

CITY OF HOT SPRINGS

2012 State of the City Report

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Arkansas law requires that within sixty days following the end of each fiscal year, the city manager shall prepare and submit to the Board of Directors a report on the financial and administrative activities of the city for the previous year. This report is known as the State of the City, and it is my pleasure to submit my first such report to the Hot Springs citizens and Board of Directors.

I have the honor of being the CEO of your \$95 million City of Hot Springs municipal corporation. In this corporation there are approximately 36,000 shareholders, with a dedicated workforce of more than 600 employees, more than 100 volunteer advisory members and a 7-member Board of Directors. Despite the many challenges faced in 2012, you have a staff poised to accept the tasks at hand and prosper in 2013.

Following is a summary of the major activities of 2012 and an overview of the opportunities and challenges that lay ahead for the coming year. Additionally, the 2012 Comprehensive Annual Financial Report, available later this year, will provide a detailed financial analysis of the city's finances. Please take a moment to read a brief assessment of the year in review, with an eye towards the future.

Economic Indicators

The overall financial outlook for the city is positive, with revenue streams trending upwards. Although the city's sales tax posted a modest gain of less than 1%, momentum is steadily rising as we move past these tough economic conditions. Overall, the community has weathered the recession with significantly fewer negative impacts than most cities, in not only Arkansas, but nationwide. The city received \$17,405,383 in sales tax revenue in 2012, of which \$11.6 million went into the General Fund and \$5.8 million went into the Police and Fire funds. This amount represents a .36% increase above the previous year. In 2011, sales taxes increased 1.24% above 2010 figures.

Commercial and residential construction numbers are also showing positive gains, albeit slower than expected. New and existing home sales for the community were down 7% for the year. However development activity within the city, particularly commercial, has increased approximately 8% over last year. The retail sector growth that has occurred along Higdon Ferry Road will continue as the road widening project progresses.

Other citywide indicators related to Hot Springs' reputation as a first-class tourist destination continue to show signs of an economic recovery. The Advertising and Promotion Commission hospitality tax gained approximately 3.41%, ending the year's revenue at slightly more than \$5 million. The past year marked the seventh year for games of skill at Oaklawn Racing and Gaming, with each year showing tremendous growth. In 2012, revenues increased 47% above 2011 and are on target for continued advancement in the coming years.

While the figures above suggest our economic outlook is improving, we have not yet fully regained what was lost in 2008. With sales taxes representing 61% of externally-generated general fund income, it is clear that the city must find ways to grow sales tax, generate other sources of income, or reduce

services and programs. The City of Hot Springs doesn't have a local property tax, making it the only city in the top 13 populated cities in Arkansas without one.

2012 Major Activities

In late 2011, voters overwhelmingly approved a one-cent sales tax to construct and operate the new Garland County Detention Center. The economic effect of this special election has continued through 2012 and will affect the coming years as well.

In 2012, another important section of the Higdon Ferry widening project was completed. At a cost of almost \$3 million, the narrow two-lane road from Fairgrounds Crossing to Printer's Place, including the dangerous Lakeshore Drive intersection, was replaced with four lanes, a center turn lane, bicycle lanes, sidewalks and a new traffic signal.

With the goal of increasing law enforcement's impact on the streets of Hot Springs, the Police Department re-deployed officers from office jobs and expanded its motorcycle patrol. A department-wide rebranding and marketing campaign was a major accomplishment for the Police Department, with new graphics energizing patrol vehicles, uniforms and uniform patches. New in-car audio and video recorders now provide a more efficient resolution and a reduction of complaints. Two sessions of the popular Citizen's Police Academy were also conducted.

The Hot Springs Fire Department had several major accomplishments in 2012, including completion of the 2012 ISO Evaluation of the city's fire suppression capabilities resulting in retention of a Class 2 fire rating; deployment of a new 1750 gallon per minute fire engine; initiation of infrastructure improvements that included roof and apron repairs and generator replacement; updates to the respiratory protection plan with replacement of self-contained breathing apparatus and cylinders; continued enhancement of emergency medical capabilities through the acquisition and deployment of new defibrillators; and initiation of a program to evaluate the condition of the city's multi-story legacy structures.

We continue to maintain excellent response times to citizens, with an average response time to structure fires of 04:45 and average response times to all calls of 05:05. During 2012, the dollar amount of property loss to fire was more than \$2 million with property saved/conserved totaling more than \$93 million. This is due to maintained firefighter competency training with each firefighter receiving an average of more than 240 hours of training during 2012.

Following the most recent ISO review, locations were identified that did not have a fire hydrant within 500 feet of every home. In a collaborative effort between the Hot Springs Fire, Engineering and Utilities Departments, water main replacement projects are evaluated for opportunities to improve fire hydrant coverage. The most recent project included 15,588 feet of replacement water mains located on 16 different city streets. The project added 23 new fire hydrants, helping to maintain the city's excellent ISO 2 rating.

The Utilities Department ended with a healthy financial report, posting positive fund balances in both Water and Wastewater divisions, which were also backed up by the rate study. The study also highlighted the fact that the city's water and wastewater rates are some of the lowest across the state, based on an average monthly consumption of 5,000 gallons.

The Automated Meter Infrastructure (AMI) system has proven to provide operational control of water metering, customer usage and water leak detection, while enhancing customer service. The AMI system was leveraged to add notification alarms for wastewater grinder pump stations. The system backbone continues to present increased efficiencies and process management opportunities.

The Wastewater Division showed continued progress with the current Consent Administrative Order (CAO) by identifying and completing several major projects. The completion of the Phase I Fairwood Force Main, several major pump station revamps and the grinder station monitoring project have all contributed to the fulfillment of the current CAO agreement. City staff and engineering partners have identified more than \$38,000,000 in wastewater system project needs. While much has been accomplished to date, the goal of achieving compliance with the CAO mandate remains our focus.

The Stormwater Division continues to pursue several infrastructure projects throughout the city that will mitigate flooding and improve drainage. Currently, there is a backlog of projects that were delayed until the stormwater rate lawsuit was concluded. Two projects in the Eastgate II neighborhood and one in High Meadow Loop have been addressed and will ease flooding concerns in those areas. Stormwater has also been working on a project that will aid the flood-prone downtown business district through a grant from the Arkansas Economic Development Commission. Project funds will be used to mitigate obstructions, such as abandoned pipes and rock extrusions, in the tunnel archway that runs beneath Central Avenue, with the goal of increasing overall water flow.

The City of Hot Springs Employee Healthcare Trust Fund has yet again continued to buck the national trend of rising health care costs. Overall medical costs for 2012 were 8.7% below 2011. The city's medical costs trend from 2005 to 2012 is down 2.2% per year, while the industry average is a 6.6% increase per year. The plan actually spent \$538 per employee less in 2012 than it did in 2005. During this time, employee premiums and out-of-pocket expenses have not increased. The fiscal health of our employee-driven fund is a direct result of the city employees' buy-in that the fund directly depends on the cost effectiveness of their own healthcare choices, and that their participation in wellness and preventative programs not only makes them healthier but also enables them to be more productive.

In 2012, the Finance Department received a Certificate of Achievement for Excellence in Financial Reporting for the 2011 Comprehensive Annual Financial Report (CAFR). This was the nineteenth consecutive year for the city to receive this award from the Government Finance Officers Association. In addition, the city received an unqualified opinion on its financial statements from its independent auditors.

Looking Ahead

The next phase of Higdon Ferry Road expansion will extend from Printer's Place to Crawford Avenue. It will replace the dangerous Crawford Drive intersection by relocating the Crawford connection to Emory Street. The project will include a new traffic signal at Emory and safe sidewalk crossings, which is especially important because of the connection to Hot Springs High School and the continued commercial development along this corridor. This project will cost about \$2 million. The design is complete, right-of-way purchases are nearing completion and utilities will be relocated this summer and fall, with an estimated completion date of mid-2014.

Transportation funding throughout the state received a boost with the passage of a 10-year, temporary half-cent sales tax at the November general election. The Hot Springs area appears to have fared well,

with the increased funding designated to four-lane road projects. The widening of Highway 70 to Interstate 30 and Highway 270 westward are all slated to be funded. An increase in the per capita state turnback funds will provide an estimated \$300,000 of new street funding in 2013 and over \$600,000 in 2014. A permanent \$20 million state aid street fund has also been created to which cities can apply for city street improvements.

Public safety issues continue to be a major concern as we move forward. Police and Fire Department pension plans are critically underfunded, with liabilities growing far faster and far beyond sustainable levels. The current communication systems that provide the backbone of city and county public safety networks have been upgraded to their technological limits. These communications platforms were intended to be stand-alone networks and were never designed for integration into an interoperable communications system. In 2013, a consultant will conduct a radio communication needs assessment study.

The Future Water Supply project has reached a notable milestone. A Memorandum of Agreement (MOA) between the Corps of Engineers Vicksburg District and City of Hot Springs was signed on February 28, 2013. Hot Springs was authorized to sign the agreement by Mid-Arkansas Water Alliance (MAWA) on its behalf. This marks the beginning of a two-year long study which will result in recommendations from the Corps detailing the amount and cost of water that may be withdrawn from Lake Ouachita for drinking water purposes.

Parallel to this study is an effort focused on obtaining water rights in DeGray Lake. Hot Springs will request an allocation from Central Arkansas Water (CAW), which controls the majority water rights in that lake. Our engineers-of-record, Crist Engineers, are moving ahead with design requirements relative to either source of water.

Once a source of water is secured, and all cost estimates are completed, a decision can be made to move ahead. Our earliest possible date to have water distribution from a new plant is estimated at 2017.

In conclusion, the City of Hot Springs is poised to deal with several strategic goals in 2013. These include the attainment of a 50-year water supply for the water utility, a performance-based contract with Metro Partnership for economic development, continued progress in meeting the requirements of the Consent Administrative Order in the wastewater utility operation, more monies devoted to infrastructure construction and repair, and enhancement of police and fire services.

As your city manager, I have made organizational changes to insure that Board goals are pursued and achieved. Bill Burrough and Lance Spicer, Deputy City Manager and City Clerk/ Assistant City Manager respectively, have been tasked with managing department heads by stressing accountability, outcomes, customer service, and efficiencies. I will continue to provide direct supervision to the Chief Financial Officer, Police and Fire Chiefs, Human Resources, and the Deputy and Assistant City Managers.

My staff and I are dedicated to making Hot Springs the shining star of Arkansas. We have excellent employees who will give 110% to make sure this happens!

- David Watkins, City Manager March 5, 2013

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