

TOWN OF PARADISE VALLEY

**Paradise Valley Police Department
Alarm Monitoring Service**

December 1, 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?



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 2.5 full-time staff needed for 575 subscribers
- Subscriber counts over past 15 years:
 - 550 in 2001
 - 575 in 2005
 - 610 in 2008 (peak)
 - 416 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:
 - Increase monthly subscriber fees
 - Broader customer recruitment methods
- 2009-2015 3% to 5% annual loss of revenue and subscriber base
December 2015 (November 2016) statistics:
 - 477 subscribers (now 416)
 - 2009-2015 Annual customer loss rate 5% (2016=13%)



Alarm Service Today

- Monthly fee of \$35-\$50, depending on number of zones monitored
- Generated approx. \$195,000 in revenue past 12 months
- Alarm Fund balance of \$650,000
- No assigned staff or reinvestment in infrastructure
- Hardware for receiving signals is past end-of-life
- Signal formats and database structure no longer follow best practices
- Major hardware failure December 2015
- No response to RFQ for alarm consulting services (February 2016)
- Data quality issues prevented execution of temporary monitoring



Business Model Development

- October 2015 – Council updated on current state of alarm service
- January 2016 – Council updated on service failure 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/June 2016 – Staff completes site visits – reports to Council
 - Council directed staff to find cost-neutral or cost-positive business model
- July 2016 – Mindboard selected as business plan consultant
 - Identify data and alarm industry standards for signal processing
 - Research and recommend new hardware that increases reliability/redundancy
 - Develop sustainable business models



Alarm Models – Key Points

- Knowns:
 - Resources/expenditures in models support up to 600 customers
 - Must upgrade our alarm infrastructure and add staff
 - Subscribers likely to need upgrade to their infrastructure
 - Must go to modern signal formats, daily check-ins and multiple connection types
 - Staying in business will require continuous service evaluation to mitigate losses
 - No business model for service continuation is cost-positive or cost-neutral
- Assumptions:
 - Will lose some customers because of upgrade cost to their panels
 - Subscriber rate increase (one-time or multiple)
 - Will be able to see 50% increase in historical customer recruitment
 - Council willing to cover losses with \$\$ from General Fund



Alarm Models – Key Points

- Challenges:
 - Over 200 alarm companies operating in PV (Town tied for #2 Market Share)
 - 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 (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 or exceed our historical peak of 600 subscribers?
 - How many customers will we lose to required panel upgrades?
 - Will market react by targeting our potential customers?
 - How many residents are already in long-term contracts with vendors?
 - Will we see legislation to limit our ability to provide service?
 - How much of a loss is Council willing to cover with General Fund dollars?

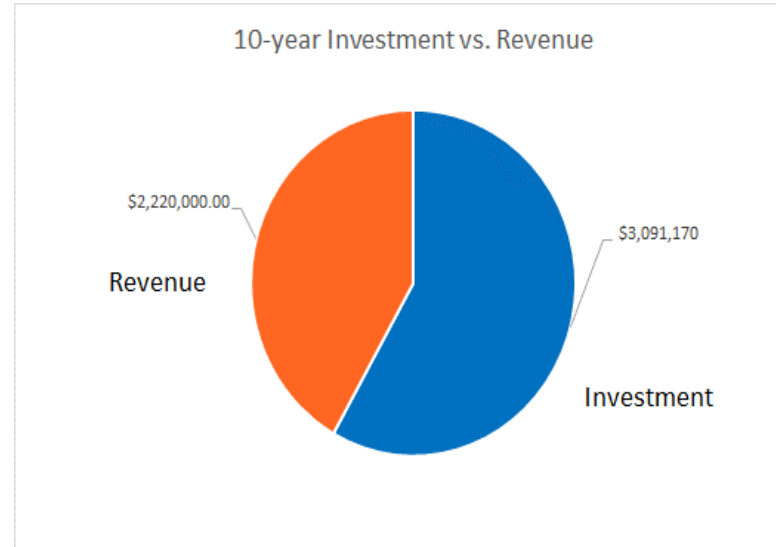


Business Models



Business Model #1: Best of all variables

- 12.5% rate increase first year
- Needs 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
- Provides basic service, no platform for expanded services



Business Model #4: Gradual Termination Strategy

- Exit alarm monitoring at a date certain 120 to 180 days in future
- Monitoring service discontinuation
 - Letter to current subscribers
 - Certified letter
 - Final certified letter
- Hire subscriber advocate(s) to help residents with transition
 - List of guidelines new vendor should follow
 - Post-transition check in with each former subscriber



Business Model #5

Competitive “All In” Service

- Goal is to become #1 in PV alarm market (1500+ subscribers)
- Provide option of basic and advanced services to customers
 - Basic and advanced signaling
 - Technology platform for future audio and/or video monitoring
 - Multiple connection methods (cellular/radio/internet/landline)
- Fully-functional redundant site
- 3 full-time alarm staff plus additional call-takers
 - Staff brought on as needed over four year period
- Likely requires contract with customers to protect Town’s investment
- Requires detailed market study to determine revenue expectations
- First-year expenses \$1.07 million
 - Following years \$472k to \$715k
 - Total four year expenses \$2.85



Other Business Models Considered

Fully-subsidized sustainability:

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

Hybrid:

- No success stories found with municipalities that are trying it
- Staff time and costs increased over time instead of decreased
- Customer service and liability issues remain

Expenditure-based sustainability (cut expenditures):

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



Other Business Models Considered (cont.)

Rate-based sustainability:

- Requires 15% rate increase every 24 months
- Moves in opposite direction of market – limits recruitment

Recruitment-driven sustainability:

- Requires 500% to 700% recruitment increase over historical high
- Must meet yearly recruitment goals to avoid massive losses
- Large market for a basic service may not exist
- Requires immediate turn-around of service perception and quick availability of new customers



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Thank You

