

City of Prescott

City Council - Study Session



March 3, 2026 | 1:00 PM
201 N Montezuma Street
Council Chambers, 1st Floor
Prescott, AZ 86301

MINUTES

1. CALL TO ORDER

Mayor Rusing called the meeting to order at 1:01 p.m.

2. ROLL CALL

Cathey Rusing - Mayor
Lois Fruhwirth - Mayor Pro Tem
Mary Frederickson - Councilwoman
Ted Gambogi - Councilman
Jim Garing - Councilman
Patrick Grady - Councilman
Jay Ruby - Councilman

3. DISCUSSION

- A. Presentation & Discussion Regarding the FY2026 Midyear Budget Report and a Preview of the FY27 Budget.

Finance Director Lars Johnson provided a presentation to the Council regarding the FY26 midyear budget report and provided an over view of the upcoming fiscal year budget as well.

Fund Types:

- * Government Funds
 - General Fund
 - Special Revenue and Capital Fund
 - Debt Service
- * Proprietary Funds
 - Enterprise
 - Internal Service

Mayor Rusing asked how the budget is set.

City Manager Dallin Kimble responded that it is his job, required by law, to come up with a feasible budget for the Council, then the Council will look at it and make revisions, changes or adjustments where necessary, but ultimately, it is up to the Council to determine and adopt the final budget.

Year to Date Revenues & Expenditures (as of Dec. 31, 2025):

- * Total Expenditures - \$98,841,267 (33%)
- * Total Revenues - \$131,544,272 (49%)

Council and staff discussion regarding contingencies versus reserves. In Arizona the budget cannot be amended after it is adopted so a contingency is built in so that if there are additional grant opportunities or something of that nature, the city could move forward with it.

Citywide Revenue Sources:

- * Charges for Services - 29.9%
- * Tax Revenue (largely sales tax) - 28.2%
- * Intergovernmental - 23.6%
- * Proceeds from Debt - 13.9%
- * Cost Recovery Revenue - 3.6%
- * Other - 0.8%

FY27 Budget Considerations - Statewide Impacts:

- * Legislative attacks on cities revenues continue
 - Residential rentals eliminate in December 2024 (\$2.3 million annually)
 - Proposed Food Tax elimination (estimated total annual loss of \$10.4 million to General Fund and Streets Fund)
 - Proposed 4-year moratorium on any increases in rates, fees & taxes (HB4040 and HCR2052)
- * Reduced shared state revenue
 - San Tan Valley newly incorporated - approximately 2% reduction to all prior 91 cities and towns
 - Urban revenue sharing (income tax) - statewide collection up 9.8% in FY25 compared to FY24
 - Prescott's growth rate compared to other cities and towns will impact the shared revenue received in the distribution formula

Personnel Costs:

- * Continue funding Market Compensation Pay Plan is a priority - COLA for FY27 is 1.2% using Phoenix Metro CPI; merit is still being discussed
- * Health Insurance premiums significantly increasing - Yavapai Combined Trust Board set rate increases at 19% for health, 10% for dental and 2% for vision
- * Pension contributions are decreasing in all categories

Rates & Fees:

- * Rate and Fee Change Proposals
 - General Fund: property tax
 - Solid Waste rates for service
 - Rate and Fee Study is ongoing for Development Fees (Community Development, Fire and Public Works): May 12 Study Session
- * Further discussion on these topics
 - 60-day public notice due March 27
 - Council consideration May 26 Voting Meeting to be in effect July 1

Property Tax:

- * FY26 Adopted Levy - \$2,304,514
- * FY27 Proposed Levy - \$2,492,987 (staff's recommendation is to adopt maximum allowable)

- * Levy increase with only new construction is \$2,349,120
- * Maximum allowable levy limit is \$2,492,487 - previously two consecutive years of no increases in levy besides new construction value (additional \$143,867 in the general fund); typically have brought the levy to the maximum every three-years or so

Mayor Pro Tem Fruhwirth commented that she continues to worry about the food tax change at the state level, local control is under attack. The Council's choices are to either cut services or increase property tax so she is open to talking about it more.

Mayor Rusing asked for Council preference on property tax levy:

- * Gambogi - proposed
- * Garing - new construction only
- * Grady - proposed
- * Rusing - new construction only
- * Fruhwirth - proposed
- * Frederickson - proposed
- * Ruby - proposed

Solid Waste Fund - Rates Adjustment:

- * Operating deficiency occurred in FY25
- * Rate study completed in 2022, Council adopted 5-year rates on January 24, 2023
- * Two remaining increases in place for Jan. 1, 2027 and Jan. 1, 2028
- * Revenue lower and expenditures higher than anticipated in rate study
- * Action is required now to both adjust revenues and expenditures
 - Proposal is to adjust fees for services to the latest year of last rate study on July 1
 - Pursue a full rate study beginning in the Spring of 2027 to evaluate service delivery, costs of service, and structural or expense adjustment possibilities
- * Fund Balance & Capital Sustainability
 - Non-restricted fund balance is \$416,619 at the beginning of FY26 and is projected to decline to -\$1,456,916 by end of FY26
 - Ongoing vehicle replacement schedule requires operating revenues to exceed annual operating costs (average cost of vehicle replacements is approximately \$1.8 million per fiscal year)
 - Internal loans from the General Fund have been used to smooth the impact of vehicle replacements for the past five years; however it is not sustainable in the long-term

Field Operations Manager Brady Higgs addressed the Council regarding all municipal solid waste collected is hauled to Gray Wolf and recycling is also transferred to Phoenix. Those hauling fees have significantly increased.

- * Cost escalations - the hauling contract RFP occurred after the rate study was completed and resulted in significantly higher costs than anticipated; vehicle replacements costs have increased beyond projections in the rate study
- * Revenue impacts - volume at the transfer station has not reached the levels anticipated in the rate study
- * Debt Service - because sufficient revenue was not generated to fund vehicle

replacements, internal loans have been issued; these loans increase ongoing debt service requirements for operations rather than being covered with one-time funding

Mayor Pro Tem Fruhwirth commented that an RFP needs to be done now for the hauling services in order to help address this issue. She is having trouble wrapping her head around what to do with rates on July 1 because of all these issues.

Mr. Johnson confirmed that the plan would be to assess the fees at the last year rate and then do another rate study earlier.

Mr. Higgs commented that staff has looked at rates with other jurisdictions and the city seems to be fairly competitive. He added that there are three rates that would be adjusted. Residential (\$23.33 to \$26.45/mo), transfer station gate rate (\$106/ton, \$120/ton) and commercial rates vary by cubic yard sizes (approximately 16% increase overall).

Councilman Ruby asked if there are other ways to generate revenue streams for this division.

Mr. Higgs responded and stated that staff can look at other opportunities and see where things could be added in and help generate revenue outside the monthly charge that the city gets.

FY27 Budget Process:

- * March 30-April 10 - City Manager and Department review meetings and formation of FY27 budget
- * April 20 - FY27 Budget available to Council and public for review
- * April 27 - Budget Workshop #1 (Public Works, Airport, Community Development & Recreation Services)
- * May 11 - Budget Workshop #2 (Police, Fire, Library, General Government)
- * June 9 - Tentative budget adoption, publish budget and notice of hearing
- * June 23 - Final budget adoption, budget hearing and property tax hearing
- * July 14 - Property tax levy adoption

Building a Sustainable City Budget:

- * Financial Policies - reserves, strategic planning and Council policies
- * One-time Funds and Fund Balance - useful for capital projects, not ongoing structural support
- * Recurring Revenues - must exceed ongoing operations
- * Required & Fixed Costs
- * Current Service Levels
- * New Initiatives and Service Expansions

Mayor Rusing commented on budget challenges like hauling services, legal department for additional staff, city court, and state legislature.

This item was for discussion only, no formal action was taken.

4. ADJOURNMENT

There being no further business to discuss, Mayor Rusing adjourned the meeting at 2:57 p.m.

Cathy Rusing

CATHEY RUSING, Mayor

ATTEST:

Sarah M. Thornhill

SARAH M. THORNHILL, City Clerk

CERTIFICATION

I hereby certify that the foregoing minutes are a true and correct copy of the minutes of the Voting Meeting of the City Council Voting Meeting of the City of Prescott, Arizona held on March 3, 2026. I further certify the meeting was duly called and held and that a quorum was present.

Sarah M. Thornhill

Sarah M. Thornhill, City Clerk