

TOWN *Of* PARADISE VALLEY



STAFF REPORT

TO: Mayor Bien-Willner and Town Council Members

FROM: Jill Keimach, Town Manager
Douglas Allen, CFO

DATE: February 11, 2021

AGENDA TITLE:

Approve Resolution 2021-02 Amending the Fiscal Year 2020/21 Budget

SUMMARY STATEMENT:

The attached Resolution 2021-02 contains priorities presented at the January 28, 2021 Town Council work session. Town management presented recurring revenues continue to rebound with recommendations and the Mayor & Council gave consideration and staff direction to prepare a resolution to ease into reopening budget priorities and programs.

As part of the FY2020/21 budget process, Town Council reviewed each department and program budget and priorities with the respective Director. The final adopted budget incorporated a tiered plan to monitor revenues and expenditure priorities to be flexible and adaptive to fluidly transition operations as revenues rebound or demands shift.

“Priority One” expenditures represent the base budget for primary services with spending authority effective July 1. **“Priorities Two and Three”** contingencies are designed to keep pace with demands that are poised to resume the direction the Town was heading in February 2020 that will be assessed and potentially eased into in the second and third quarters of FY2020/21, respectively;

I. REOPENING PROGRAMS

A. As outlined in the FY2020/21 budget, beginning July 1, 2020:

- Spending authority was approved for **Priority One** programs;
- **Priority Two** and **Three** programs were set in a contingency account with:
 - **Priority Two** to be assessed in October 2020; and
 - **Priority Three** in January-March 2021 timeframe.

B. Importance of Adopting Budget Contingencies

- The FY2021 Adopted department budgets have a mechanism to fluidly transition back to their 2019 service levels as the Town's revenues rebound.
- By placing Priorities in contingencies, the Town has the flexibility to ease into them as revenues rebound and are available.
- Had the Mayor and Council not budgeted contingencies, then by state law, the Town would not be able to reopen these programs, at these levels, this fiscal year and would need to wait until next fiscal year.

The Table below presents the adopted contingencies, by priority, for the "operating fund". The operating fund is a combination of the "General fund" and the "Highway User Revenue Fund (HURF)".

OPERATING FUND - Adopted Contingencies for Council Considerations as Revenues Rebound				
PURPOSE (General Fund Only)	Adopted Contingency Budget Priority:			
	Total	One	Two	Three
Operating contingency	\$ 804,058	\$ 600,000	\$ 68,000	\$ 136,058
Department Priorities 2	595,906	-	595,906	-
Department Priorities 3	3,221,042	-	-	3,221,042
PSPRS unfunded liability	5,400,000	-	2,400,000	3,000,000
Tourism (ES revenue based contract)	1,087,741	-	-	1,087,741
Legal services	250,000	250,000	-	-
Merit program	460,000	-	230,000	230,000
HR programs and study	90,000	55,000	-	35,000
Town-wide fee study	28,000	-	28,000	-
Total Adopted Contingencies	\$ 11,936,747	\$ 905,000	\$ 3,321,906	\$ 7,709,841

C. Rebounding Revenues and Easing into Reopening Programs

Additional funding sources that materialized in FY2020/21 include, but not limited to:

- A favorable closing of FY2019/20 driven by many strategic actions taken by the Mayor & Town Council and Town Management at the onset of COVID19 in March 2020;
- Federal grant funding for public safety from the state AZCares funds; and
- A localized rebound in retail transaction privilege (sales) boosted by internet sales and reopening of hospitality business in Paradise Valley.

This is supported by:

- Construction and development continuing to be strong; and
- "State shared" and all other contractual revenues remaining steady.

November 5, 2020 - Resolution 2020-34:

- With recurring revenues rebounding and various non-recurring funding sources becoming available to the Town; on October 22, 2020 the Mayor and Town Council gave consideration and approved Resolution 2020-34 to easing into opening budget priorities.
- The vast minority of the \$4.1 million of expenditures of this resolution are considered recurring operations (\$338,438) with \$2.4 million for the PSPRS unfunded liability and \$1.1 million for the Lincoln mill and overlay project.
- Resolution 2020-34 reopened departmental programs such as contractual general plan services, technology upgrades, a sign truck, seasonal overtime for the post office, service awards, the town reporter, additional hours for part-time professional staff; and town-wide programs including a fee study, partial restatement of the employee merit program, funding for the PSPRS unfunded liability, funding for the Lincoln mill and overlay project, and operational contingency funds.

February 11, 2021 – Resolution 2021-02:

- With recurring revenues continuing to rebound; at the January 28, 2021 Town Council work session, the Mayor and Council gave consideration and staff direction to prepare resolution 2021-02 to ease into reopening budget priorities and programs
- The vast minority of the \$4.6 million of expenditures are considered recurring operations (\$406,421); with \$3.0 million for the payment of the PSPRS unfunded liability and \$1.2 million to fully fund the Lincoln mill and overlay project.
- Resolution 2021-02, as presented, would reopen human resource studies (handbook and policy reviews), the full employee merit program, and add an Emergency manager position in the police department; with additional funding encumbered for the PSPRS unfunded liability, funding for the Lincoln mill and overlay project, and operational contingency funds.

The table below shows the allocations moved from the adopted contingencies to the operating budgets. The remaining \$2.3 million unallocated contingencies are scheduled to be part of the FY2021/22 budget process.

OPERATING FUND - Adopted Contingencies Allocated and Available to Operating Budgets				
PURPOSE (General Fund Only)	Unallocated Remains in Contingency	Resolution Allocation to Operating Budgets		
		Res. 2020-17 6/11/20	Res. 2020-34 11/5/20	Res. 2021-02 Recommended
Operating contingency	\$ -	\$ 600,000	\$ 68,000	\$ 136,058
Department Priorities 2	309,960	-	245,583	40,363
Department Priorities 3	915,494	-	1,152,774	1,152,774
PSPRS unfunded liability	-	-	2,400,000	3,000,000
Tourism (ES revenue based contract)	1,087,741	-	-	-
Legal services	-	250,000	-	-
Merit program	-	-	230,000	230,000
HR programs and study	-	55,000	-	35,000
Town-wide fee study	-	-	28,000	-
Total Adopted Contingencies	\$ 2,313,195	\$ 905,000	\$ 4,124,357	\$ 4,594,195

B. January 28, 2021 Council meeting:

When presenting recommendations for the February Budget Amendment in Resolution 2021-02, management gave the following assurances:

- Management is confident current financial conditions can sustain the following recommendations set forth in resolution 2021-02;
- Using an “easing in” approach helps the Town to remain cautious, flexible, adaptable and focused on delivering high quality services that are sustainable;
- Management is cautious not to over extend the Town’s commitments or restrict the Town’s ability to pause or pull back on programs or services if warranted to mitigate and an unforeseen economic crisis.

Management considers these and other factors before recommending to Council to reopen programs:

- Sustainability and impact of overall Town operations;
- One-time revenues are **not** used for recurring programs;
- Recurring revenues can be used for capital, contractual and other one-time expenditures; and
- Continue to maintain an appropriate level of Emergency Reserves for unforeseen emergencies.

The Table below demonstrates that opening recurring programs is supported by recurring revenues.

RECURRING EXPENDITURES OPERATING BUDGET - as Amended (General fund + HURF)				
	Recommended Amended Budget	Recurring Revenue Rebound Level and Date		
		Level 1.0 6/11/20	Level 1.5 11/5/20	Level 2.0 <i>Recommended</i>
Recurring operating expenditures	\$ 20,625,166	\$ 20,016,365	\$ 338,438	\$ 270,363
Operating contingencies	1,109,058	905,000	68,000	136,058
Recurring operating revenues	22,692,140	16,983,020	2,717,700	2,991,420
Available for non-operating needs	\$ 957,916	\$ (3,938,345)	\$ 2,311,262	\$ 2,584,999

III. PREPARED AND CAUTIOUS OF DOWNTURNS

A. Ready for the next economic shock - 2021

Though the Town is not out of the COVID19 recovery, by maintaining a structurally balanced budget with recurring expenditures not exceed recurring revenues; and using non-recurring revenues for capital improvements, non-recurring programs, and payment of the PSPRS unfunded liability; the Town has maintained a low debt ratio and kept many contingencies and safety nets intact if needed for short term support again.

Should the Town experience another sudden and unforeseen economic downturn, there is plenty of recent history to pull from. Since it hasn’t been a full year, Management’s initial mitigating actions to a crisis would be similar to those taken in March 2020 in response to COVID19, including budget cuts and reductions in service that were identified, but were not necessary to implement in 2020.

B. Mitigating Actions 2020

In March 2020, the Town experienced sharp revenue drops that were abrupt, extremely deep with the duration for rebound and recovery very uncertain.

From July 2019 through February 2020, the Town's had experienced elevated tourism and was on-track to exceed its minimum revenue goal for the fiscal year ending June 30, 2020. Though the Town could sustain a 25% drop in tourism the rest of that fiscal year and meet the minimum revenue goal, the drop-in tourism was much deeper and detrimental to the next year's fiscal health.

To maintain the high standard of Town services, Town Management and all Departments identified various mitigating financing options to address this pause in revenue, with other possible collateral short falls over the longer-term and discussed with the Mayor and Council who had additional ideas to mitigate the crisis.

The following actions were implemented before April 2020:

- Froze all non-essential vacancies and other non-essential spending
- Held PSPRS Unfunded liability cash payments
- Deferred road maintenance where roads were in good condition
- Private placement (low rate) to hedge cash flow of reimbursements of CIP
- Participated in the AZ state work share program
- AZDEMA program / FEMA reimbursement efforts
- Aligned staffing duties with demands and skill sets, not just job title
- Project teams: Reopening, Recovery, Best Practices, Continuity Planning
- Departments prioritized and continue to reduce expenditures on a tiered approach
- Continually updated revenue projections and analysis as data is available
- Assessed policies, reserves and set asides for clarity and safety
- Recalibrated costs and use of non-general fund sources
- Planned a dynamic resumption to full activities, yet remained ready to cut-back if necessary

C. Contingency Planning – Strategic Revenue Plan 2019

In June 2019, the Town Council adopted the Town's first strategic revenue plan that is similar to a "stress test".

The Strategic Revenue Plan was inspired by a Mayor's initiative and the long-standing traditions of Paradise Valley's values and directives for fiscal prudence and stability. This report brings together an ASU graduate students' "Paradise Valley Revenue Risk Assessment" study, GFOA recommended practices, the Town's revenue analysis, and the annual financial forecast and budget preparation.

The Strategic Revenue Plan looks at specific revenue trends, their basis and how likely risk factors could influence their performance and would impact the Town's governmental operations, obligation repayments and capital improvement plans. This helps to determine the Town's ability to withstand shocks and stress in revenues while maintaining services over a recovery period.

By using the stress test from the Strategic Revenue Plan, Town staff was well prepared to mitigate the shock to the revenue in March 2020.

The graph below was used during the FY2021 budget process to illustrate what a revenue rebound would look like as with an “L, U, or V curve” economic recovery. Management has updated these models.



D. Fortunate and Strong Financial Position

The Town's financial position is not fortunate by luck, but by design. The following factors have allowed for the navigation through troubled times.

- Previous and current Mayor & Council and Management foresight and conserving resources
- Supportive residents and customers
- Adaptive staff
- Enterprises predominately self-sufficient
- Low debt
- Desirable community to live
- Good road conditions and maintenance schedule
- Healthy fleet and a reserve to finance
- Strong emergency reserve
- Aggressive PSPRS UAAL payments (low debt)
- Court supplemental grants healthy
- Flexible Private Placement (line of credit)
- Construction remains steady

ATTACHMENT(S):

Resolution 2021-02 Amending the FY2020/21 Budget