

INTRODUCTION

This Quarterly report for the fiscal year ended 2018 uses data from the audit financial statements for the year ended June 30, 2018. This serves as a bridge between 2018 and 2019 by reconciling actual FY2018 amounts with estimates used in the FY2019 budget.

This is vital to determine if the FY2019 budget year opened as anticipated and if there are areas of concern. This report is intended to supplement, not replace the audited financial statements.

EXECUTIVE SUMMARY

Revenues closed **1.3% (\$423,521) higher** than estimated; this is good.

Expenditures were **6.3% (\$1,539,938) less** than estimated; this is great.

Transfers out ended the year **47.3% (\$4,106,058) less** than estimated; this is key.

Ending operating **fund balance** is **21% (\$6,068,517) higher** than estimated; this is spectacular.

OTHER HIGHLIGHTS

Remaining debt and **unfunded PSPRS liability** balances closed as expected.

Financing measures were exercised to **free \$4.1 million capacity** in the **expenditure limitation**.

All Town departments ended the year **within** their Legally adopted operating budgets.

Bond proceeds to fund capital projects are being used on a reasonable timeline.

Revenue classifications are aligned and will be monitored closely.

No changes are recommended for the FY2019 budget **resulting** from FY2018 audit.

EXHIBITS & NOTES

This report contains four exhibits to illustrate the assertions in the Summary and Highlights above and provide further detail of relevant information.

The FY2018 **Legal Budget** was adopted in June 2017 and modified throughout the fiscal year. This is the legal appropriations that, by law, is not be exceeded.

FY2018 **Estimated** year ending balances were determined as an integral part of the FY2019 budget process. It was primarily based on actual data through January 2018 (7 months into the year)

FY 2018 **Actual** ending balances are audited and the final figures for the year ended June 30, 2018.

EXHIBIT 1: Expenditures, Revenue and Changes in Fund Balance

Operating Statement	Legal Budget 7/1/2017	Estimated 1/31/2018	Actual 6/30/2018	Difference	
				Amount	%
Revenue	\$ 29,327,000	\$ 31,778,952	\$ 32,202,473	\$ 423,521	1.3%
Less: Expenditure	28,884,400	24,302,624	22,763,686	(1,538,938)	-6.3%
Less: Transfer out	8,688,293	8,688,293	4,582,235	(4,106,058)	-47.3%
Change in fund balance	(8,245,693)	(1,211,965)	4,856,552	6,068,517	-500.7%
Beginning fund balance	35,405,678	30,177,348	30,177,348	-	0.0%
Ending fund balance	27,159,985	28,965,383	35,033,900	6,068,517	21.0%
Remaining debt liability	8,182,444	8,182,444	8,173,579	(8,865)	-0.1%
Unfunded PSPRS liability	17,400,000	18,038,063	17,948,248	(89,815)	-0.5%
Equivalent net worth	\$ 1,577,541	\$ 2,744,876	\$ 8,912,073	\$ 6,167,197	224.7%

Actual revenues of \$32.2 million are 1.3% (\$423 thousand) **more than** Estimated.

Actual expenditures and transfers out closed **less than** Estimated by 6.3% (\$1.5 million) and 47.3% (\$4.1 million), respectively.

The reduction in **transfers outs** was the outcome from a reconciliation and draw down of 2016 bond proceeds that reimbursed the General fund for projects from the last 3 fiscal years. This also preserved \$4.1 million in expenditure limitation capacity.

Remaining debt and **unfunded PSPRS liabilities** closed **nearly as** Estimated.

EXHIBIT 2: Financial Forecast

Fund Balance Forecast (Operating Reserve)	Forecasted July 2017	Forecasted July 2018	Updated Nov 2018
2017-18 (last year)	100%	124%	150%
2018-19 (current year)	72%	90%	115%
2019-20 (upcoming budget)	68%	79%	95%
2020-21 (forecast year 1)	73%	83%	97%
2021-22 (forecast year 2)	91%	89%	100%
2022-23 (forecast year 3)	98%	93%	101%

The **Fund Balance Forecast** measures the Operating Reserve (Fund balance) as a percentage of the next year's Operating expenditures. The Town's policy is described in **Note 3** on the last page.

The financial forecast was updated with the Actual information provided in **Exhibit 1** (above) and **Exhibits 3 & 4** (next page). This forecast also continues the financial plan set forth in the FY2019 adopted budget including, but not limited to: maintaining Town operations, paying down the PSPRS unfunded liability, steadily funding the Capital Improvement and Pavement Replacement Plans, and maintaining the Town's facilities and fleet.

QUARTERLY REPORT

2018: Year End

EXHIBIT 3: Revenue - Operating fund

General & HURF Revenues	Legal Budget 7/1/2017	Estimated 1/31/2018	Actual 6/30/2018	Difference	
				Amount	%
Major revenues	\$ 23,681,000	\$ 24,845,739	\$ 24,894,433	\$ 48,694	0.2%
Building permits	835,000	2,399,100	893,751	(1,505,349)	-62.7%
Non major revenue	4,811,000	4,534,113	6,414,289	1,880,176	41.5%
Total revenue	29,327,000	31,778,952	32,202,473	423,521	1.3%

Though Actual total revenue was 1.3% (\$423,521) **more than** Estimated, there were significant differences among revenue categories.

Actual major revenues of \$24.9 million is 0.2% (\$46 thousand) **more than** Estimated. These major revenues accounted for 77% of the total revenue and include sales tax, bed tax, state shared revenues (including Highway User Revenue).

Building permits: In reviewing development agreements, \$1.5 million was reclassified from "building permits revenue" to:

- Non-major revenue as "contributions" - \$1,000,000; and
- The balance sheet as "resort payment reserve" - \$500,000

Actual Nonmajor revenue of \$6.4 million is \$1.9 million (41.5%) **more than** Estimated. This was primarily due to the revenue reclassification from Building permits in the amount of \$1.0 million and an uptick in a variety of licenses and permits, including in-house plan review.

Further information on the impacts of the reclassification can be found in [note 4](#) on the next page.

EXHIBIT 4: Transfers out

Operating Transfers Out	Legal Budget 7/1/2017	Estimated 1/31/2018	Actual 6/30/2018	Difference	
				Amount	%
Capital projects	\$ 8,638,293	\$ 8,638,293	\$ 4,530,851	\$ (4,107,442)	-47.5%
Grants and donations	-	-	1,384	1,384	n/a
Fire services	50,000	50,000	50,000	-	0.0%
Total transfers out	8,688,293	8,688,293	4,582,235	(4,106,058)	-47%

Actual Transfers out to the Capital projects funds was \$4.1 million (-47.5%) **less than** planned during the year. This was a result of using bond proceeds to pay for specific completed or in-progress projects over the last 3 years as describe in the [note 5](#) on the next page.

Actual Transfers out to grants and donations cover prior year's shortfalls; and the Actual Transfers out to the Fire fund is to supplement fire services; this supplement was discontinued in 2019.

Transfers out adhere to the Town policy that dedicates all Construction sales tax collected **in excess of \$500,000** to the **Capital improvement Program** ("CIP").

Construction sales tax	\$4,762,342
Less base amount	(500,000)
Dedicated to CIP	\$4,262,342

NOTES

1) For budgeting, revenues are estimated at the most likely expectation, based on the best information at that time; and Expenditures are estimated at an amount "not to exceed".

2) For Public Safety Personnel Retirement System ("PSPRS") liability, like the PSPRS the town uses actuarial reports for budgeting and rate setting, then applies different assumptions as required under GASB 68 for audited financial statements. Both reports are available on the PSPRS website.

3) Per Council policy, a reserve for unforeseen emergencies is to be maintained between 90% and 110% of the following years Operating budget (General and Highway User Revenue funds). At the time the Town Council approves the use of reserves below 90%, it will also identify the time-period over which the reserve will be replenished.

4) Though \$1.5 million was reclassified from building permits, total revenue did not alter. Categorical reclassifications can potentially impact future compounding revenue forecasts, like sales or bed tax.

Since building permit revenue is looked at on a permit-by-permit basis, overall, the reclassification does not appear to significantly impact revenue forecasts going through 2023. But this will be closely monitored during this fiscal year 2019 and reassessed in budget preparation for 2020.

The \$1 million contribution was part of a larger deposit that is being held by the Town for five years contingent on the issuances of Certificates of Occupancies.

The \$500,000 was reclassified to "resort payment reserve" as restricted cash, because if certain criteria are met within 30 years, the \$500,000 can be reclaimed by the depositor.

5) Transfers from the General fund to the Capital projects fund were estimated to follow the Capital Improvement plan as originally budgeted. However, after a full reconciliation it was noted that various capital projects were identified in the 2016 excise tax revenue obligations (bonds) had been completed or are in-progress were being funded by general fund revenues, not bond proceeds.

Bond proceeds of \$4.1 million were drawn down to repay the general fund via net transfer. Since the use of bond proceeds is exempt from the expenditure limitation, this transaction expanded capacity in the expenditure limitation by \$4.1million.

CONTACT INFORMATION

If you have any questions regarding this report or would like addition financial information about the Town, please contact Douglas Allen at dallen@paradisevalleyaz.gov or 480-348-3532.