passed unanimously.

The vote was as follows:

Mayor Nieves Riedel	Aye
Vice Mayor Tadeo A. De La Hoya	Aye
Council Member Javier Vargas	Aye
Council Member Lizeth Servin	Aye
Council Member Luis E. Cabrera	Aye
Council Member Esteban C. Rosales	Aye
Council Member Maria Cecilia Cruz	Aye

APPROVED:



Nieves Riedel, Mayor

ATTEST:



Sonia Cornelio, City Clerk

Certification

I hereby certify that the foregoing minutes are a true and correct copy of the Work Session minutes for the City Council of the City of San Luis, Arizona, held on February 5, 2025. I further certify that the meeting was duly called and held and that a quorum was present.



Sonia Cornelio, City Clerk