

TOWN OF PARADISE VALLEY

**Paradise Valley Police Department
Alarm Monitoring Service Update**

November 3, 2016



Key Questions

1. What direction do the Mayor and Town Council want to take the police alarm monitoring service?
2. Is there a business model that is acceptable to the Mayor and Town Council?



What are we marketing?

- Our residents trust that our alarm service will:
 - Protect their privacy
 - Provide outstanding customer service
 - Reduce latency in reporting alarms over private company
 - Be “local” in feeling
 - Inherently have their best interests at heart over profitability



History of PV Alarm Monitoring

- Town Council began discussions in 1980, began service in 1984
- Goal was “to provide police protection for our citizens,” with secondary goals of false alarm reduction and improved service over private alarm companies
- By 2005 95+ staff hours per week needed to complete alarm duties for 575 subscribers
- Subscriber counts over past 15 years:
 - 550 in 2001
 - 575 in 2005
 - 610 in 2008 (peak)
 - 420 today



History of PV Alarm Monitoring (cont.)

- 2009-2011 Alarm Monitoring was managed by Finance Dept.
- Goals were to increase subscriber base and financial viability by:
 - Aggressive false alarm and alarm permit enforcement
 - Increase monthly subscriber fees
 - Broader customer recruitment methods
- Despite these efforts there continued to be a 2 to 3% net annual loss of revenue and subscriber base
- By 2012 there were only 20-30 staff hours available per week
- December 2015 (October 2016) statistics:
 - 477 subscribers (now 420)
 - Annual customer loss rate 5% (now 13%)



Alarm Service Today

- Monthly fee of \$35-\$50, depending on number of zones monitored
- Generated approx. \$195,000 in revenue past 12 months (5% loss/year)
- Alarm Fund balance of \$650,000
- No assigned staff time or reinvestment in infrastructure
- Hardware for receiving signals is past end-of-life
- New accounts not sought and false alarm billing not conducted
- Signal formats and database structure no longer follow industry best practices
- No vendor willing to take on temporary monitoring

Major hardware failure December 2015



September 2015 Alarm Survey

- 450 Surveys sent to PVPD Alarm Subscribers
 - 180 responses received (40% response rate)
- Consistent findings/feedback
 - Reduced response times most important when choosing alarm vendor
 - 84% would upgrade their equipment if asked by Town (no fee increase)
 - If Town increased fees marginally, 55% would pay, 33% would reconsider
 - 70% feel expanded functionality not important
 - Most have been subscribers for more than 10 years
- Although useful this survey was pre-failure!



Business Models



Business Model Development

- October 2015 – Council presented with current state of alarm monitoring service and options to consider
- December 2015 – Major system failure
- January 2016 – Council updated on service status and 180-day plan
 - Investigate possibility of short-term monitoring by private vendor
 - Determine feasibility of “hybrid” option for long-term solution
 - Procure professional consulting services (RFQ issued)
- May 2016 – Staff completes site visits – reports to Council
- July 2016 – Mindboard selected as business plan consultant



Alarm Models – Key Points

- Knowns:
 - Resources/expenditures in models support up to 600 customers
 - Must upgrade our alarm infrastructure
 - Subscribers likely to need upgrade to their infrastructure
- Assumptions:
 - Will lose customers because of upgrade cost to their panels
 - Monthly fee increase
 - Continue to not require a long-term service contract
 - Increase in alarm staffing
 - Will be able to see 50% increase in historical customer recruitment



Alarm Models – Key Points

- Challenges:
 - Over 200 alarm companies operating in PV
 - Major private-sector advertising on TV offering scalable services, competitive prices, robust features, D-I-Y installations
 - Alarm industry has successfully lobbied some states for restrictive legislation
 - Mitigating current loss of subscribers by rebuilding eroded customer confidence (cancellations up 50%)
 - Small customer base limits recoup of expenditures/investments
 - Increased workload of dispatchers who already juggle multiple priorities - radio, 9-1-1, customers at windows, CAD, CrimeStopper calls
 - Must meet yearly/quarterly recruitment goals (ripple effect across years)



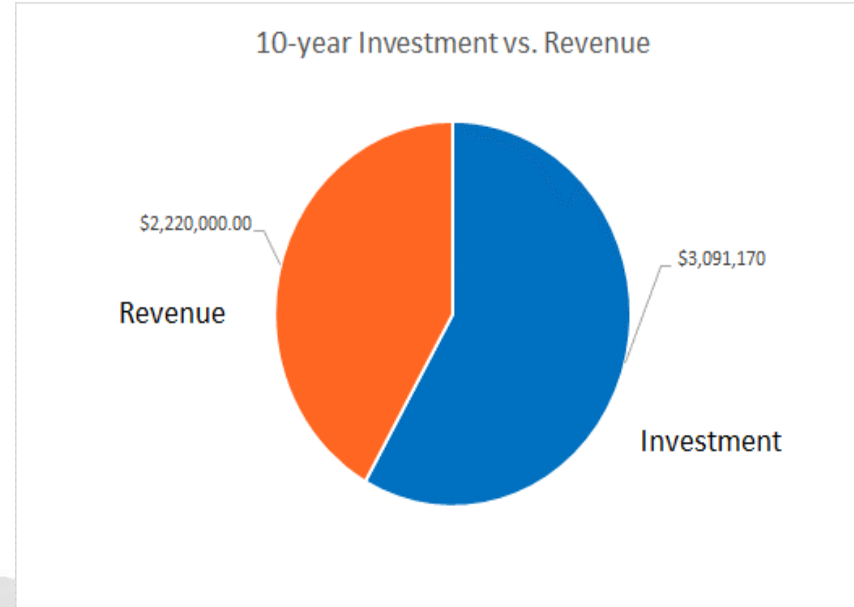
Alarm Models – Key Points

- Unknowns:
 - Can we regain our historical peak of 600 subscribers?
 - How many customers will we lose to required panel upgrades?
 - How many customers will upgrade Uplink service?
 - What market penetration can we ultimately expect?
 - Will market react by targeting our potential customers?
 - Does ASAP to PSAP negates desirability of our service?
 - How many residents are already in long-term contracts with vendors?
 - Is Council willing to subsidize technology and/or operating costs with General Fund dollars?



Business Model #1: Best of all variables

- 12.5% rate increase
- 50% increase in net recruitment
- Requires at least \$308k capital infusion from General Fund over 10 years
- Net 10 year operating loss \$871k
- Loss offset by \$650k in Alarm Fund + \$308k capital infusion from General Fund
- Increase from 350 to 575 subscribers



Business Model #2: Recruitment-driven sustainability

- Recruitment numbers 500% to 700% over historical numbers
 - Increase from 350 to 955 subscribers in 10 years
- Absolutely critical that numbers be met in first three years (120 new subscribers each year)
- Very doubtful the market exists (22% market share)
- Requires immediate turn-around of service perception and quick availability of new customers



Business Model #3: Rate-based sustainability

- Requires massive increase to rates that are likely unacceptable
 - Rates increase from average of \$40 to average of \$73.50 monthly
- Negatively impacts recruitment goals
- Moves in opposite direction of market, which has decreased fees while offering expanded service



Business Model #4: Capital-Protection Exit Strategy

- Exit alarm monitoring with a shutdown date of 9/15/17
- Refunds to current subscribers:
 - 12-months of subscriber fees if terminate 181-240 days before shutdown
 - 9-months of subscriber fees if terminate 121-180 days before shutdown
 - 6-months of subscriber fees if terminate 61-120 days before shutdown
 - No refund if termination less than 60 days before shutdown
- Reinvest remaining fund balance (estimated \$400k) per Council direction



Other Business Models Considered

Fully-subsidized sustainability:

- Requires yearly increases in subsidization
- If subscriptions not capped, would require \$6M over 10 years

Sunset:

- Minimum investment/expenditure to keep program going
- Fund balance \$0 within seven years

Expenditure-based sustainability (cut expenditures):

- Unusable because of weak customer service and/or system stability/reliability – no improvement at all over current state



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Thank You

