

1

FY2020/21

MONTHLY FINANCIAL UPDATED

No. 5: February 2021



February 25th, 2021

Monthly Financial Update

Table of Contents

Revenue Update (Highlights)

| | |
|----------------------------|----|
| Summary (Chart) | 05 |
| Retail TPT | 06 |
| Lodging TLT | 13 |
| State Shared Revenue | 20 |
| Construction TPT | 27 |
| Building Permits | 34 |
| Conclusion | 41 |

Follow up Questions from Council

| | |
|--------------------------------|----|
| Auditors Recommendations | 45 |
| CIP Series 2020 | 49 |



REVENUE UPDATE FY2020/21

SPOTLIGHTED SOURCES

- Information and possible discussion.



January 28th, 2021

SUMMARY

The “Benchmark” is based on historical revenue collections through a specific month as compared to the total annual collections.



January 28th, 2021

Summary

ALL "Operating Fund" Revenues

| MAJOR Revenues by Source | Adopted Budget | | Actual Collected at 1/31/21 | Actual to BENCHMARK | | Actual to ANNUAL | |
|-----------------------------------|----------------|---------------|--------------------------------|---------------------|------|------------------|-----|
| | ANNUAL | BENCHMARK | | \$ | % | \$ | % |
| Major revenue | \$ 16,022,495 | \$ 7,682,778 | \$ 12,904,097 | \$ 5,221,319 | 168% | \$ (3,118,398) | 81% |
| All other revenue | 6,160,525 | 2,947,113 | 3,930,767 | 983,654 | 133% | (2,229,758) | 64% |
| Level I total operating revenue | 22,183,020 | 10,629,891 | 16,834,864 | 6,204,973 | 158% | (5,348,156) | 76% |
| Level II revenue rebound | 5,709,120 | 2,307,128 | - | - | - | - | - |
| Level II total operating revenue | \$ 27,892,140 | \$ 12,937,019 | \$ 16,834,864 | \$ 3,897,845 | 130% | \$ (11,057,276) | 60% |
| Level III revenue rebound | 8,595,840 | 3,579,974 | - | - | - | - | - |
| Level III total operating revenue | \$ 36,487,980 | \$ 16,516,993 | \$ 16,834,864 | \$ 317,872 | 102% | \$ (19,653,116) | 46% |

Though overall revenue is under performing compared to the "base year FY2019" and the first half of "last year FY2020", All operating revenues are near meeting the "current year FY2021" benchmark of **Level III** revenue at **102%**.

However, compared to total revenue the benchmark represents only **60% and 46%** of the total revenue budget for **Level II and Level III**, respectively. **There is optimism for the next few months. But since recent trends are not predictable, they are still being monitored closely.**



RETAIL AND HOSPITALITY TRANSACTION PRIVILEGE TAX (TPT)

| INTERNET SALES TPT | | | |
|--------------------|-------------|-------------------|-------------------|
| Month | FY2019 | FY2020 | FY2021 |
| July | - | - | \$ 70,445 |
| August | - | - | 67,895 |
| September | - | - | 73,345 |
| October | - | \$ 41,088 | 119,719 |
| November | - | 91,237 | 102,977 |
| December | - | 68,748 | 133,959 |
| January | - | 59,513 | - |
| February | - | 51,582 | - |
| March | - | 65,163 | - |
| April | - | 65,923 | - |
| May | - | 70,653 | - |
| June | - | 68,351 | - |
| Total | \$ - | \$ 582,258 | \$ 568,340 |

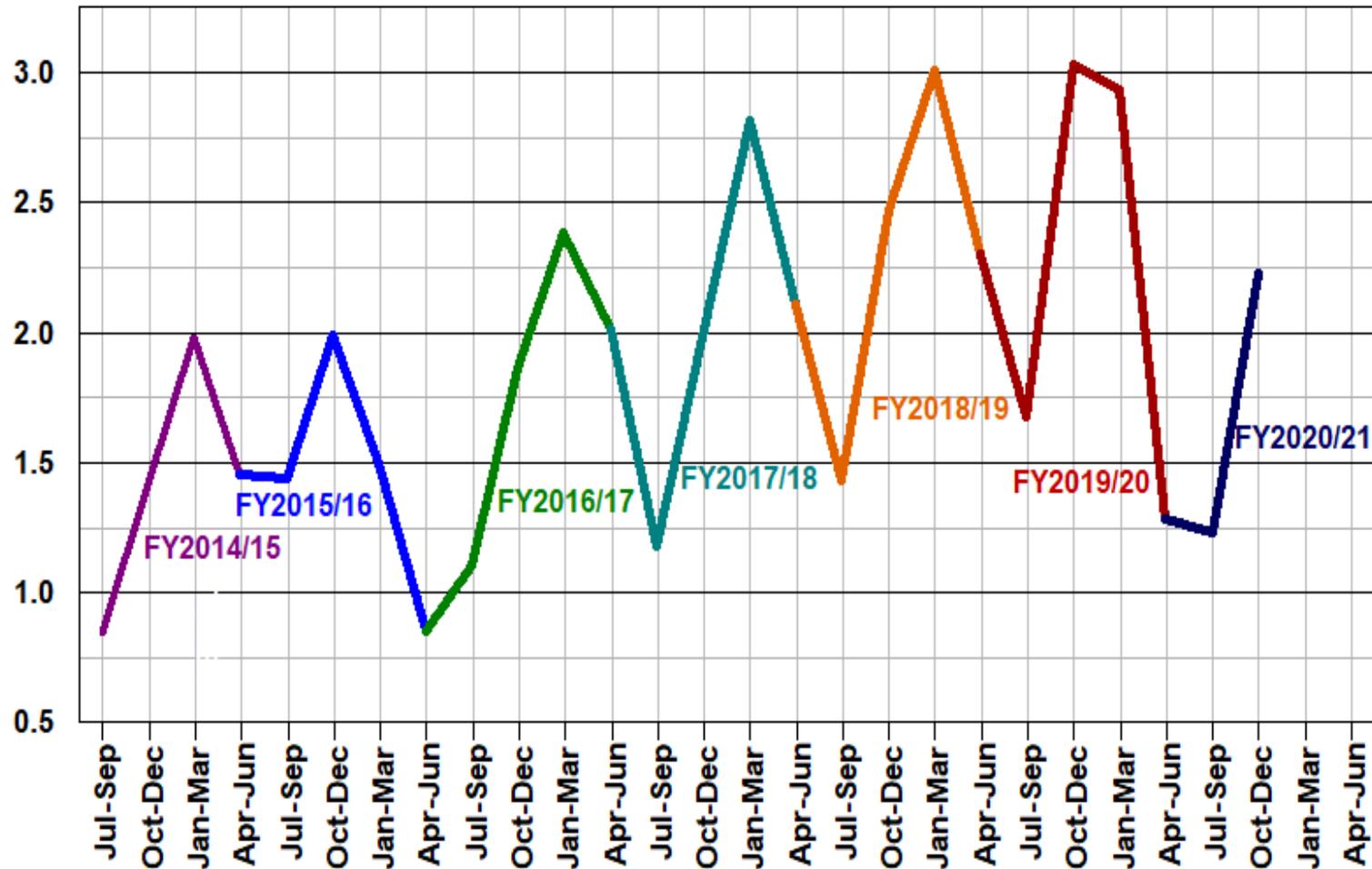


February 25th, 2021

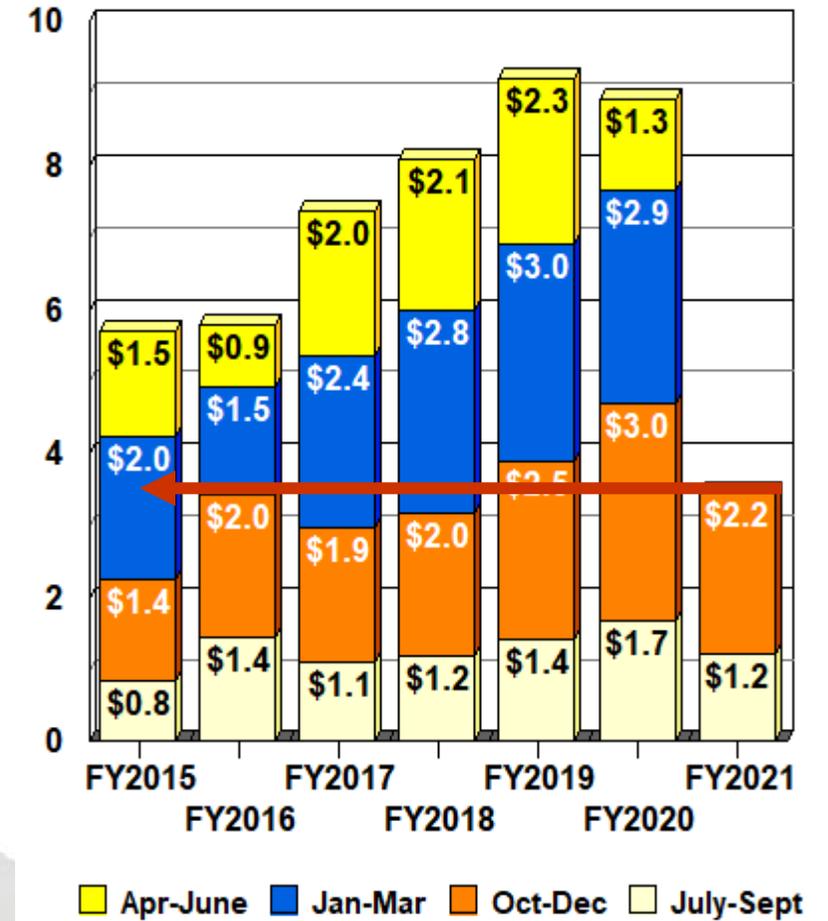
Retail & Hospitality TPT

Quarterly Collections

Actual Quarterly Collections



Total and Amount by Quarter

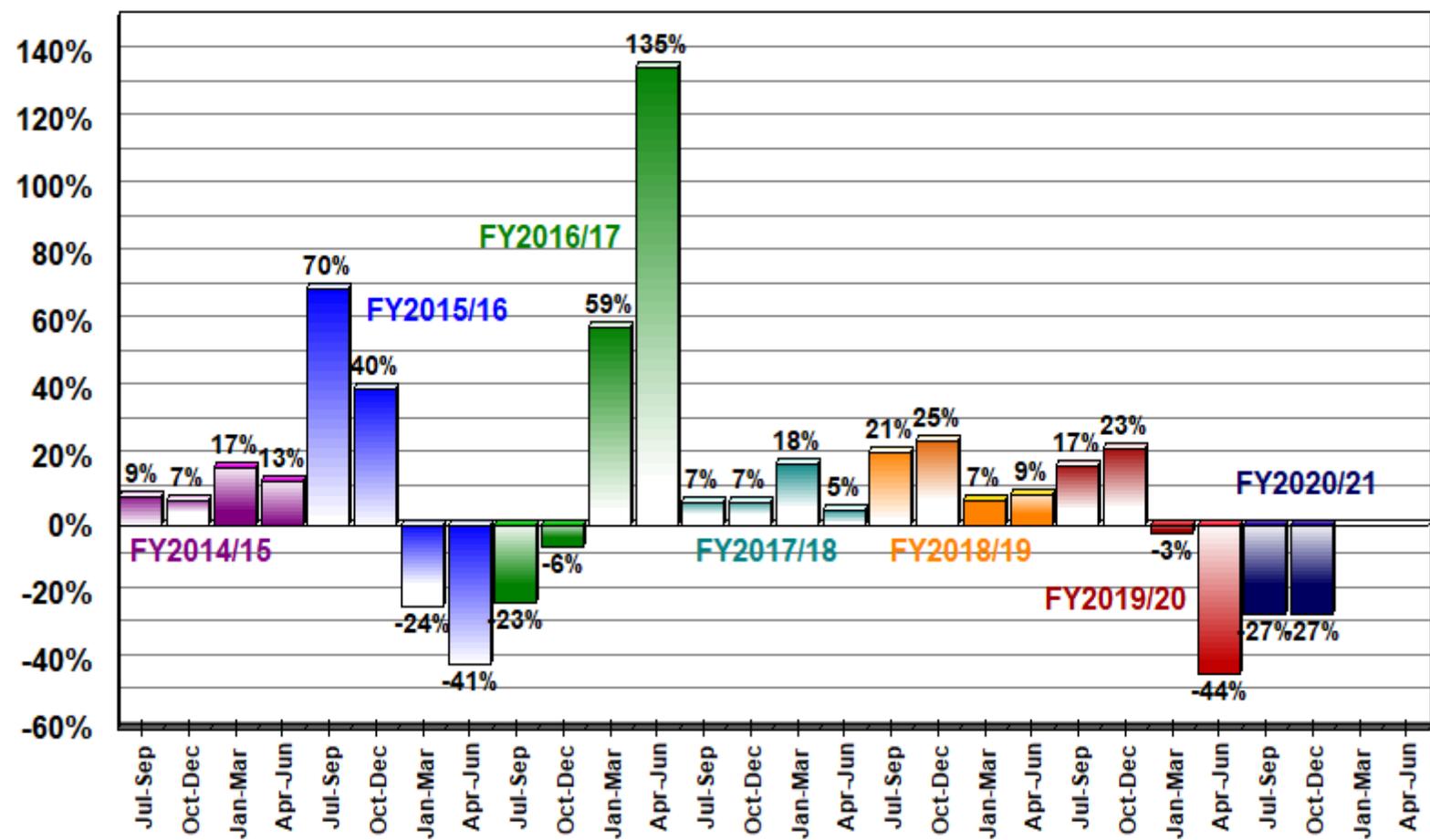


(All amounts are in Millions)

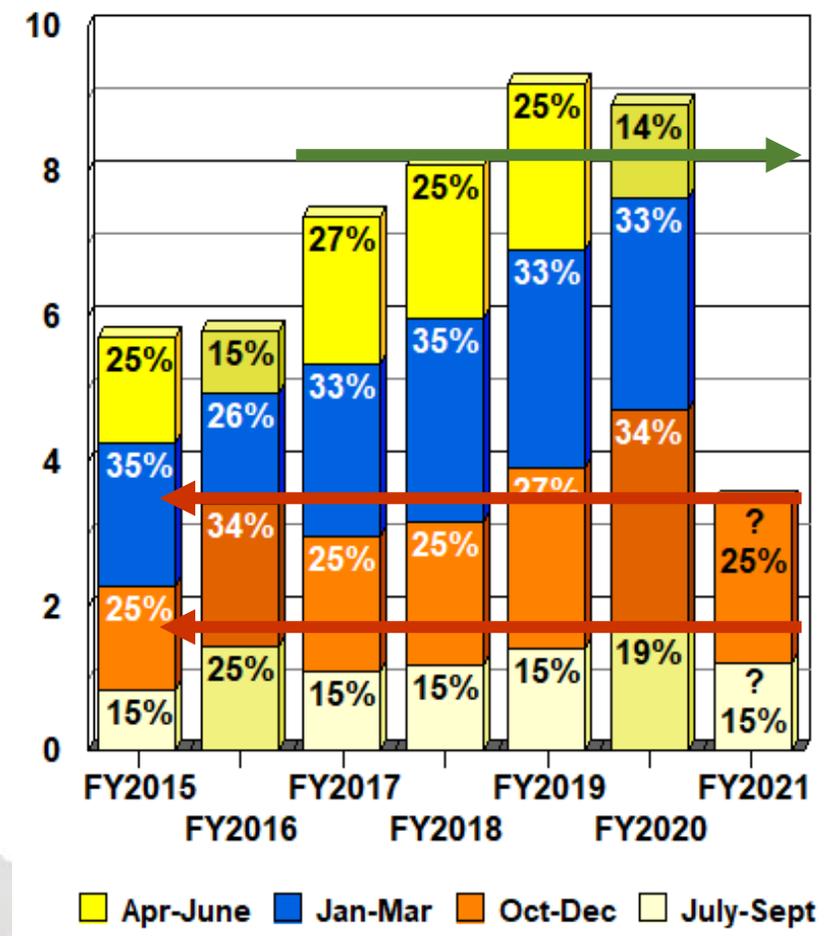
Retail & Hospitality TPT

Quarterly Collections

Change in Quarterly Collections from Previous Year



Total and Percentage by Quarter

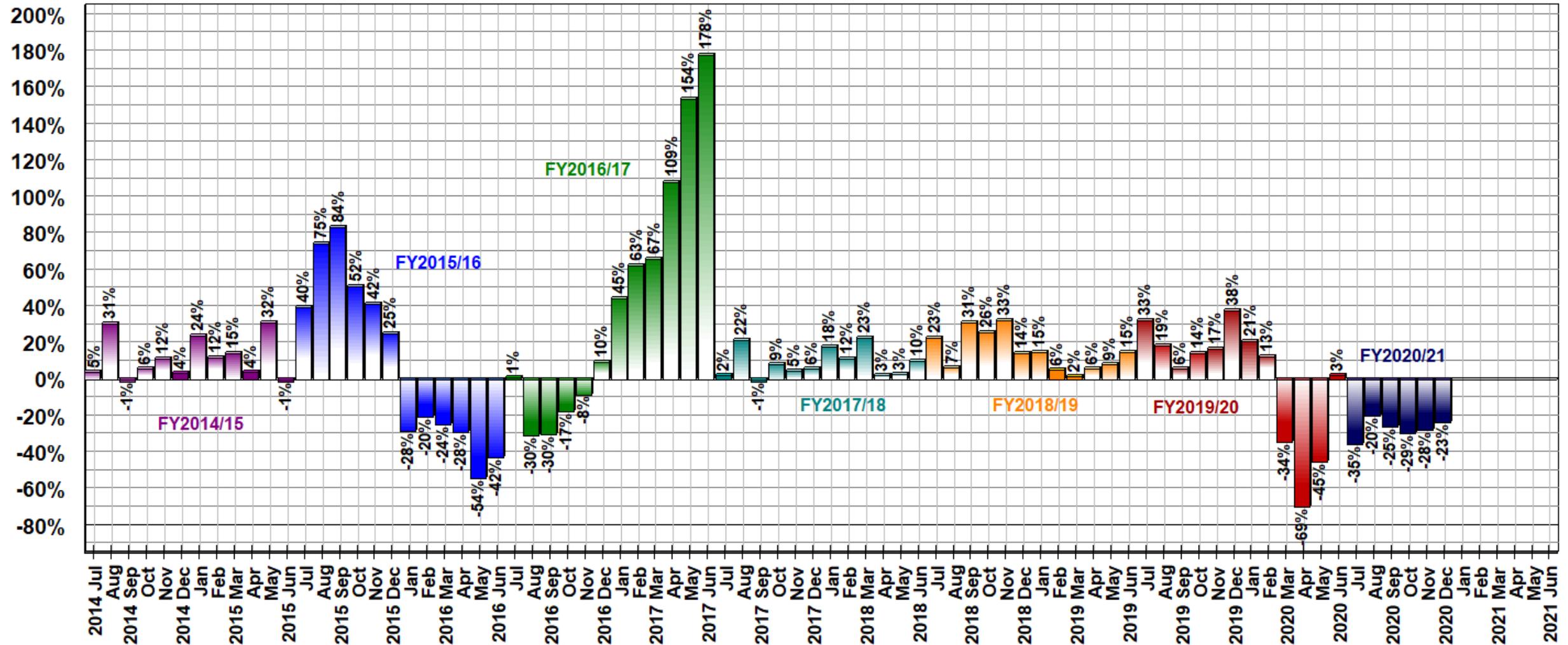


(All amounts are in Millions)

Retail & Hospitality TPT

Change in Monthly Collections

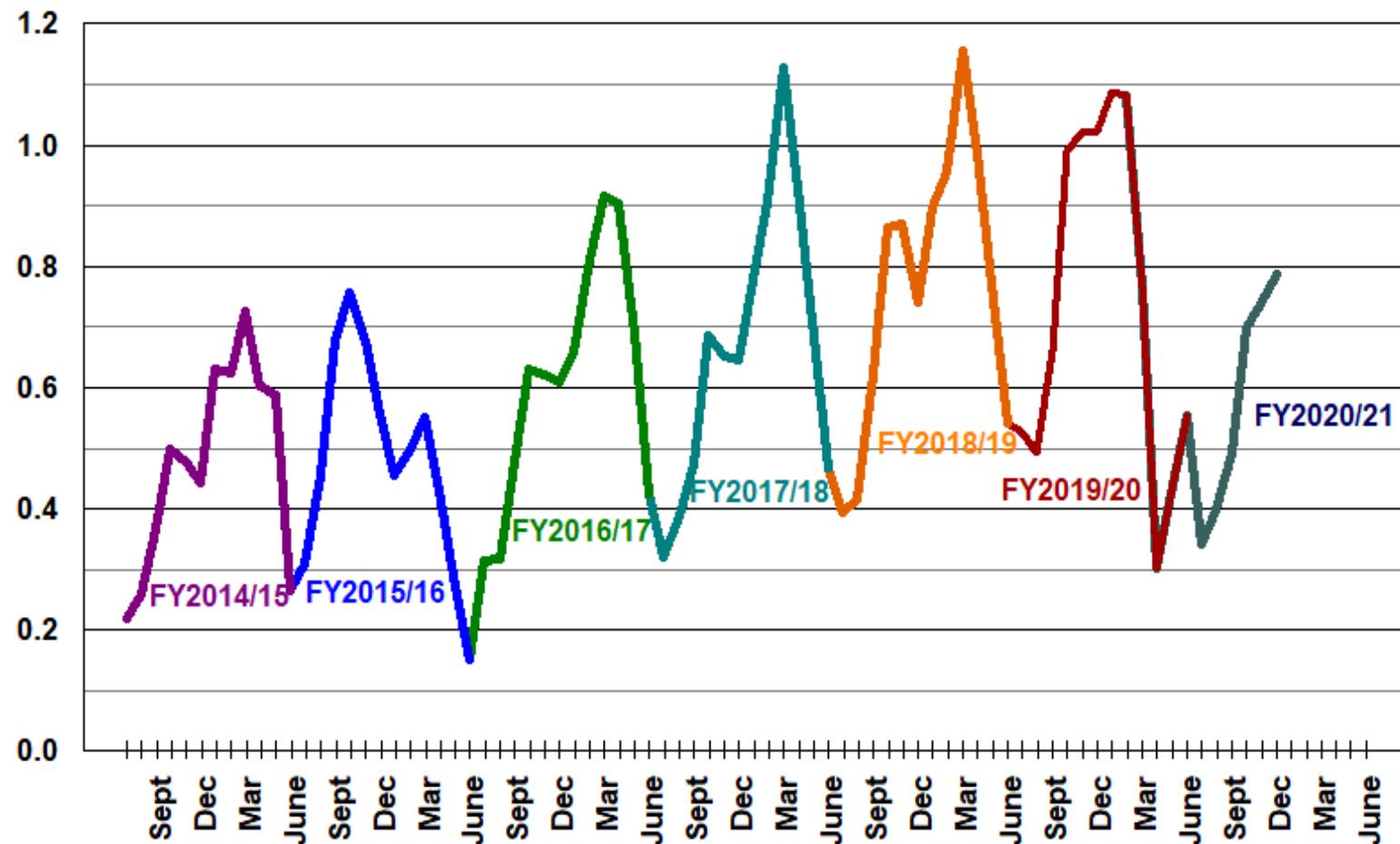
Change in Monthly Collects from Previous Year



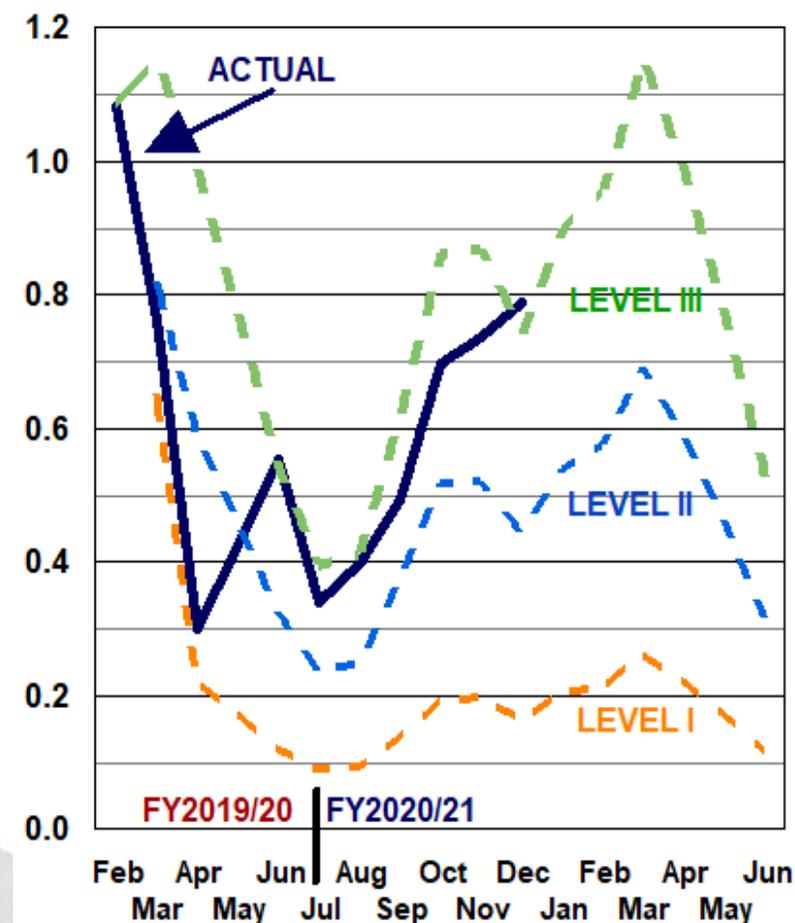
Retail & Hospitality TPT

Actual Monthly Collections

Historical FY2015 to FY2020 and FY2021 Revenue Levels



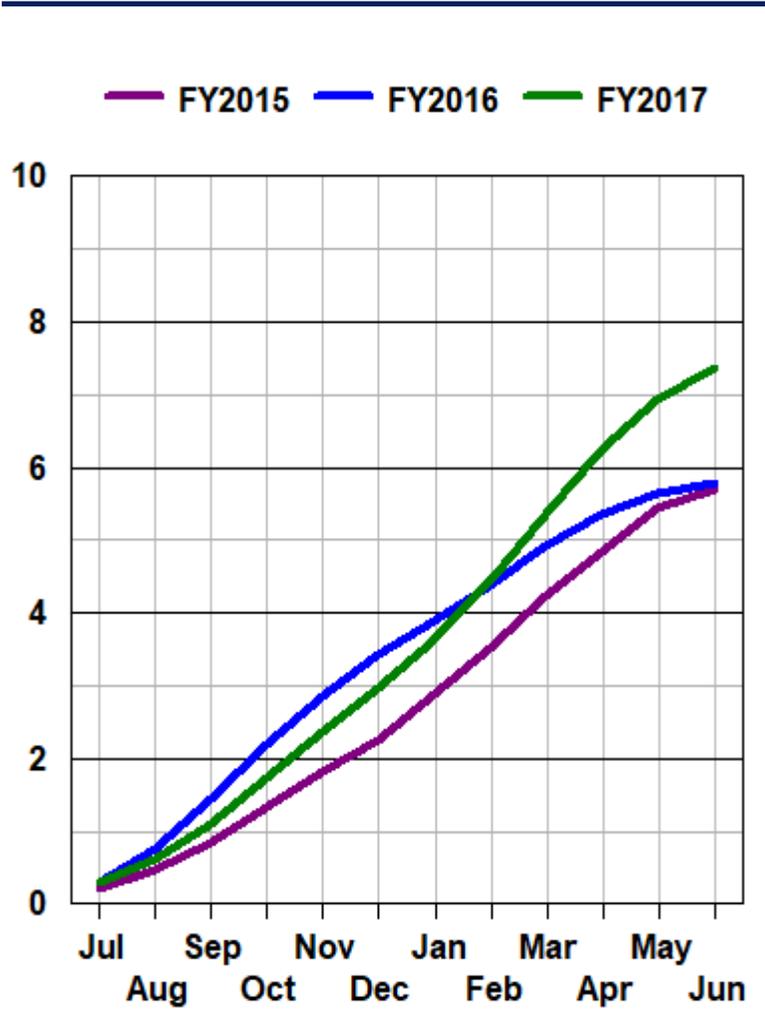
FY2021 Collections To-Date



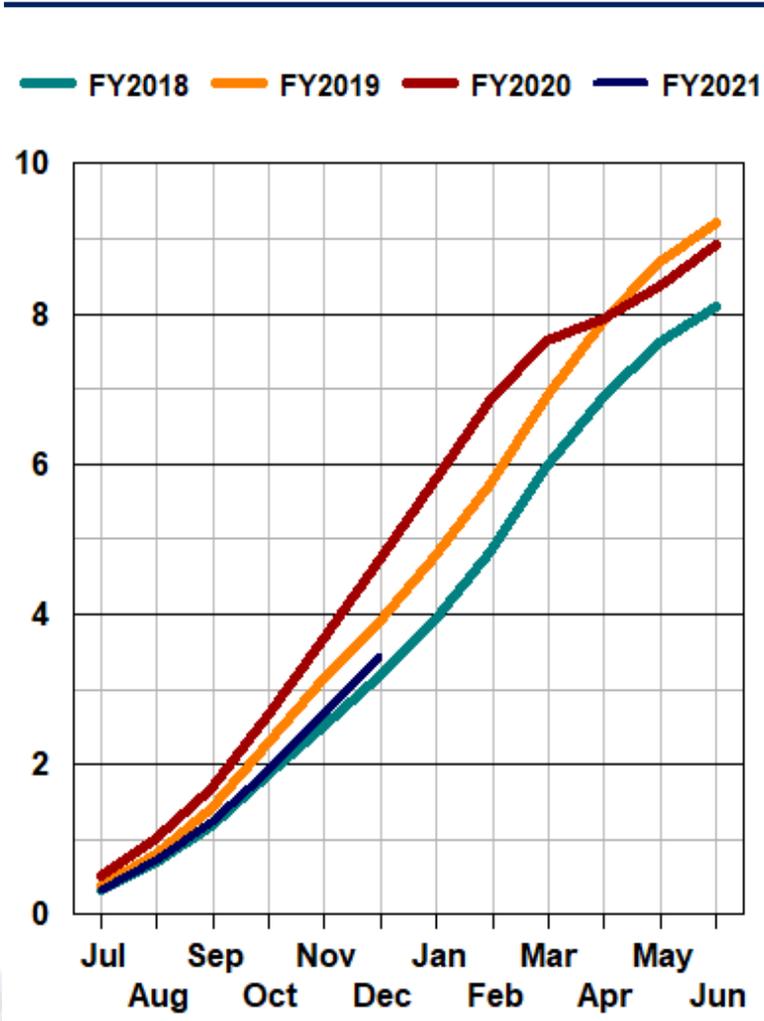
(All amounts are in Millions)

Retail & Hospitality TPT Accumulated Collections by Month

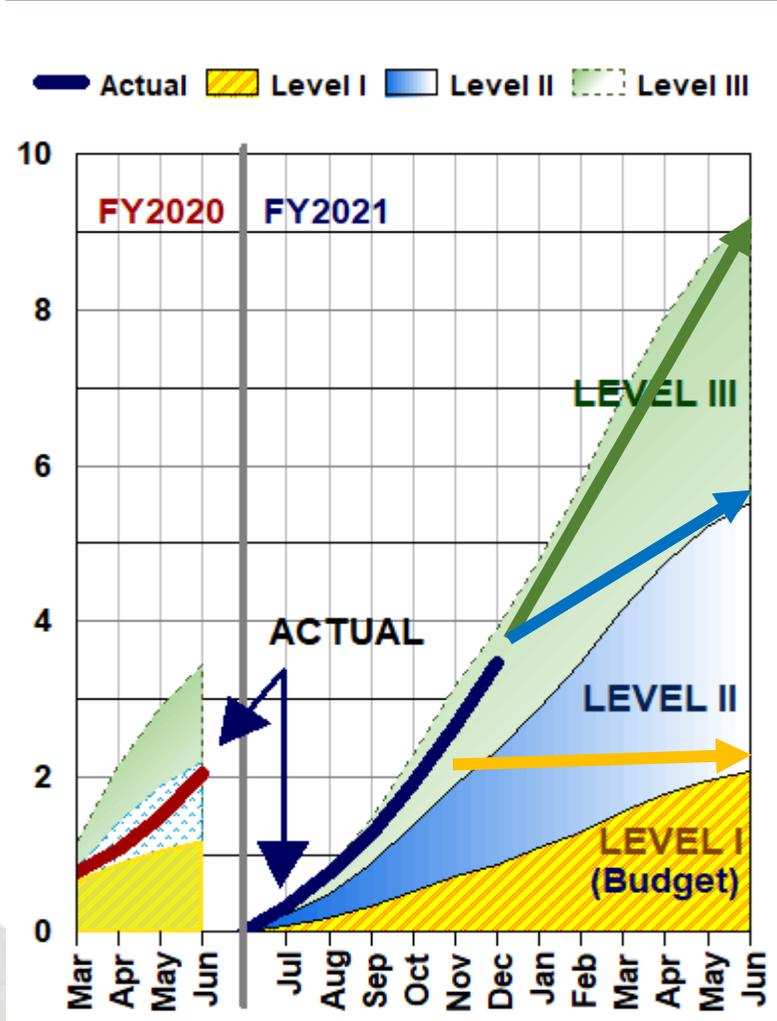
Historical FY2015 to FY2017



Historical FY2018 to FY2020



Current Actual FY2021

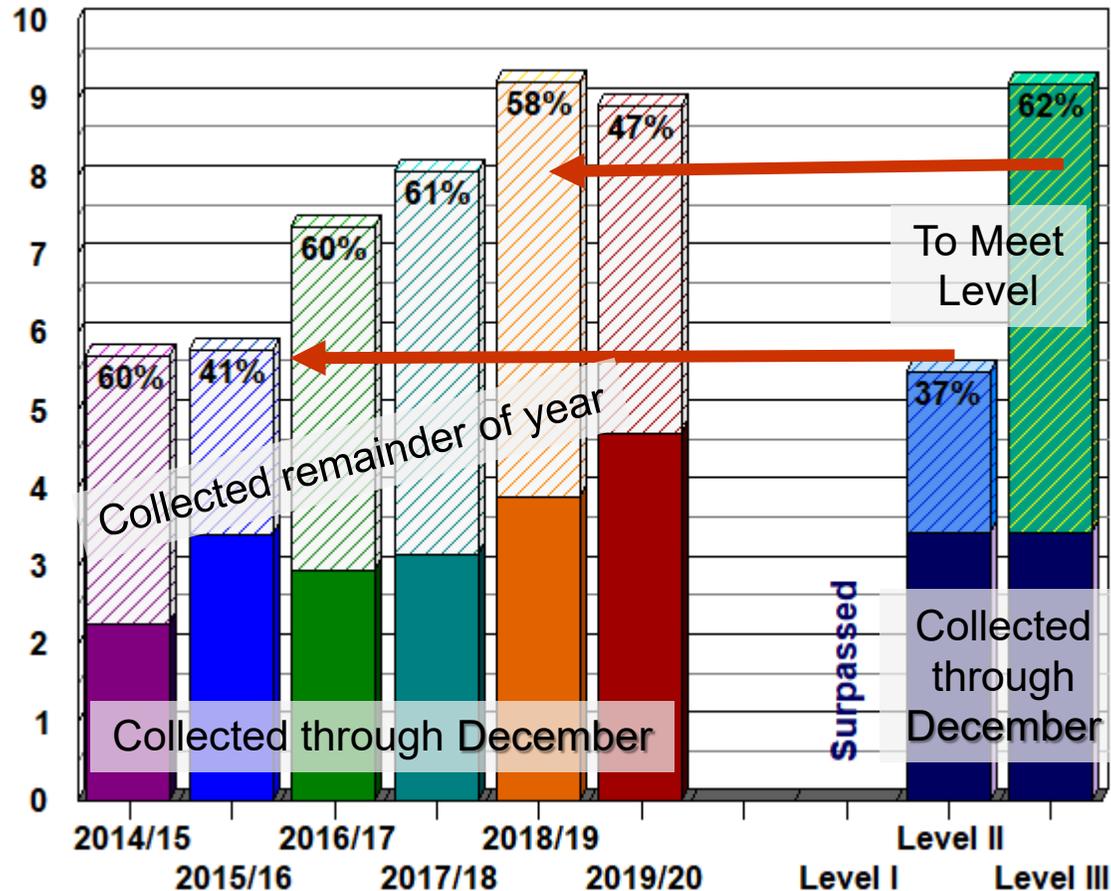


(All amounts are in Millions)

Retail & Hospitality TPT

Conclusion

INTERPOLATION – PERCENTAGE OF TOTAL



(All amounts are in Millions)

SUMMARY and FACTORS IMPACTING 2021

- ▶ The Town budgeted Retail and Hospitality TPT at **LEVEL I** to ensure the Town does not over extend recurring expenditures and risk mid-year reductions.
- ▶ As this revenue moves to **LEVEL II / LEVEL III**, programs and priorities have been authorized by the Mayor and Council to reopen.
- ▶ Internet sales TPT; effective October 2019. This greatly impacted Paradise Valley through during the State's "stay at-home" executive orders.
- ▶ Tourism and resort activity is the primary factor for this revenue. Partial business reopening, "staycations" and local support have keep this revenue from being the worse case scenario during the "off-season".
- ▶ Though revenue is being collected near **LEVEL III**, it is the real test will be the FY2020/21 tourism season and the "drive market".

TRANSIENT LODGING TAX (TLT) **“Occupancy Tax”**

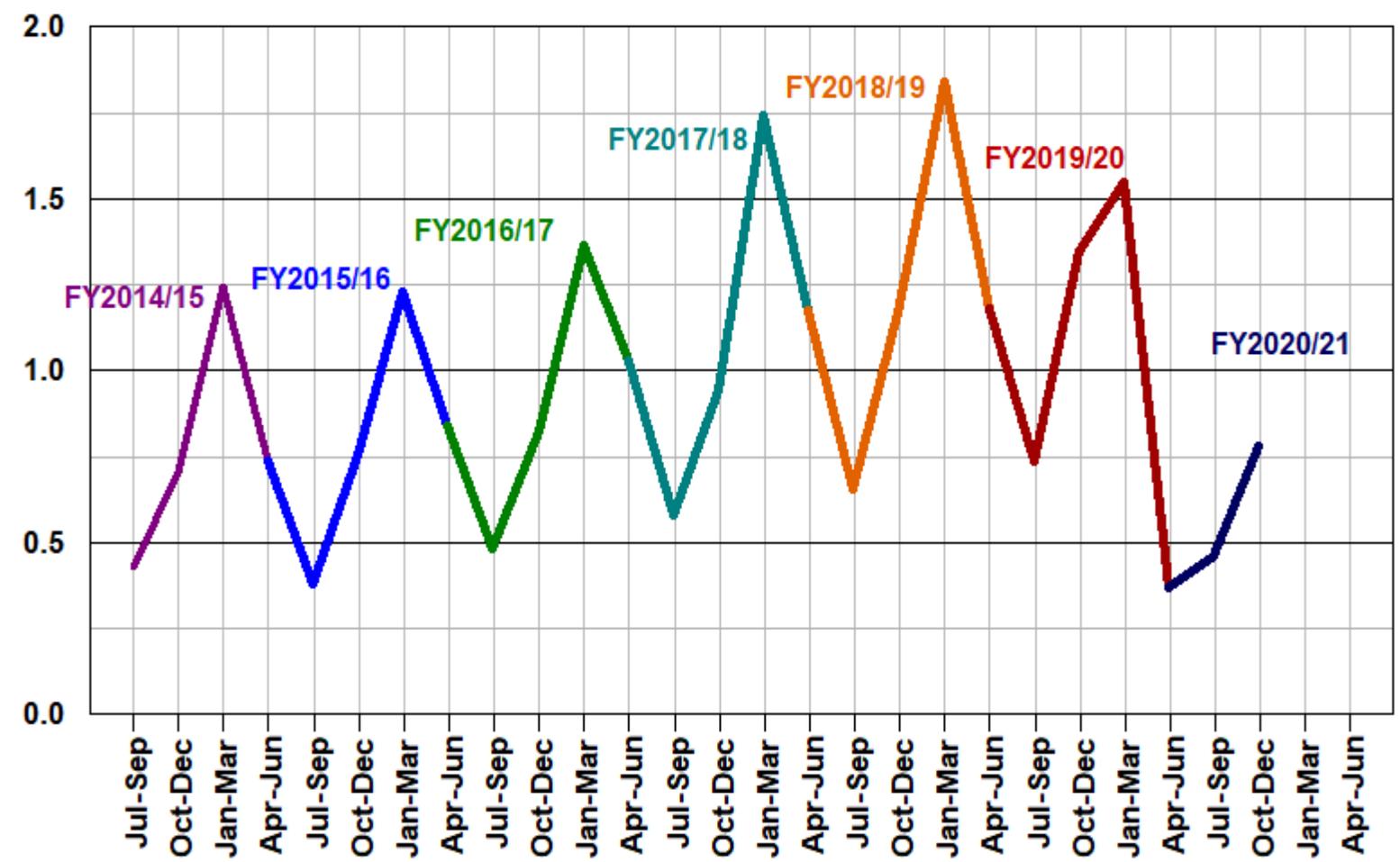


February 25th, 2021

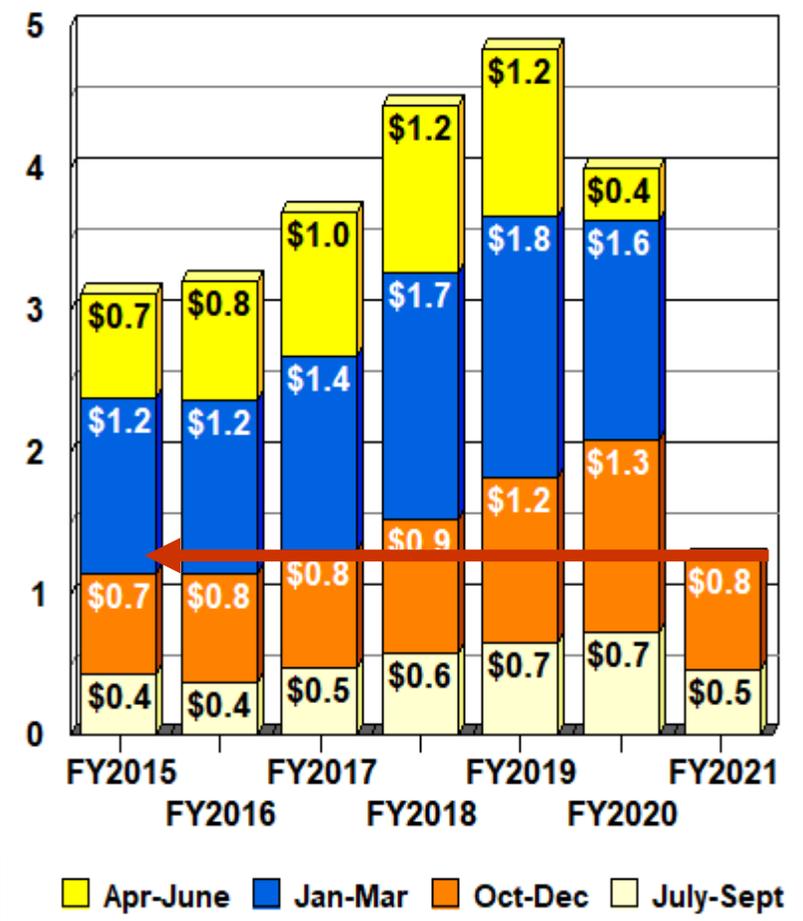
Occupancy TLT

Quarterly Collections

Actual Quarterly Collections



Total and Amount by Quarter

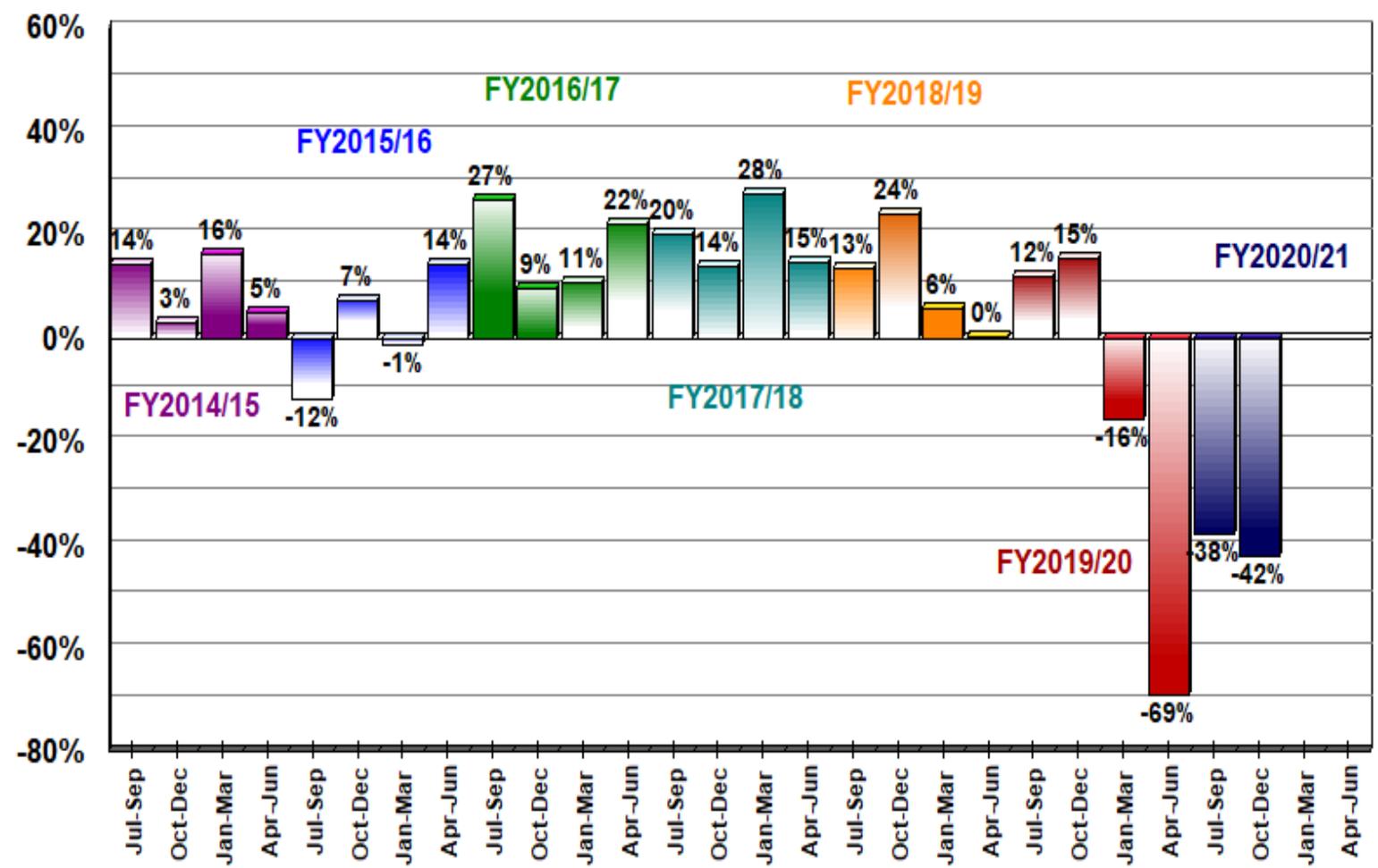


(All amounts are in Millions)

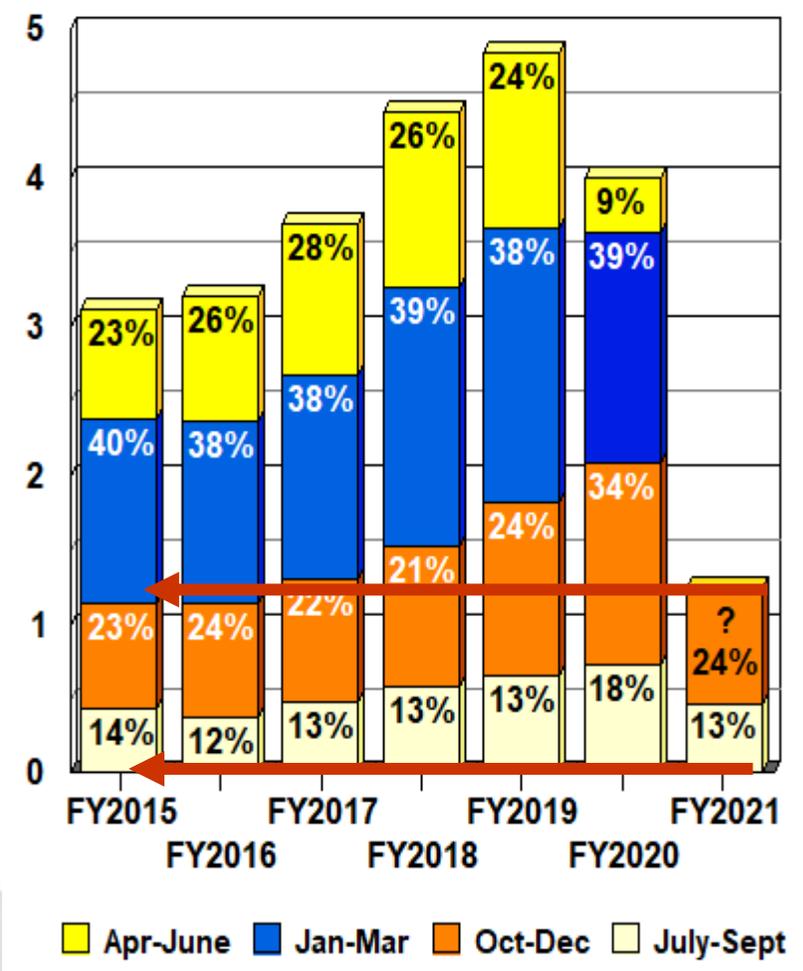
Occupancy TLT

Quarterly Collections

Change in Quarterly Collections from Previous Year

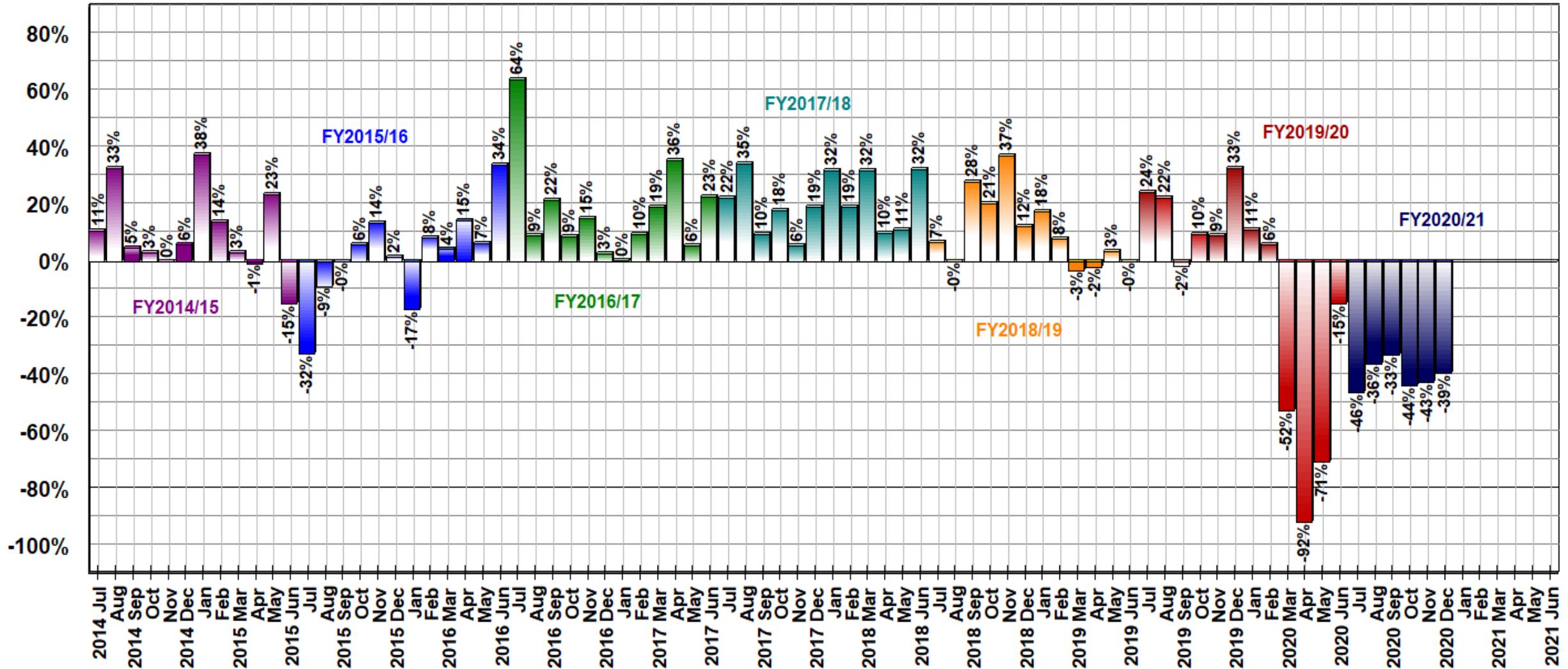


Total and Percentage by Quarter



(All amounts are in Millions)

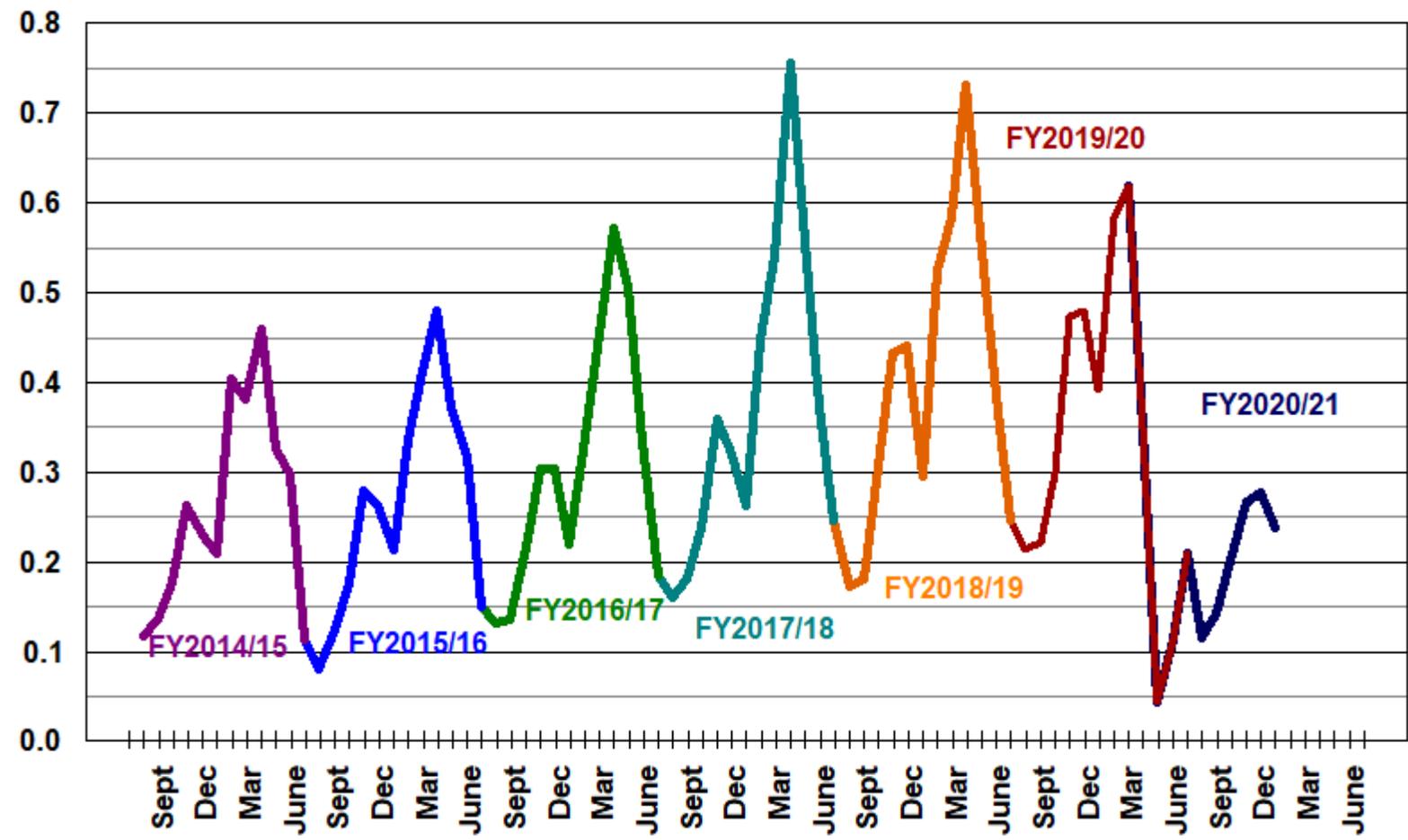
Change in Monthly Collects from Previous Year



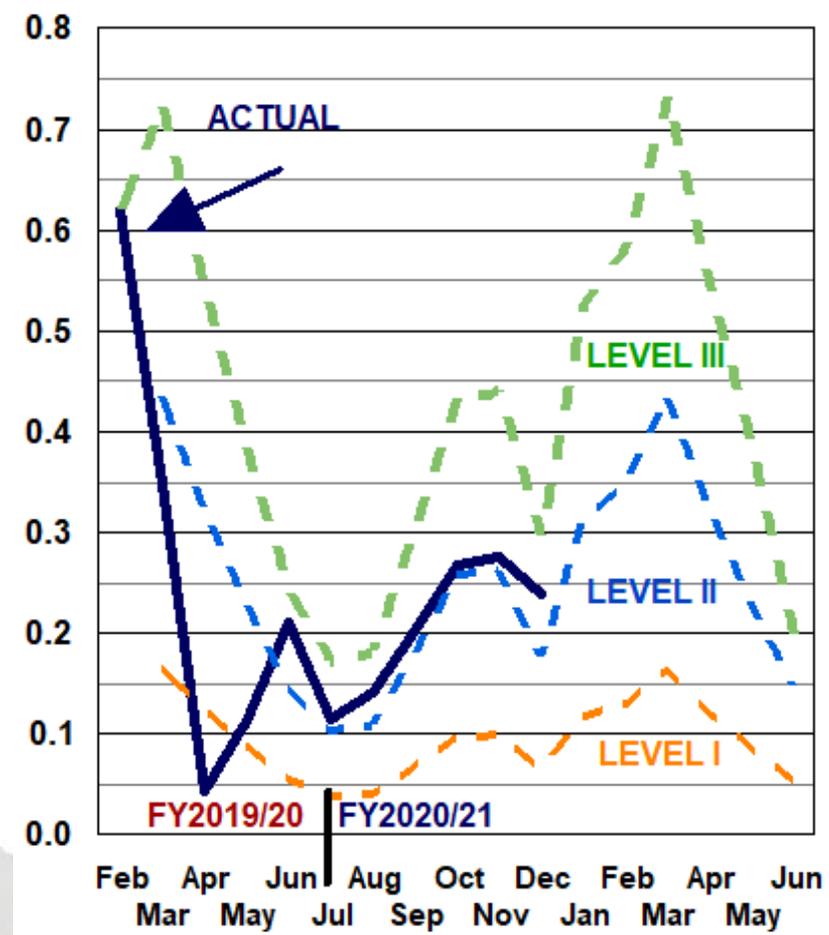
Occupancy TLT

Actual Monthly Collections

Historical FY2015 to FY2020 and FY2021 Revenue Levels



FY2021 Collections To-Date

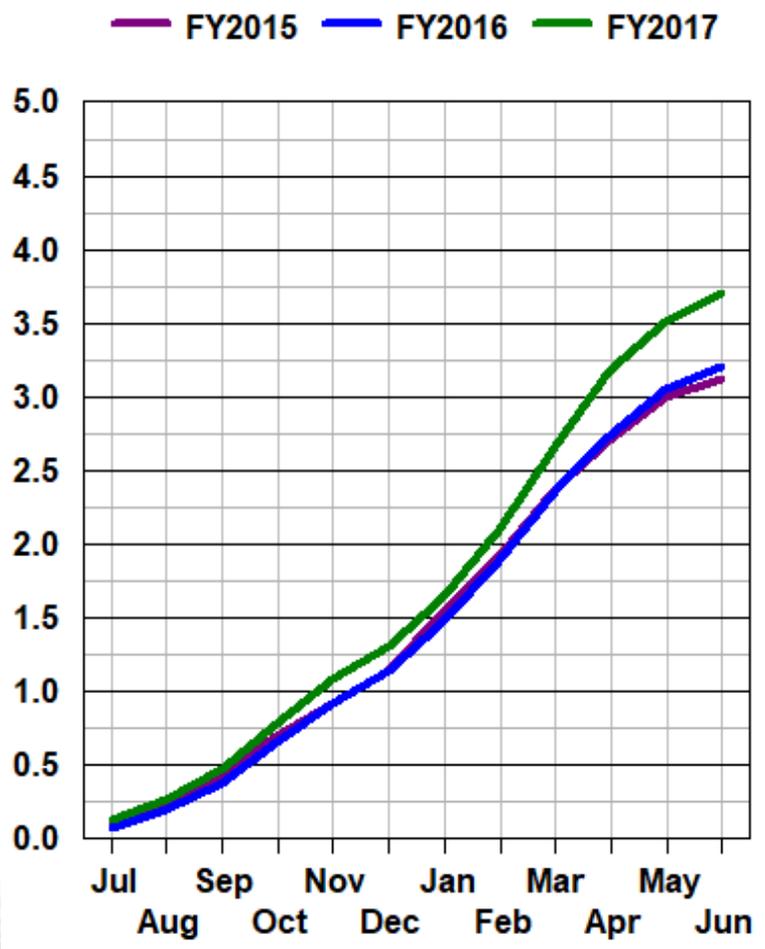


(All amounts are in Millions)

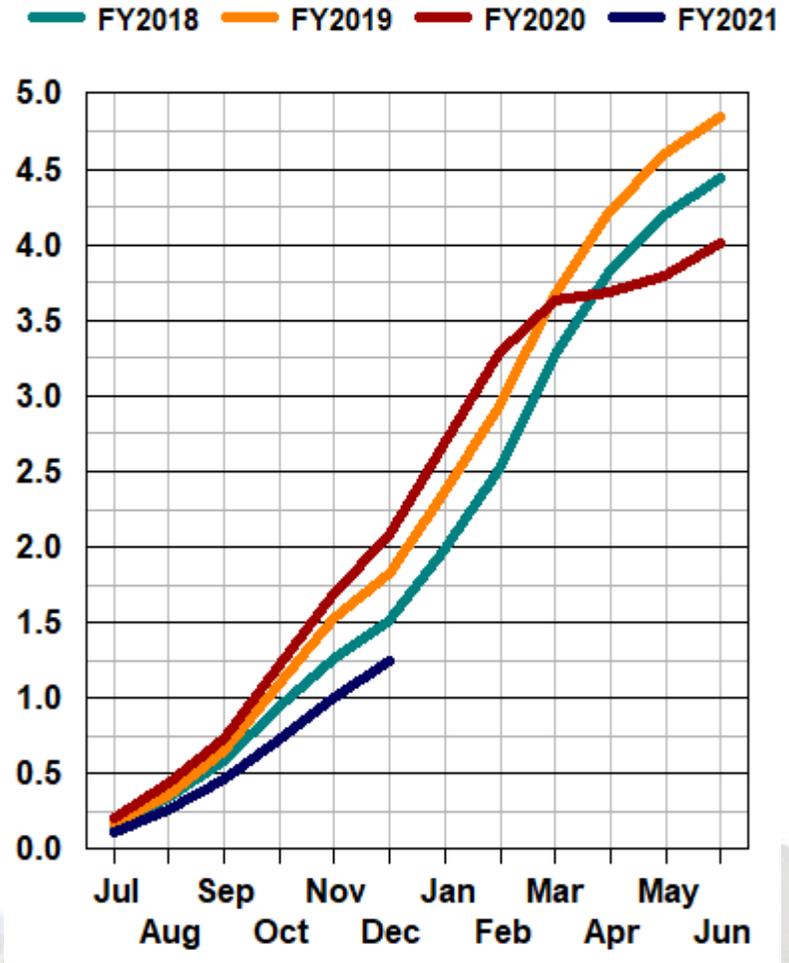
Occupancy TLT

Accumulated Collections by Month

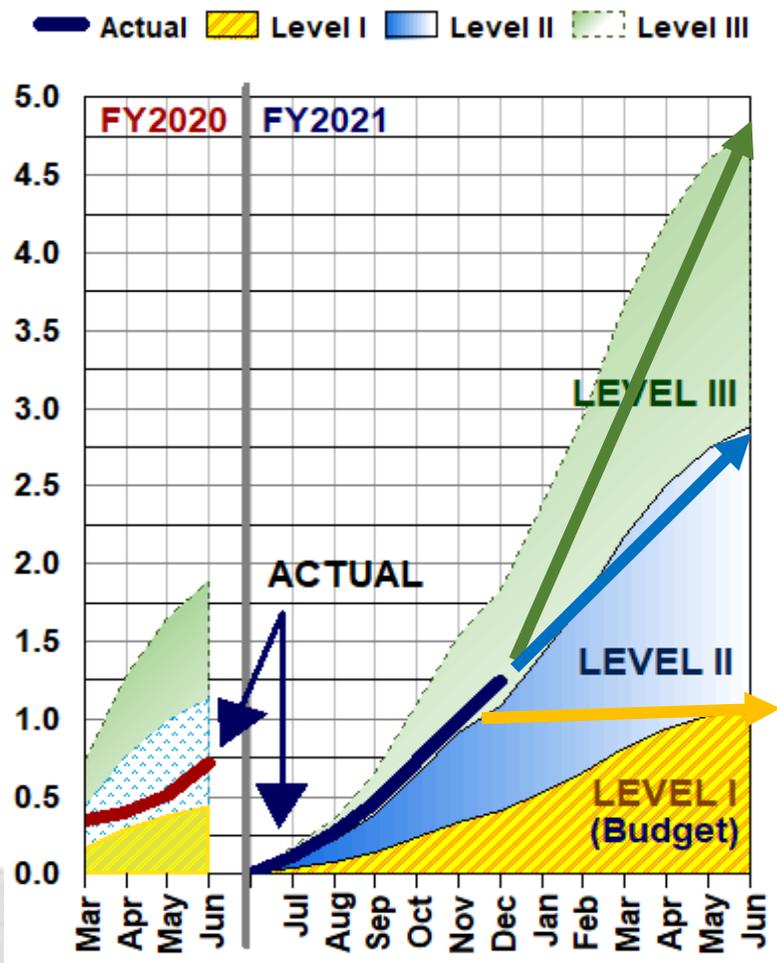
Historical FY2015 to FY2017



Historical FY2018 to FY2020



Current Actual FY2021

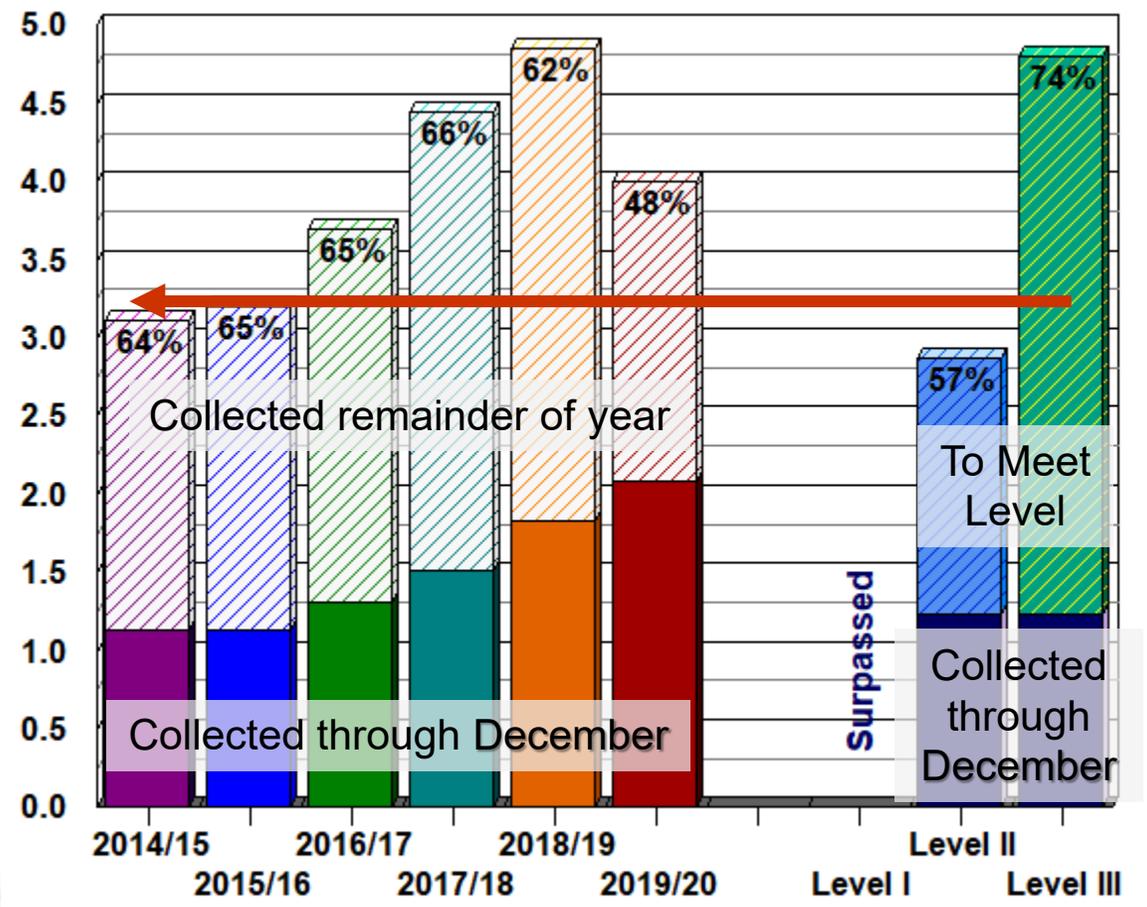


(All amounts are in Millions)

Occupancy TLT

Conclusion

INTERPOLATION – PERCENTAGE OF TOTAL



(All amounts are in Millions)

SUMMARY

- ▶ The Town budgeted Occupancy TPT at **LEVEL I** to ensure the Town does not over extend expenditures.
- ▶ As this revenue moves to **LEVEL II / LEVEL III**, programs and priorities have been authorized by the Mayor and Council to reopen.

Factors impacting FY2021:

- ▶ Tourism and resort activity is the primary factor for this revenue. Partial business reopening, “staycations” and local support have keep this revenue from being the worse case scenario.
- ▶ Though revenue is being collected in the **LEVEL II** range, this is **December** and the real test will be the FY2020/21 tourism season and the “drive market”.

STATE SHARED REVENUES (Income Tax, TPT, Auto, HURF)

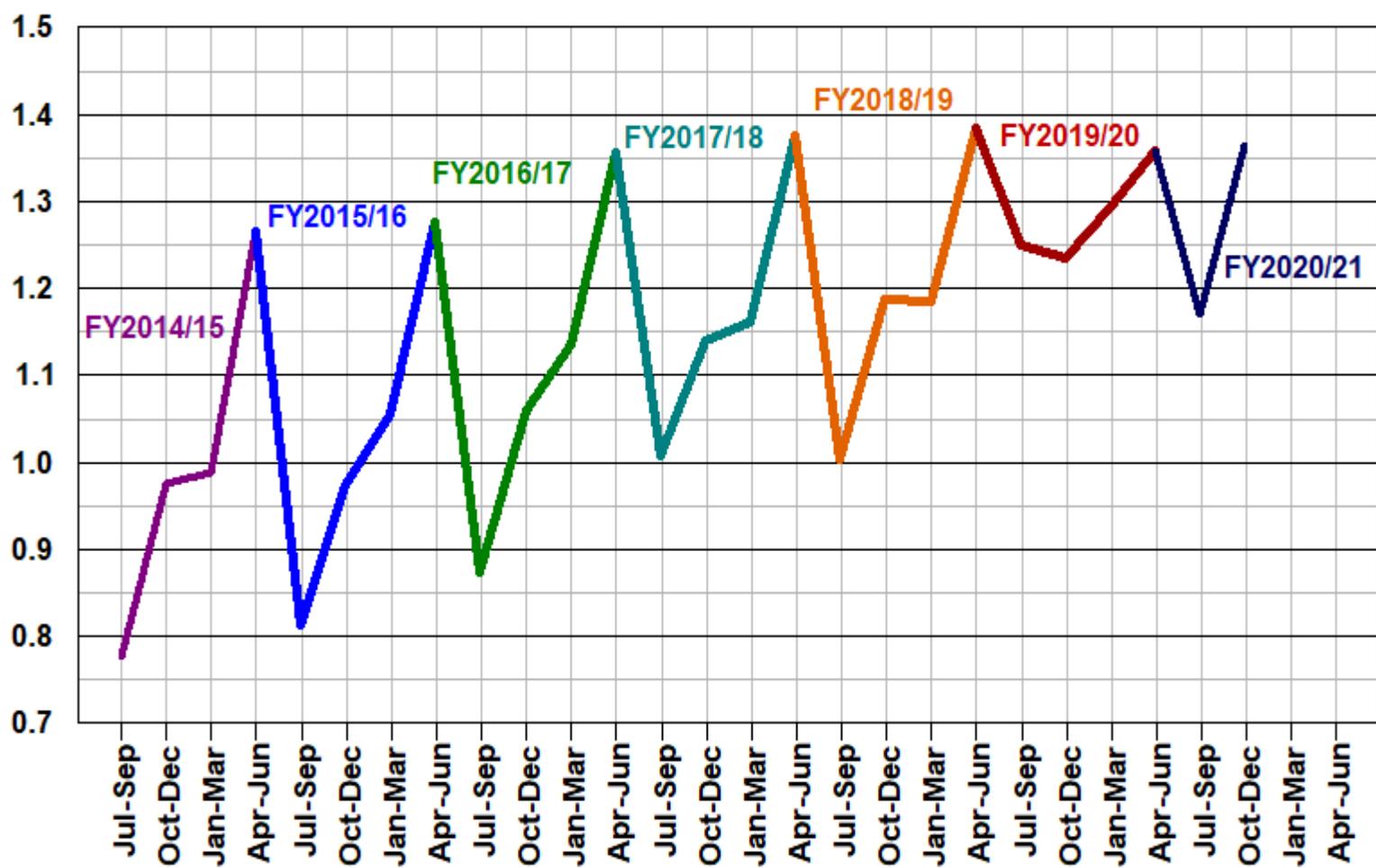


February 25th, 2021

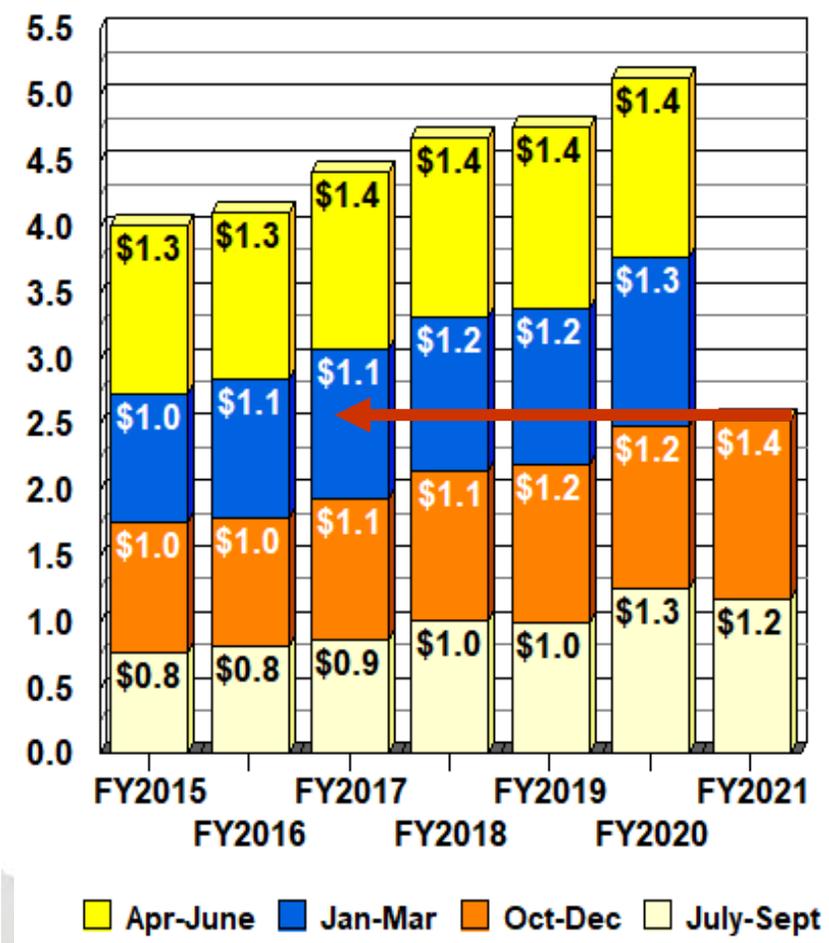
State Shared Revenues

Quarterly Collections

Actual Quarterly Collections



Total and Amount by Quarter

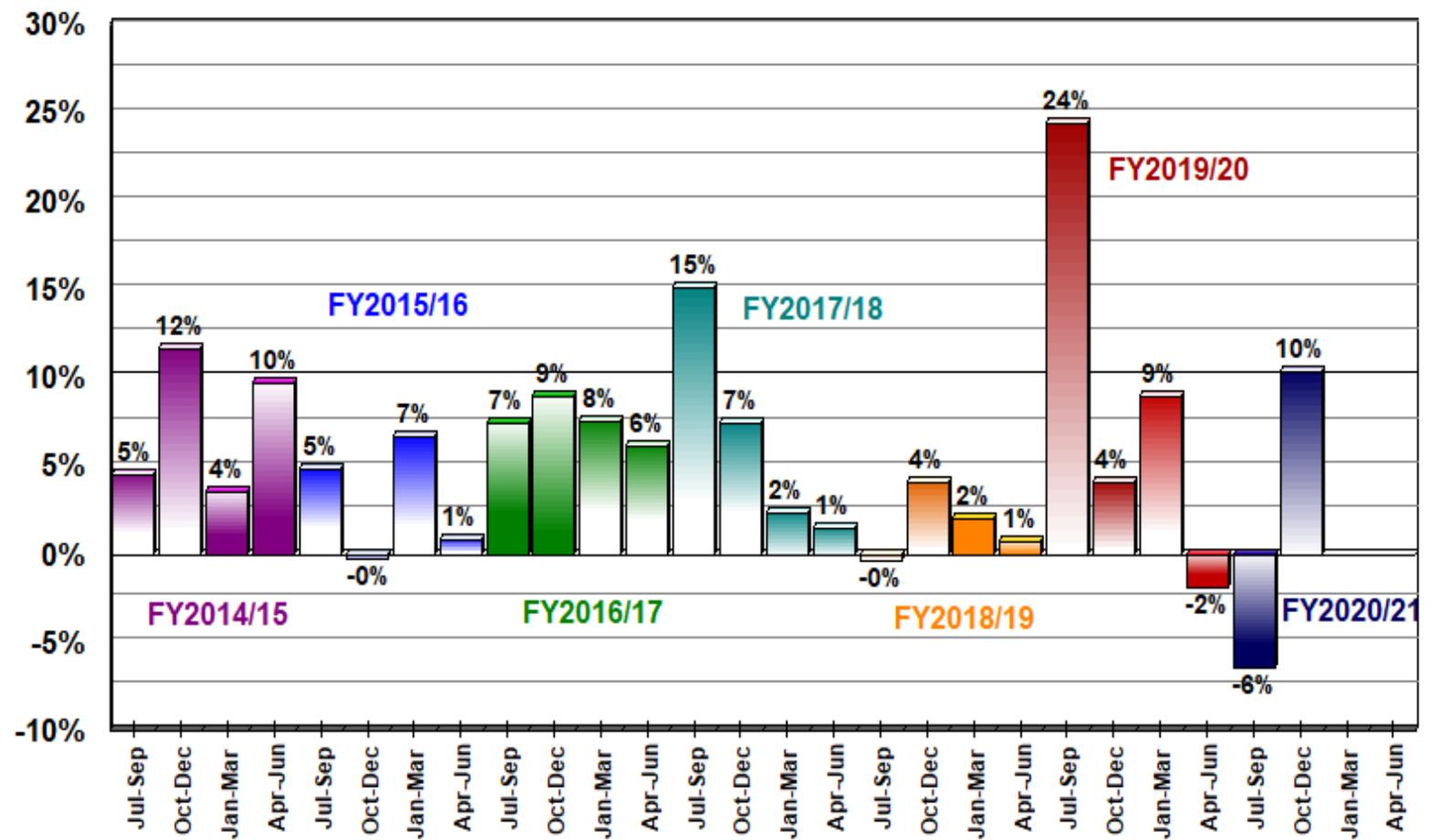


(All amounts are in Millions)

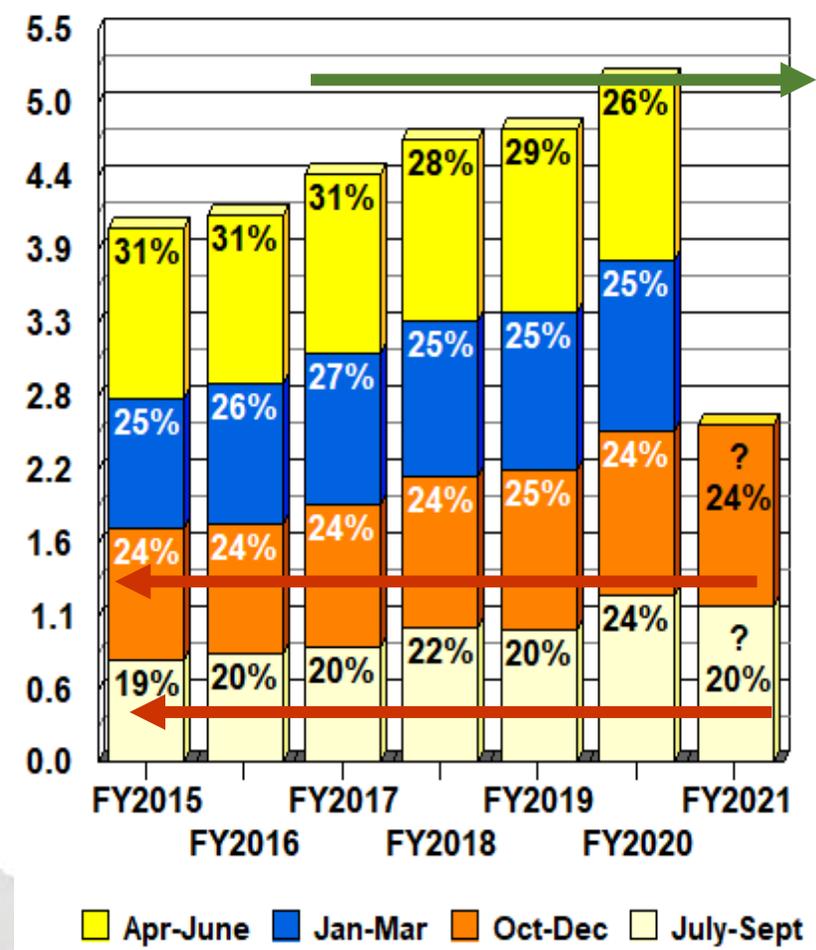
State Shared Revenues

Quarterly Collections

Change in Quarterly Collections from Previous Year



Total and Percentage by Quarter

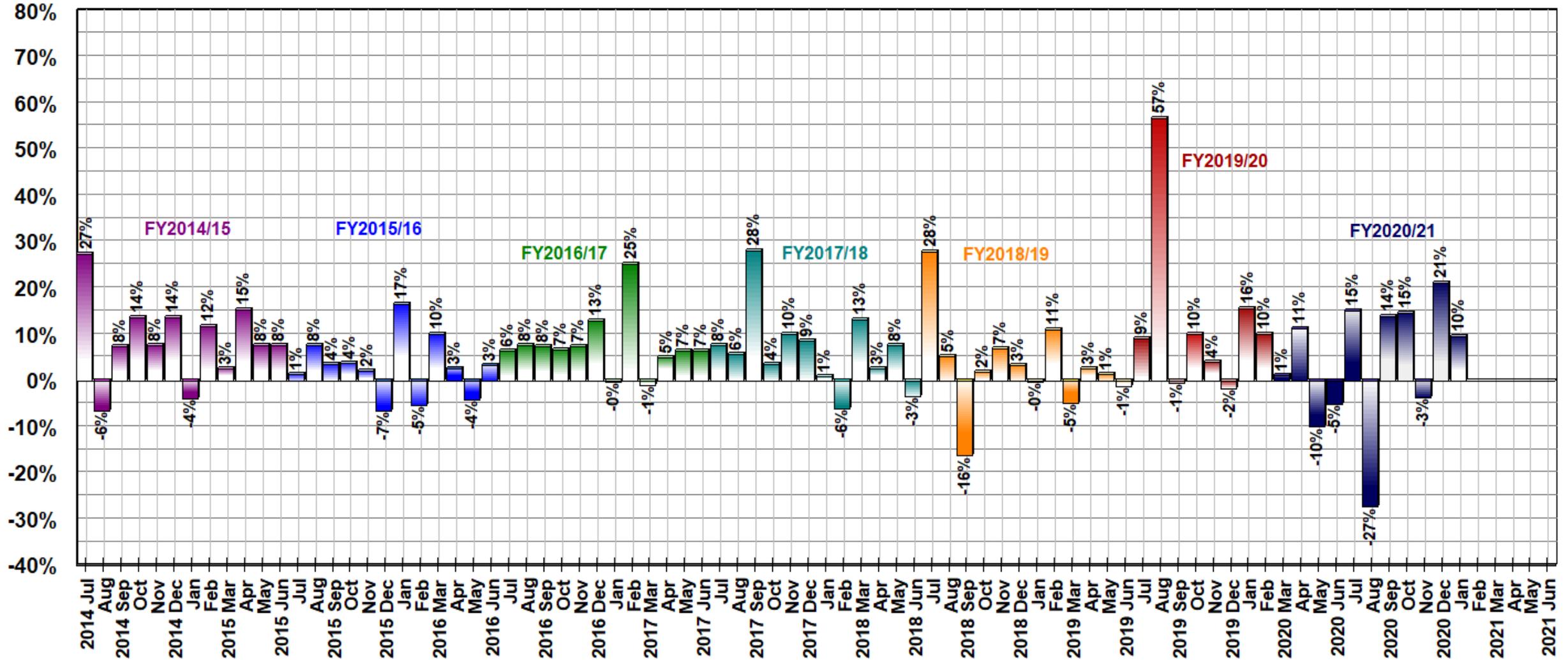


(All amounts are in Millions)

State Shared Revenues

Change in Monthly Collections

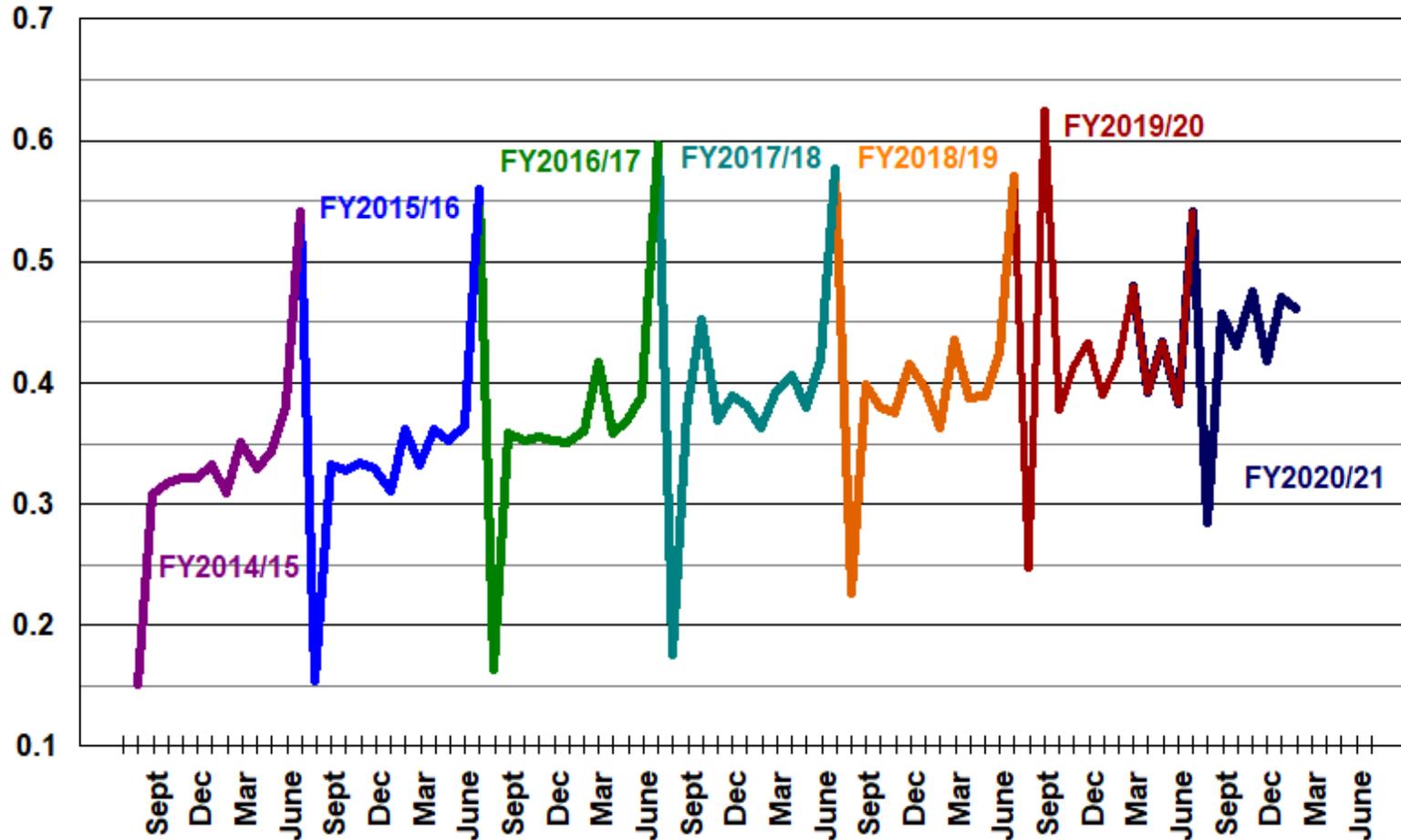
Change in Monthly Collects from Previous Year



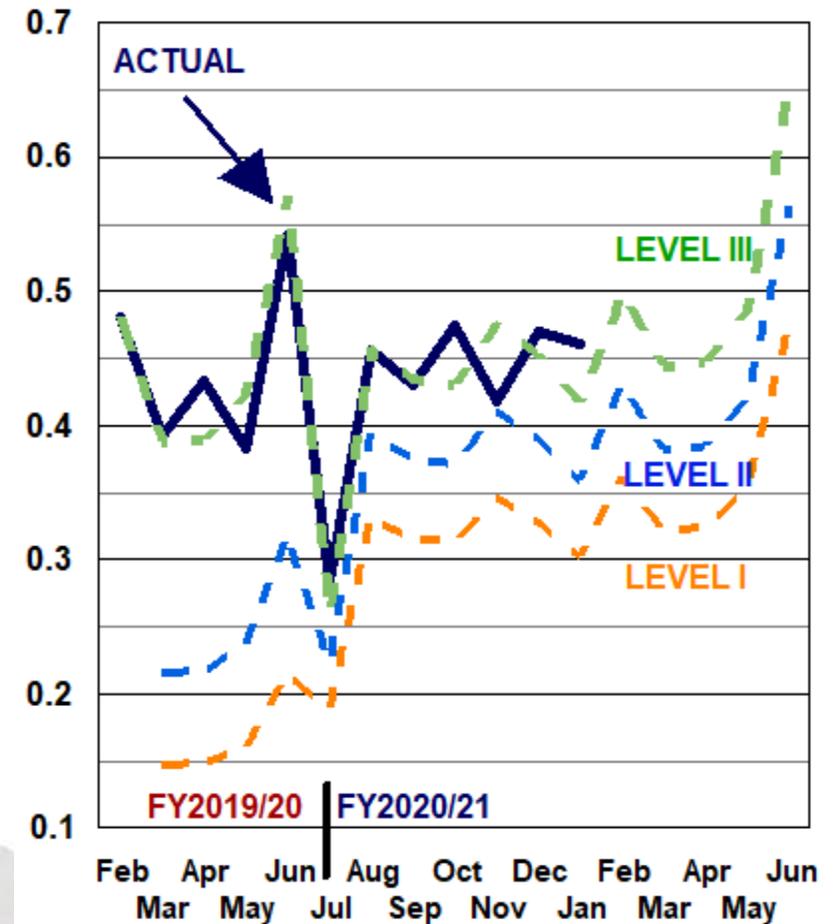
State Shared Revenues

Actual Monthly Collections

Historical FY2015 to FY2020 and FY2021 Revenue Levels



FY2021 Collections To-Date

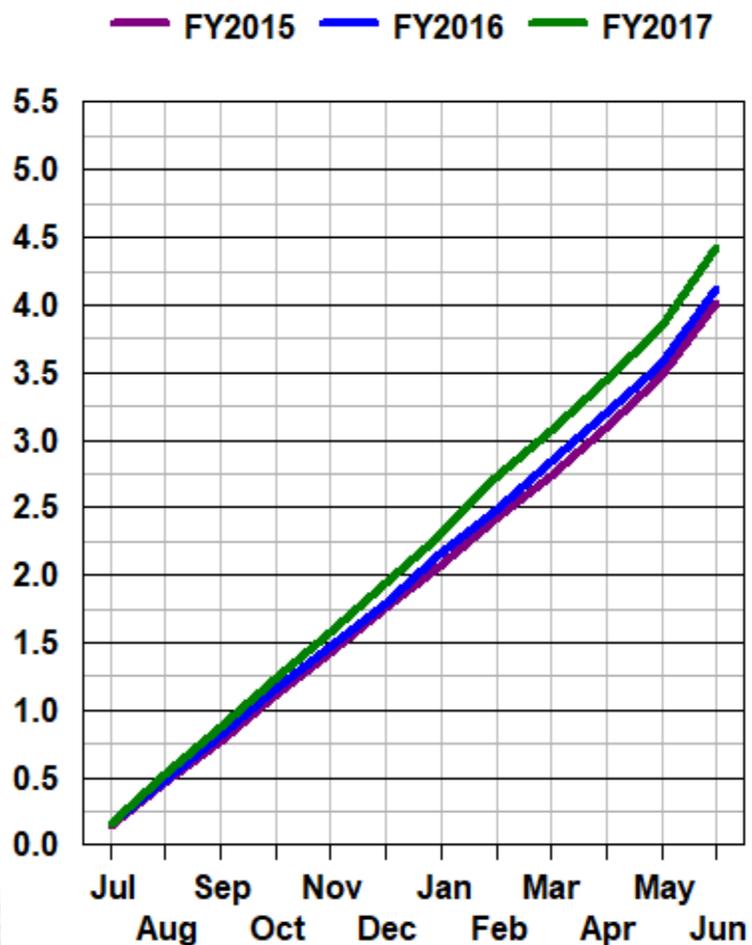


(All amounts are in Millions)

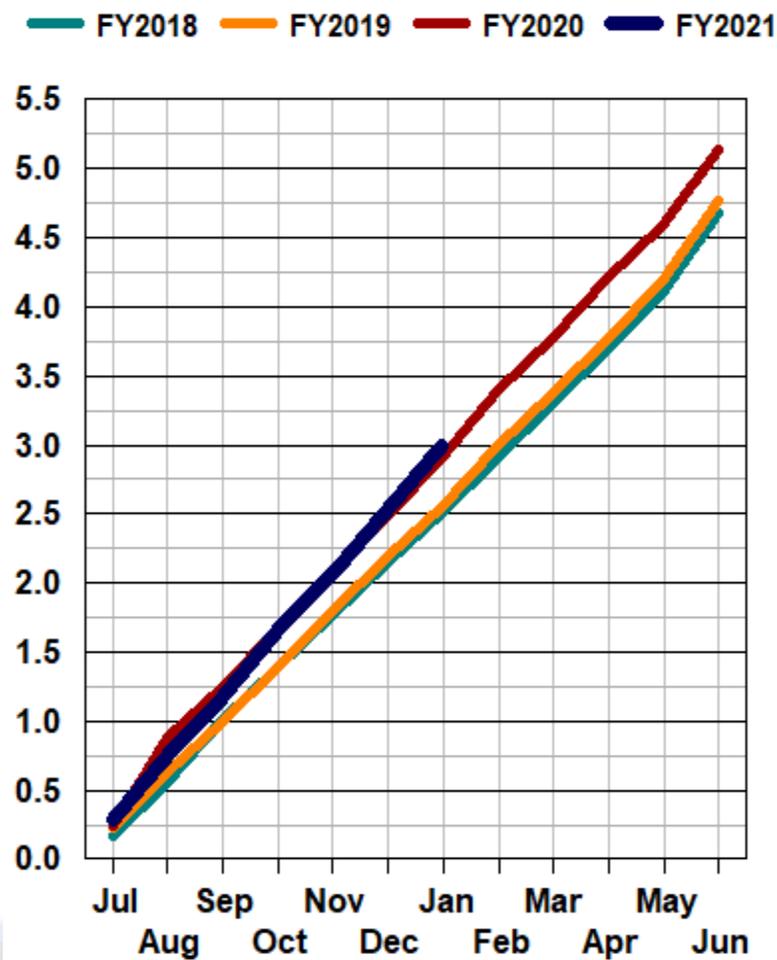
State Shared Revenues

Accumulated Collections by Month

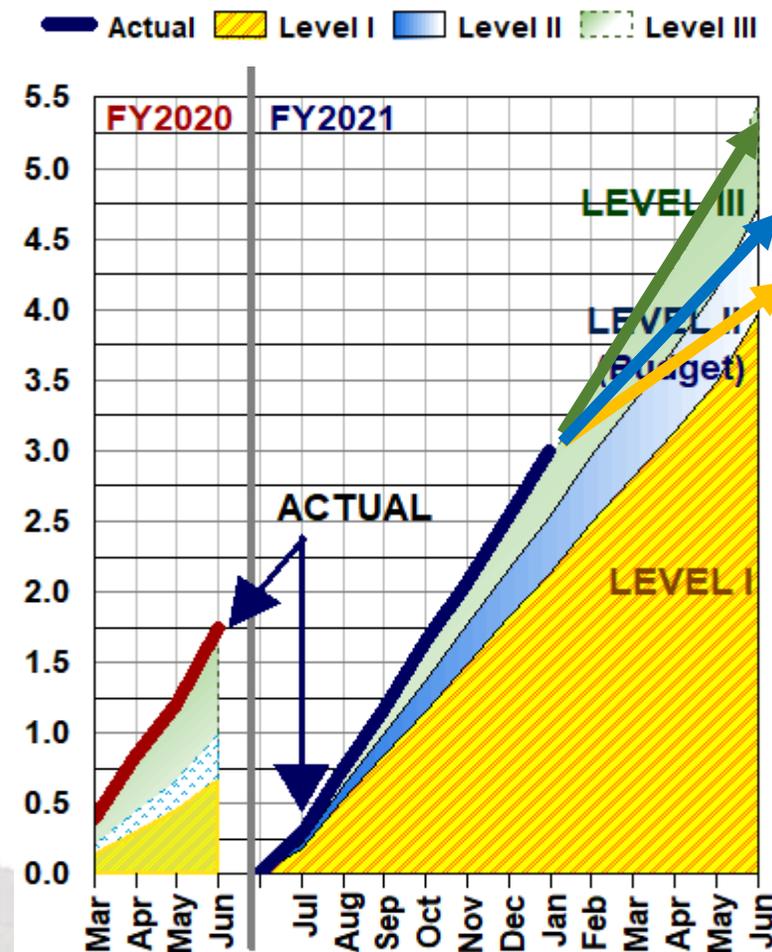
Historical FY2015 to FY2017



Historical FY2018 to FY2020



Current Actual FY2021

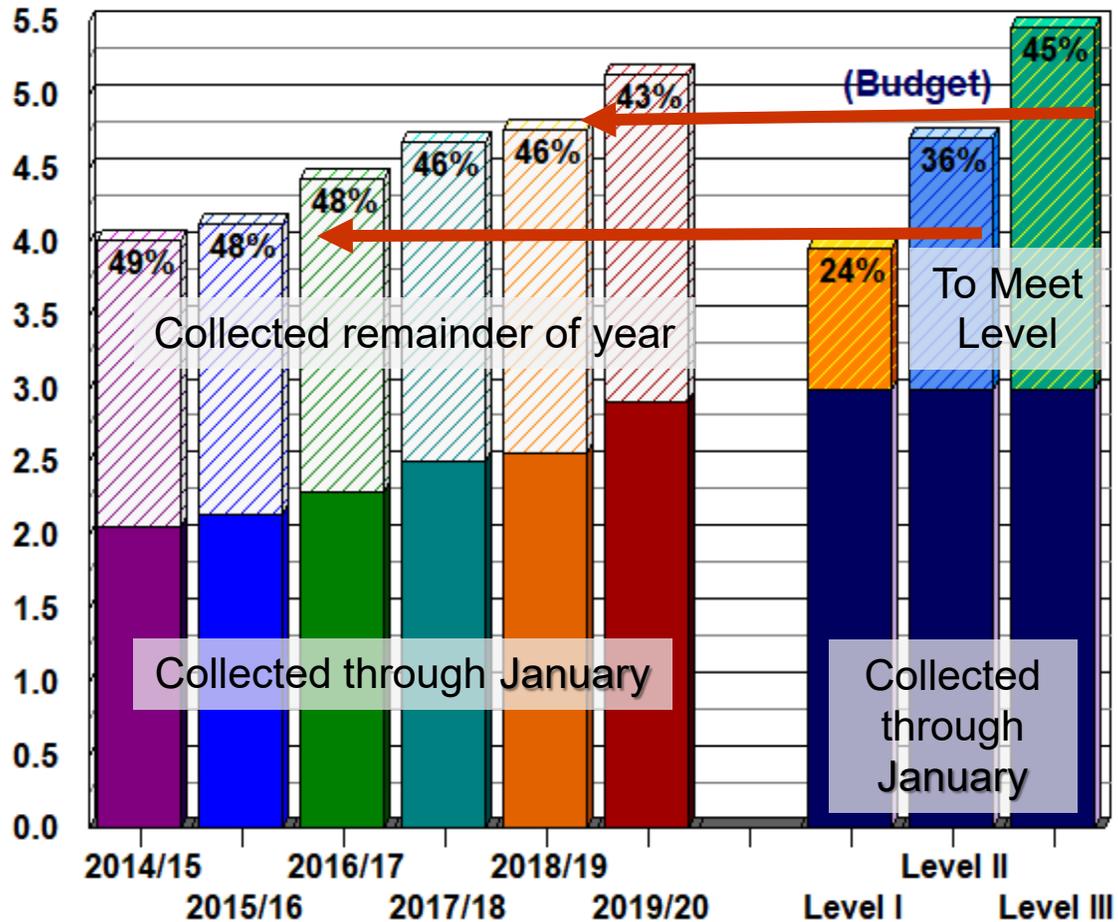


(All amounts are in Millions)

State Shared Revenues

Conclusion

INTERPOLATION – PERCENTAGE OF TOTAL



(All amounts are in Millions)

SUMMARY

- ▶ The Town budgeted State Shared Revenues, in aggregate, at **LEVEL II** to ensure the Town does not over extend expenditures and not to over restrict operations.
- ▶ As this revenue sources moves to **LEVEL III**, expenditure priorities can be authorized by the Mayor and Council.
- ▶ If this revenue shows signs of moving to **LEVEL I**, the Mayor and Council would be notified and mitigating actions assessed for considerations, if necessary.

Factors impacting FY2021:

- ▶ The overall economic condition and activity of the State.
- ▶ The Town’s population growth compared to the rest of the State; revenues are distributed based on population
- ▶ Revenue is trending slightly above in the **LEVEL II** range.

State Shared Revenues include:

- ▶ State income tax;
- ▶ State transaction privilege tax;
- ▶ Automobile taxes and licensing; and
- ▶ Highway User Revenue Fund (HURF) gas tax.

CONSTRUCTION AND CONTRACTING TRANSACTION PRIVILEGE TAX (TPT)

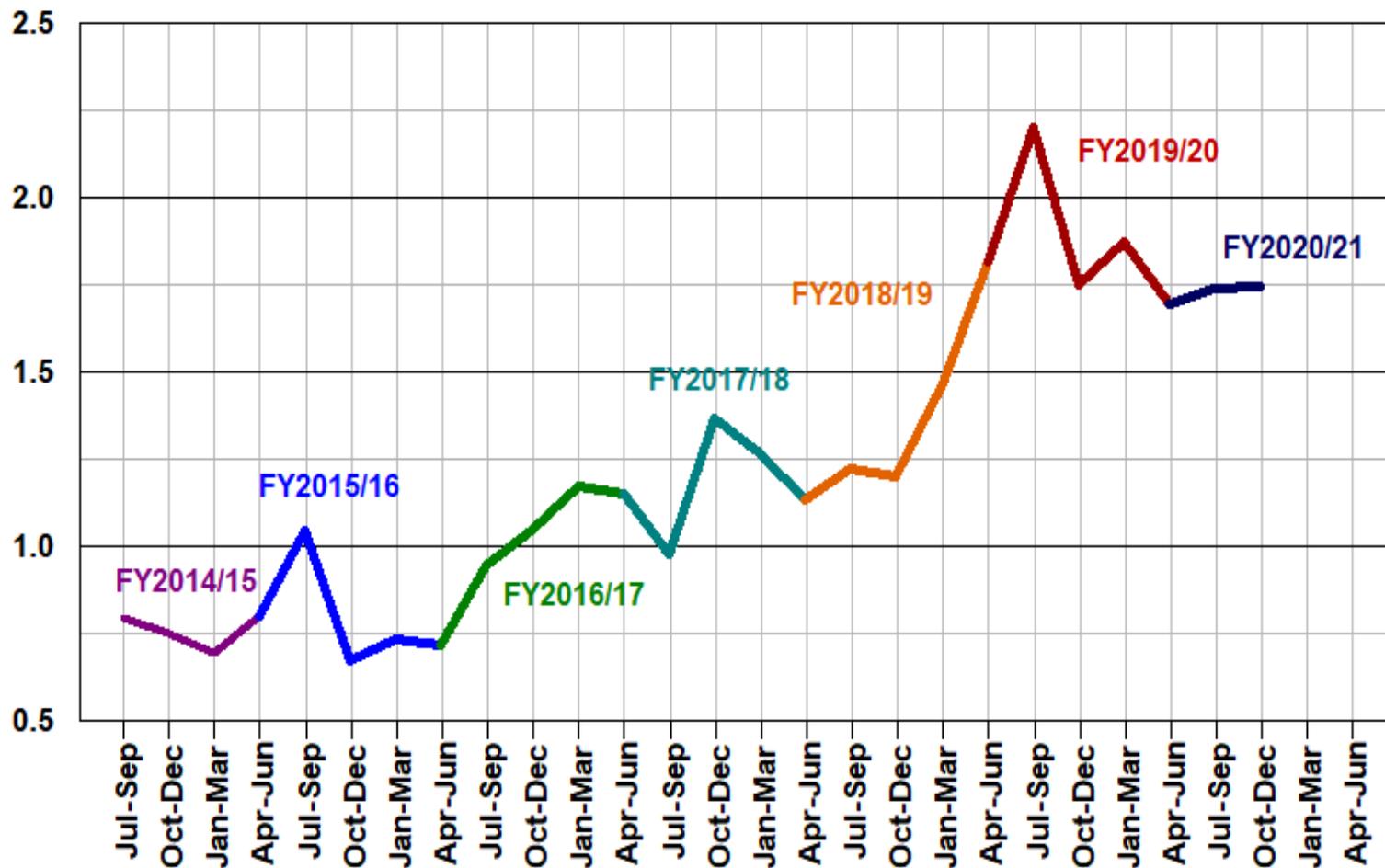


February 25th, 2021

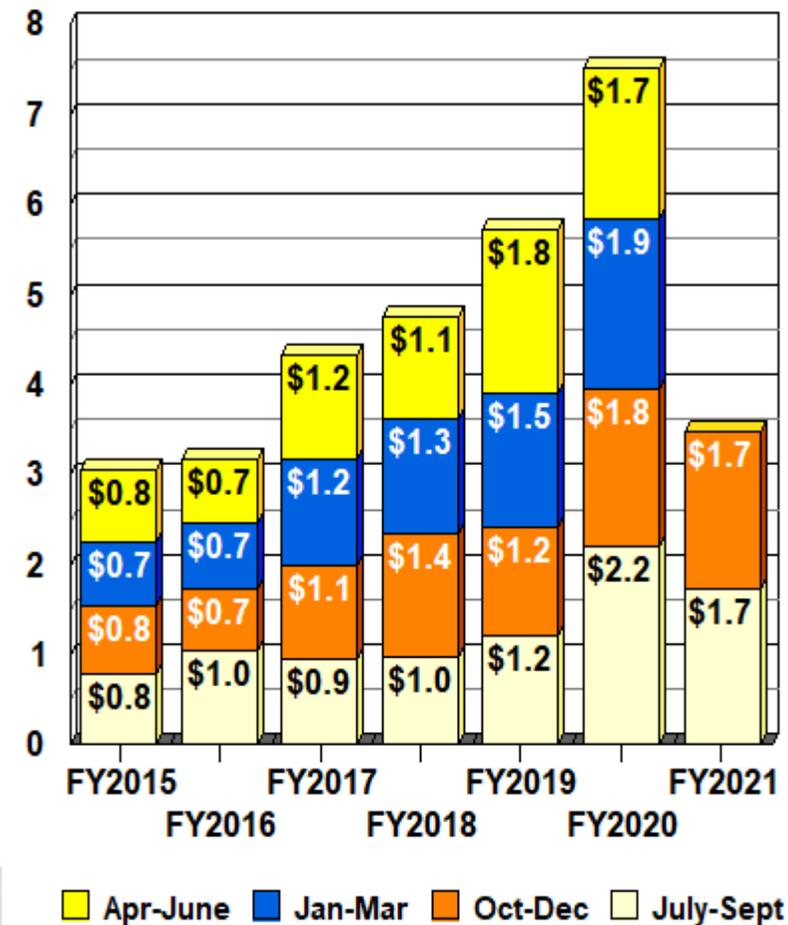
Construction & Contracting TPT

Quarterly Collections

Actual Quarterly Collections



Total and Amount by Quarter

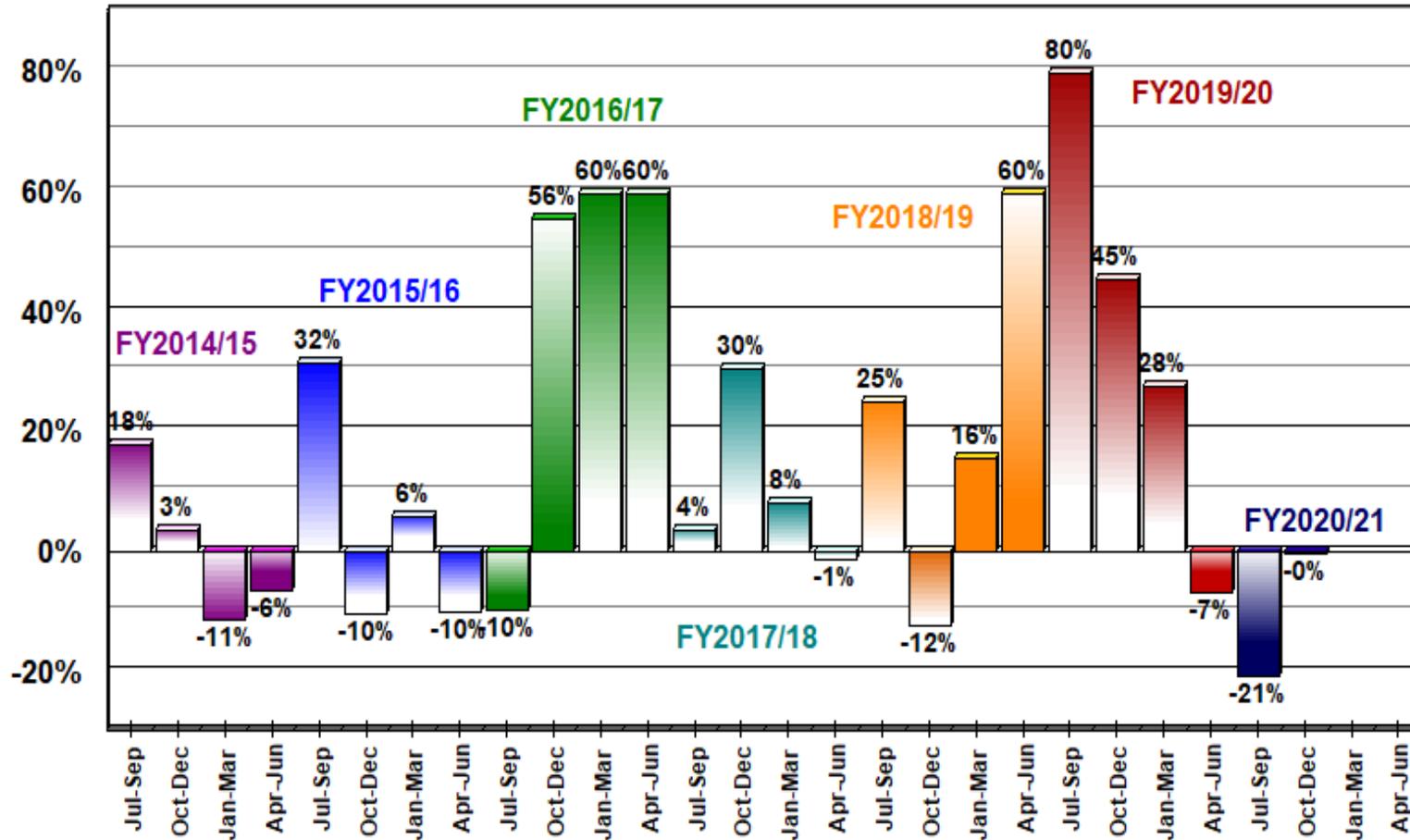


(All amounts are in Millions)

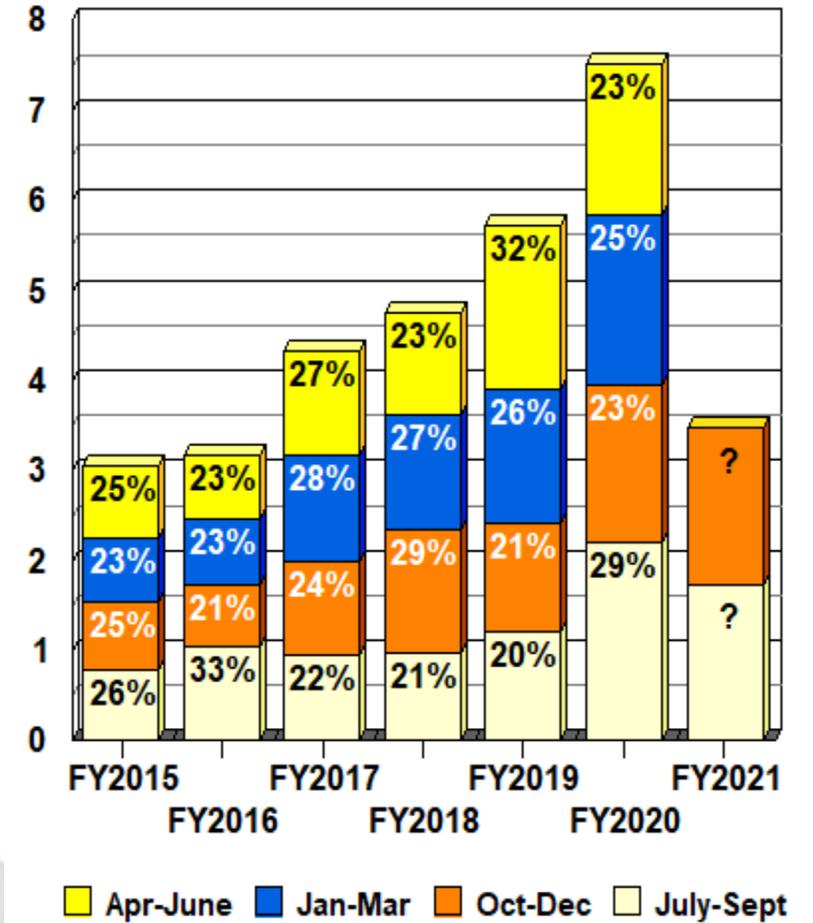
Construction & Contracting TPT

Quarterly Collections

Change in Quarterly Collections from Previous Year



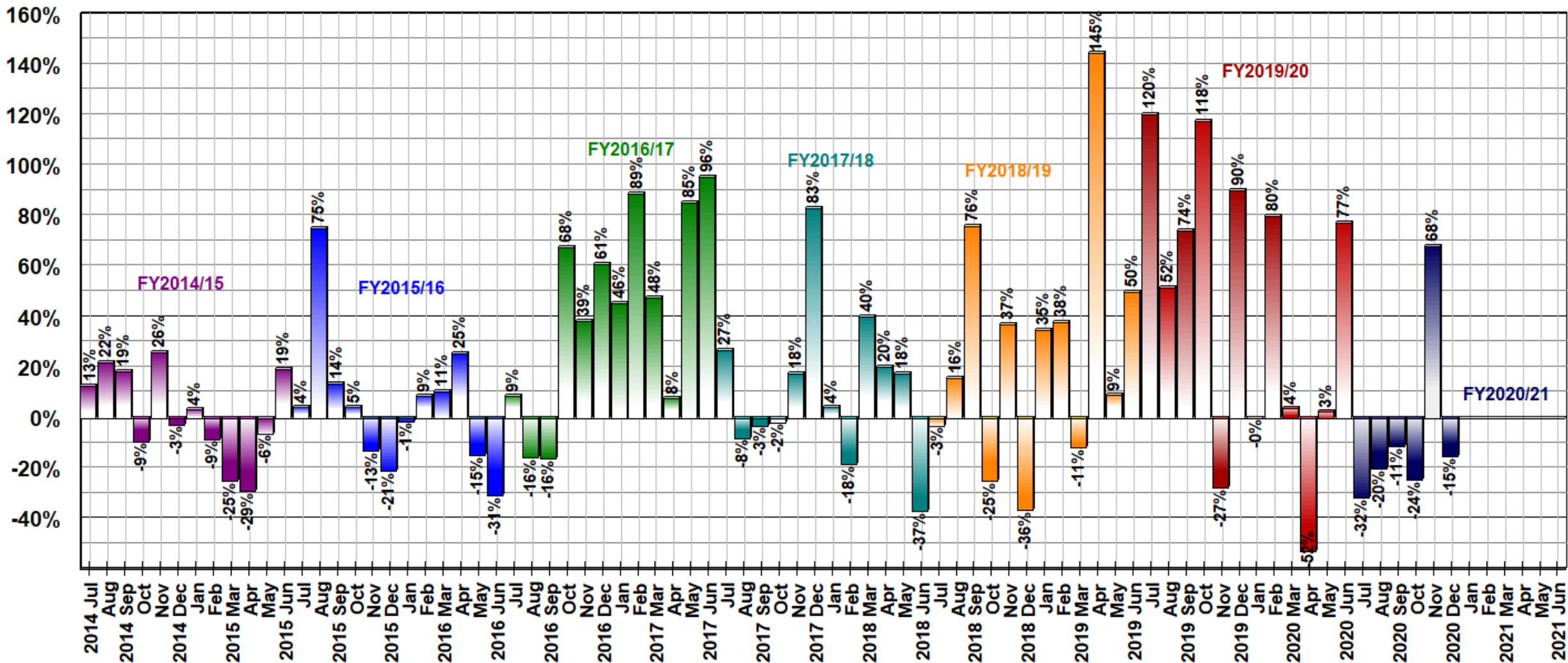
Total and Percentage by Quarter



(All amounts are in Millions)

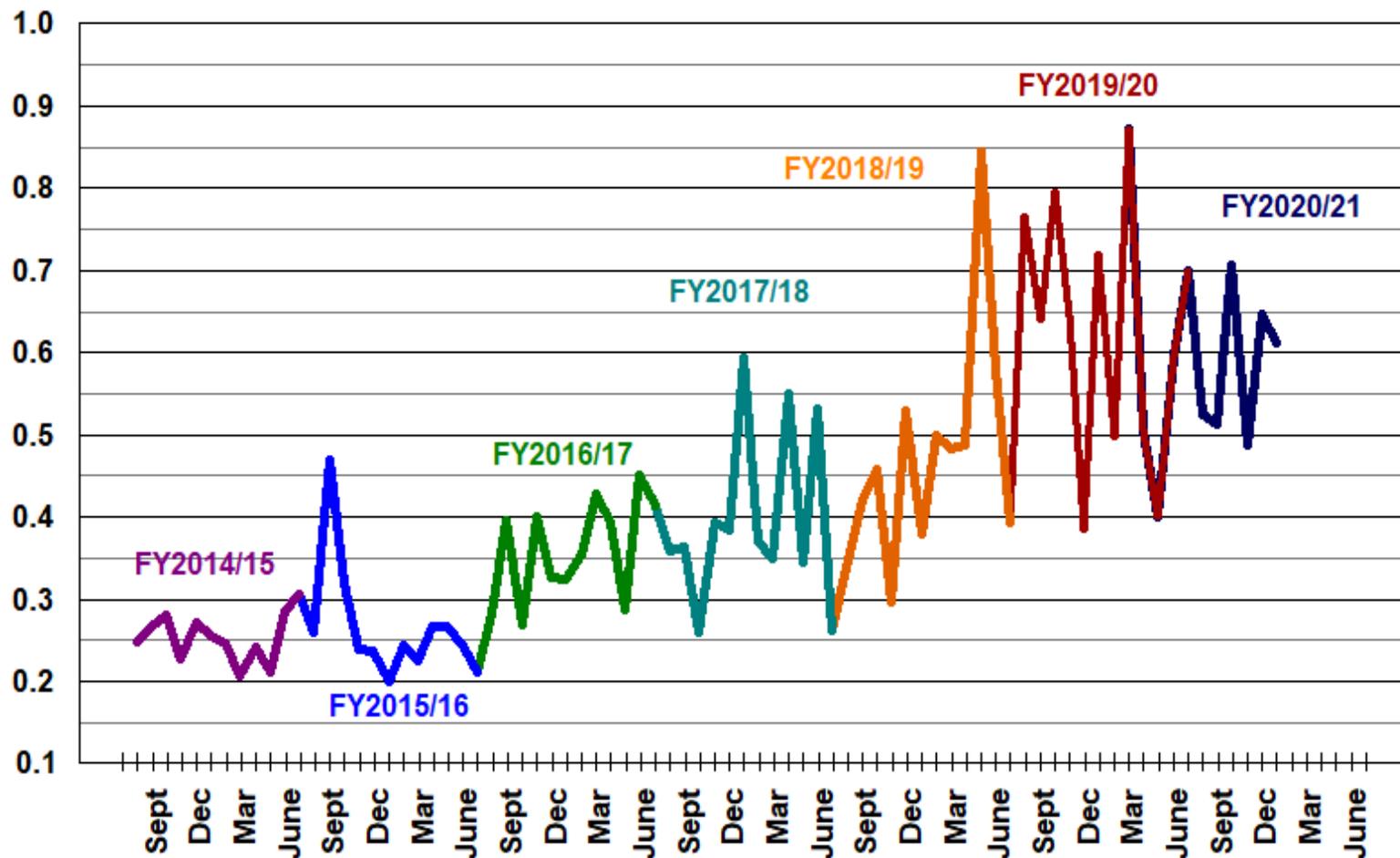
Construction & Contracting Change in Monthly Collections

Change in Monthly Collects from Previous Year

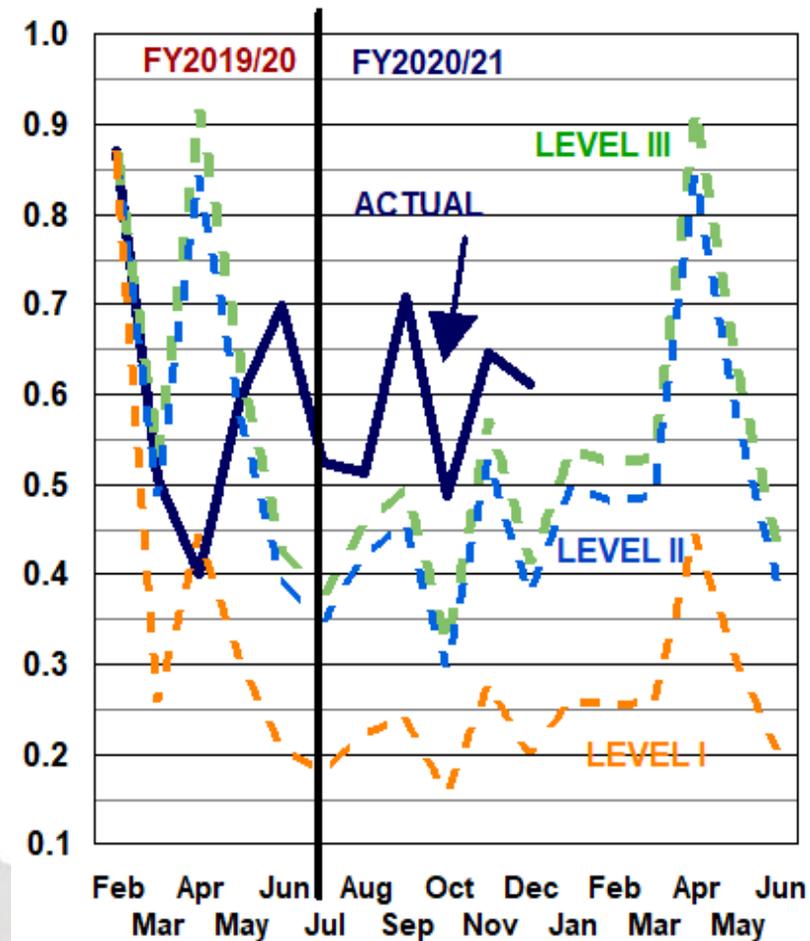


Construction & Contracting TPT Actual Monthly Collections

Historical FY2015 to FY2020 and FY2021 Revenue Levels



FY2021 Collections To-Date

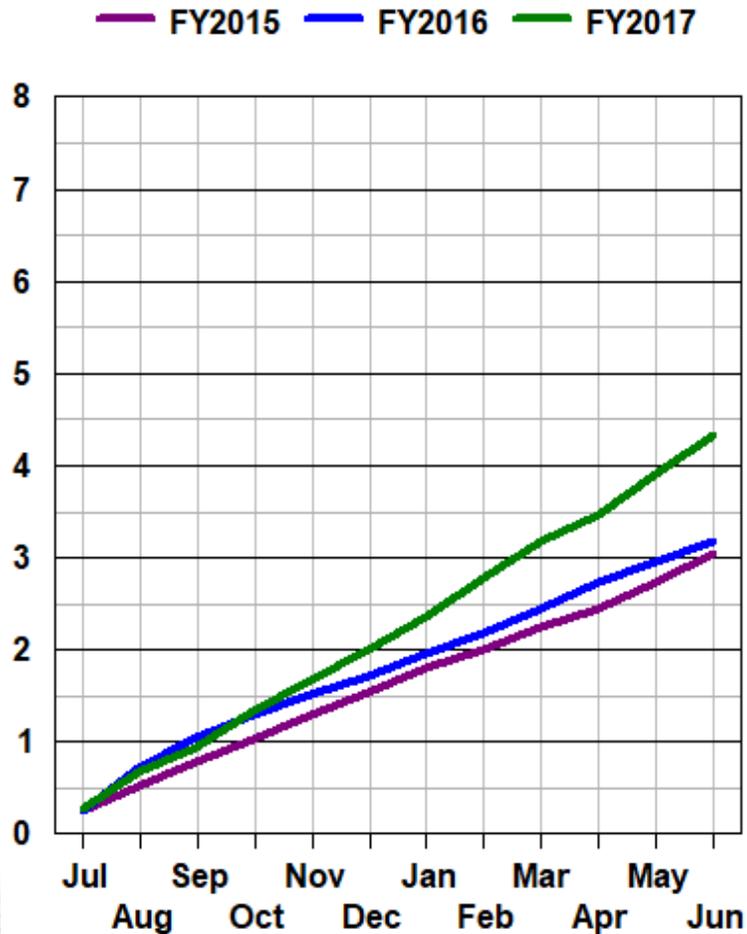


(All amounts are in Millions)

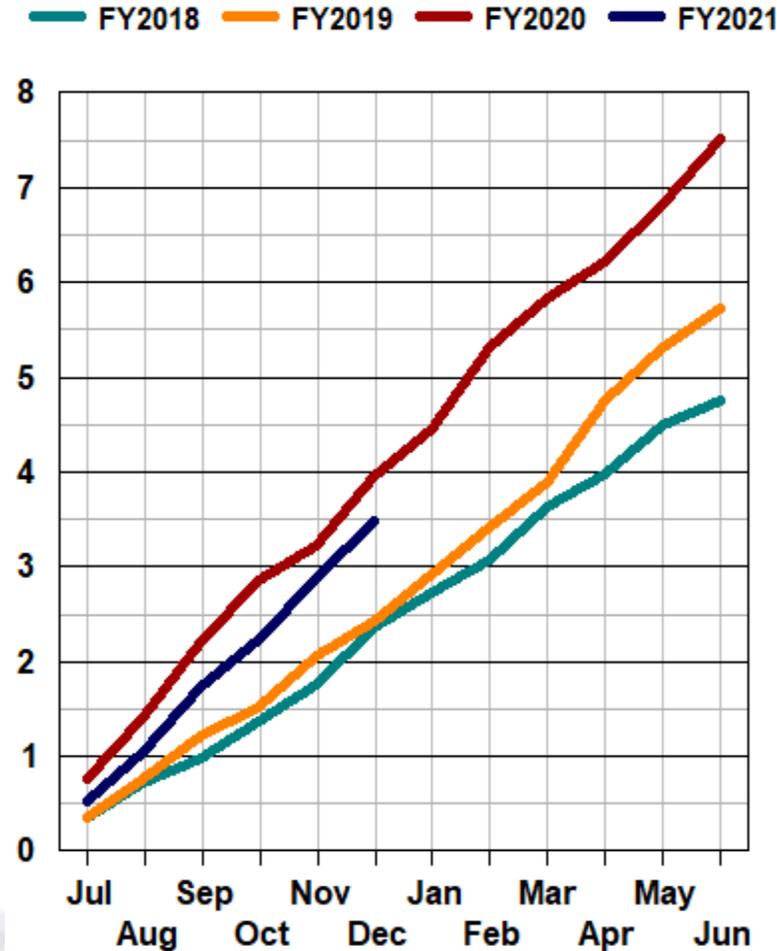
Construction & Contracting

Accum. Collections by Month

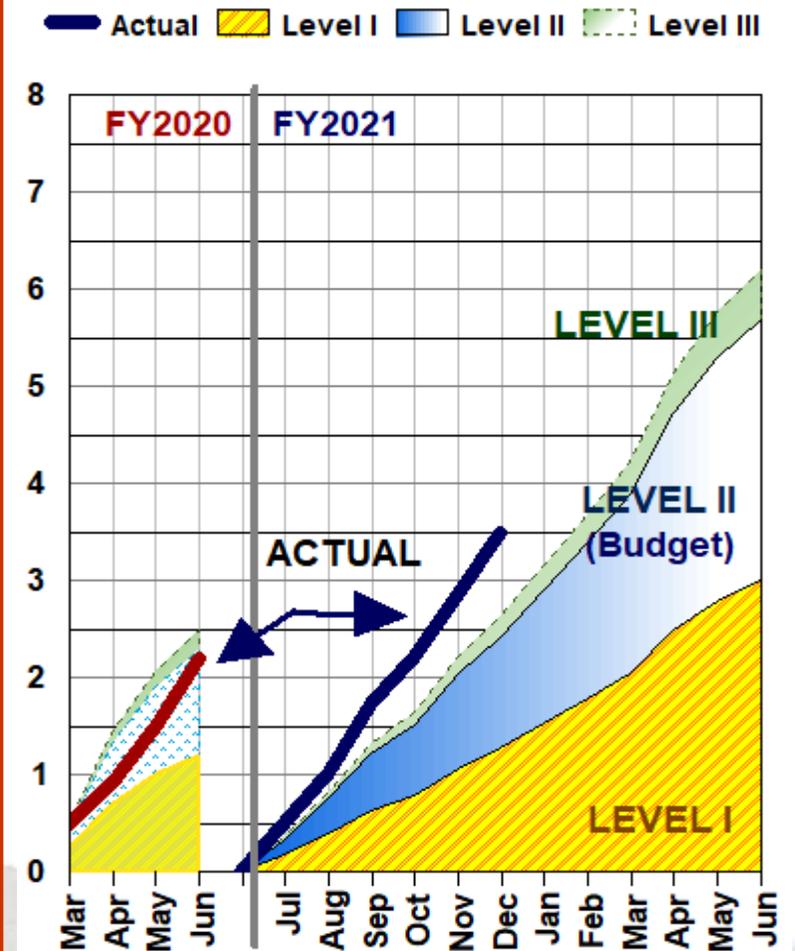
Historical FY2015 to FY2017



Historical FY2018 to FY2020



Current Actual FY2021

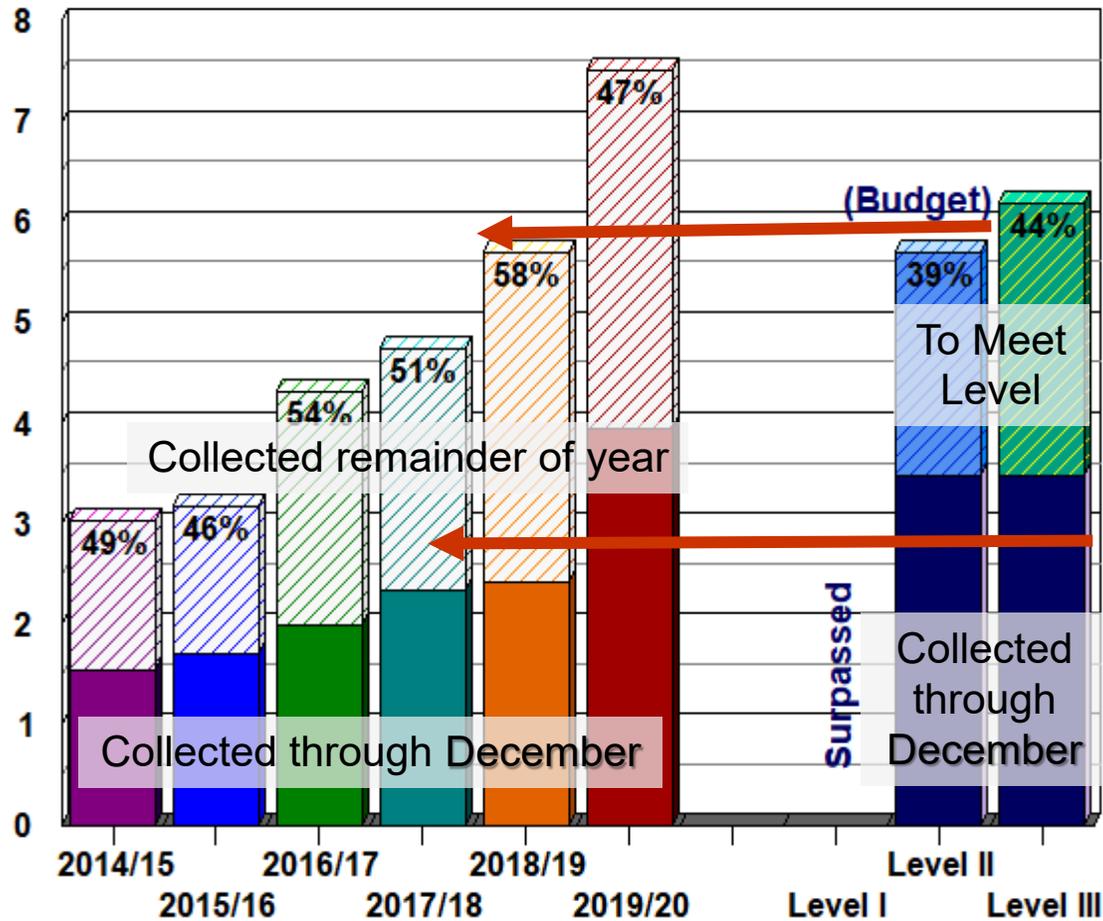


(All amounts are in Millions)

Construction & Contracting TPT

Conclusion

INTERPOLATION – PERCENTAGE OF TOTAL



(All amounts are in Millions)

SUMMARY

- ▶ The Town budgeted Construction TPT at **LEVEL II** to ensure the Town does not over extend CIP expenditures.
- ▶ Per Town policy, if this revenue moves to **LEVEL III**, it is transferred to the Capital Improvement Program (CIP), where it will be placed in a contingency account for subsequent budgets and Council considerations.
- ▶ If this revenue shows signs of moving to **LEVEL I**, the Mayor and Council would be notified and mitigating actions assessed for considerations if necessary; this would most likely impact subsequent years' CIP.

Factors impacting FY2021:

- ▶ Though some sectors slumped since March 2020, construction in Paradise Valley continued to be strong.
- ▶ Major developments are still on the horizon.
- ▶ The first \$500,000 Construction TPT collected funds general Town operations; all collections in excess of \$500,00 funds the Town's CIP.

BUILDING PERMITS

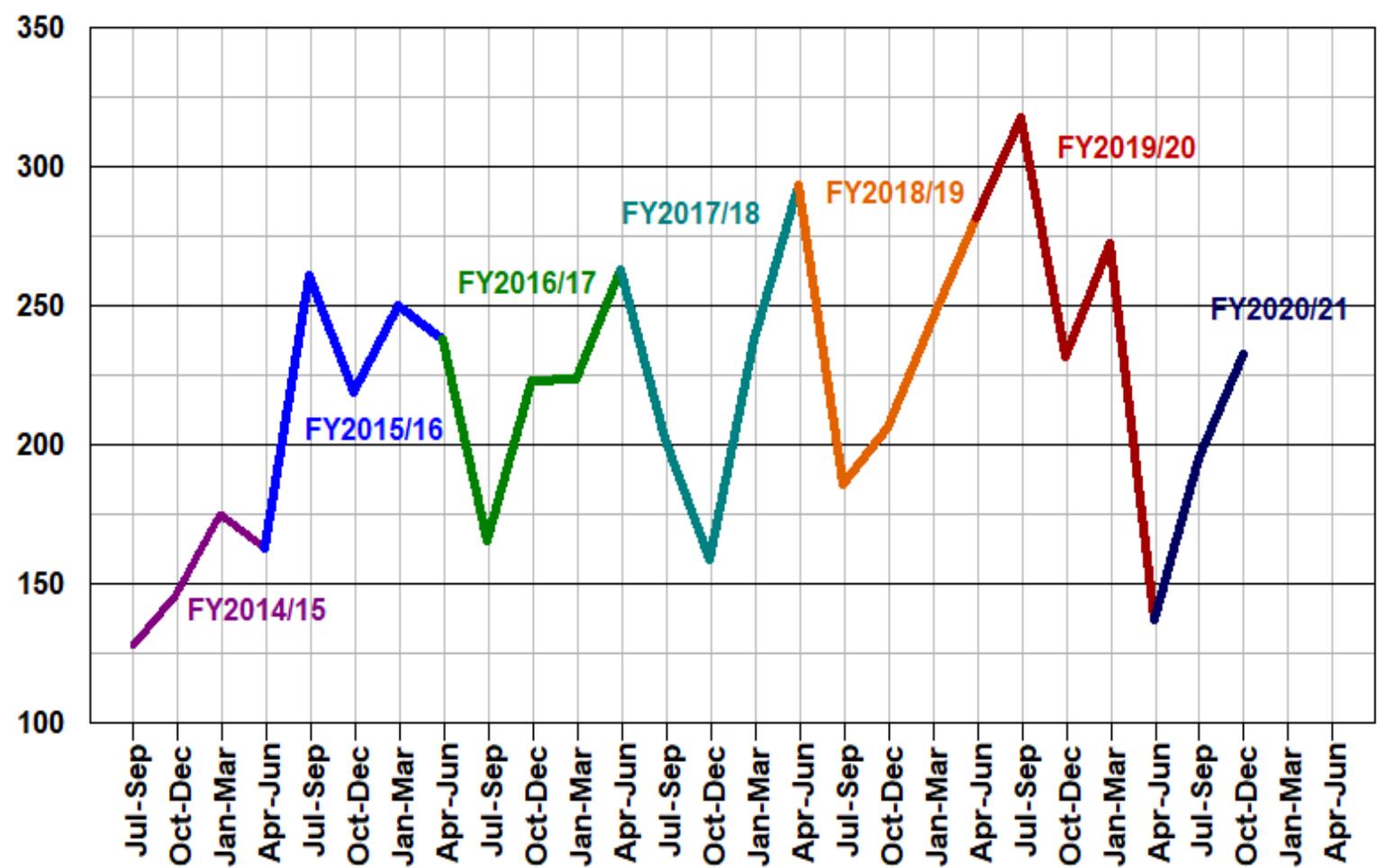


February 25th, 2021

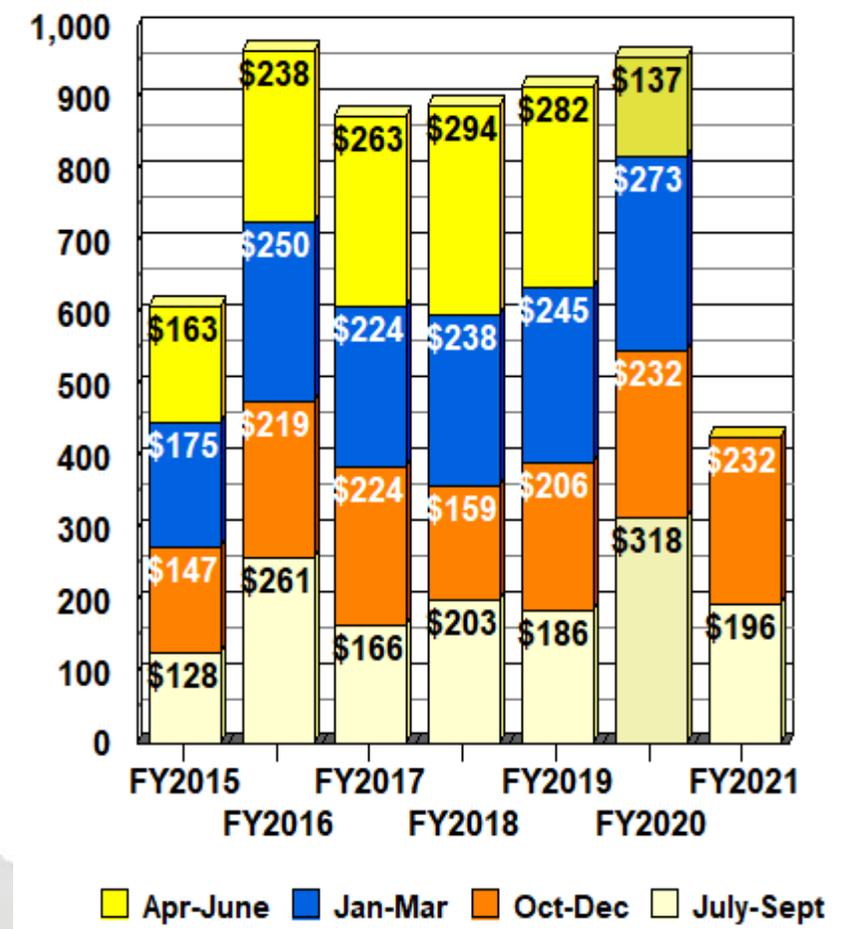
Building Permits

Quarterly Collections

Actual Quarterly Collections



Total and Amount by Quarter

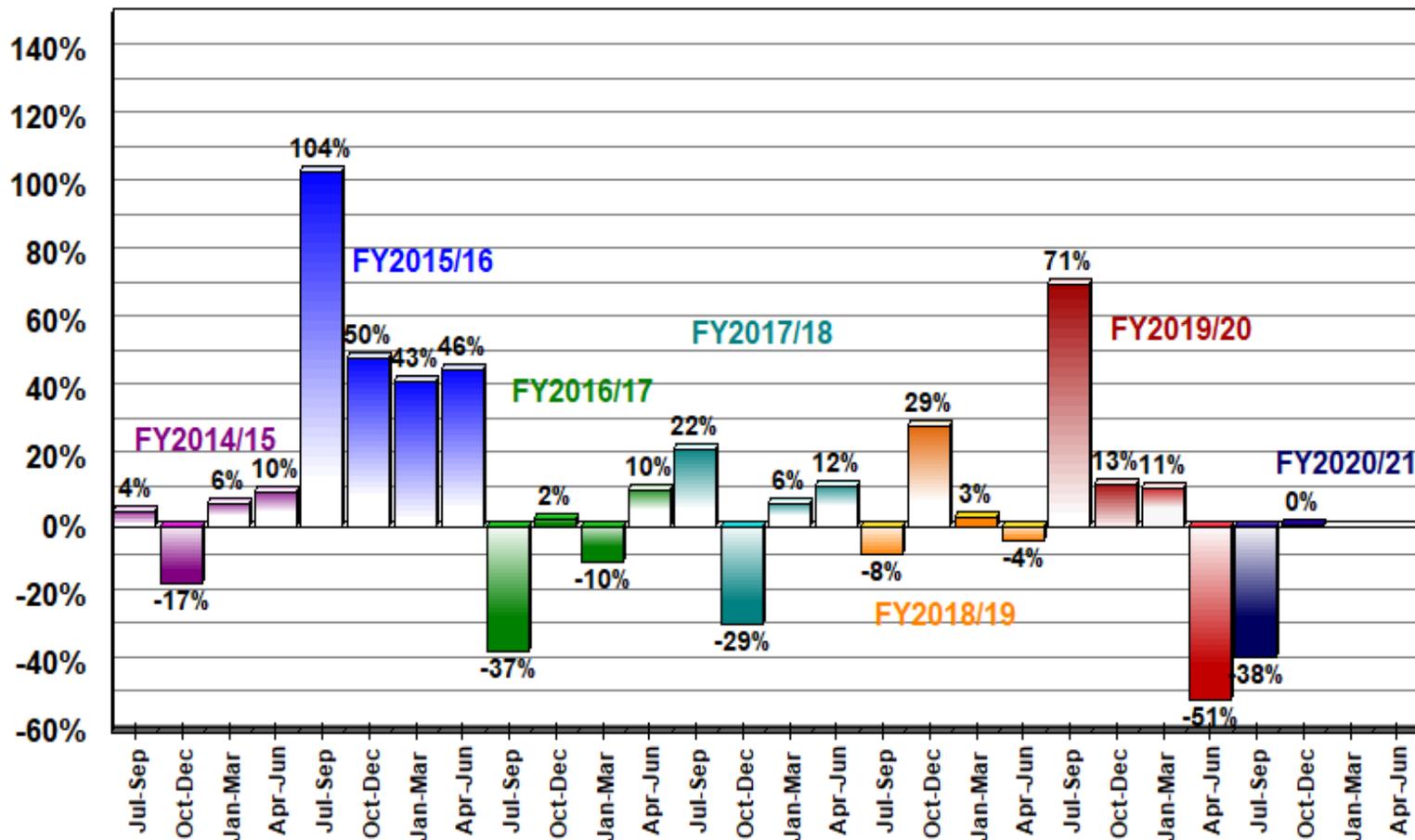


(All amounts are in Thousands)

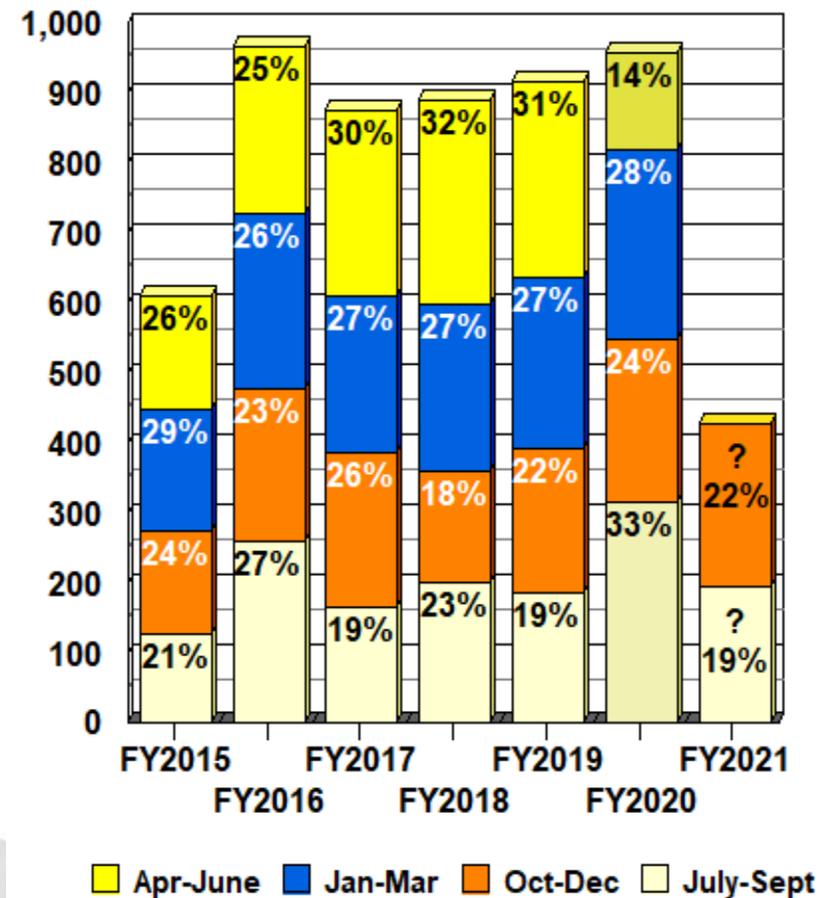
Building Permits

Quarterly Collections

Change in Quarterly Collections from Previous Year



Total and Percentage by Quarter

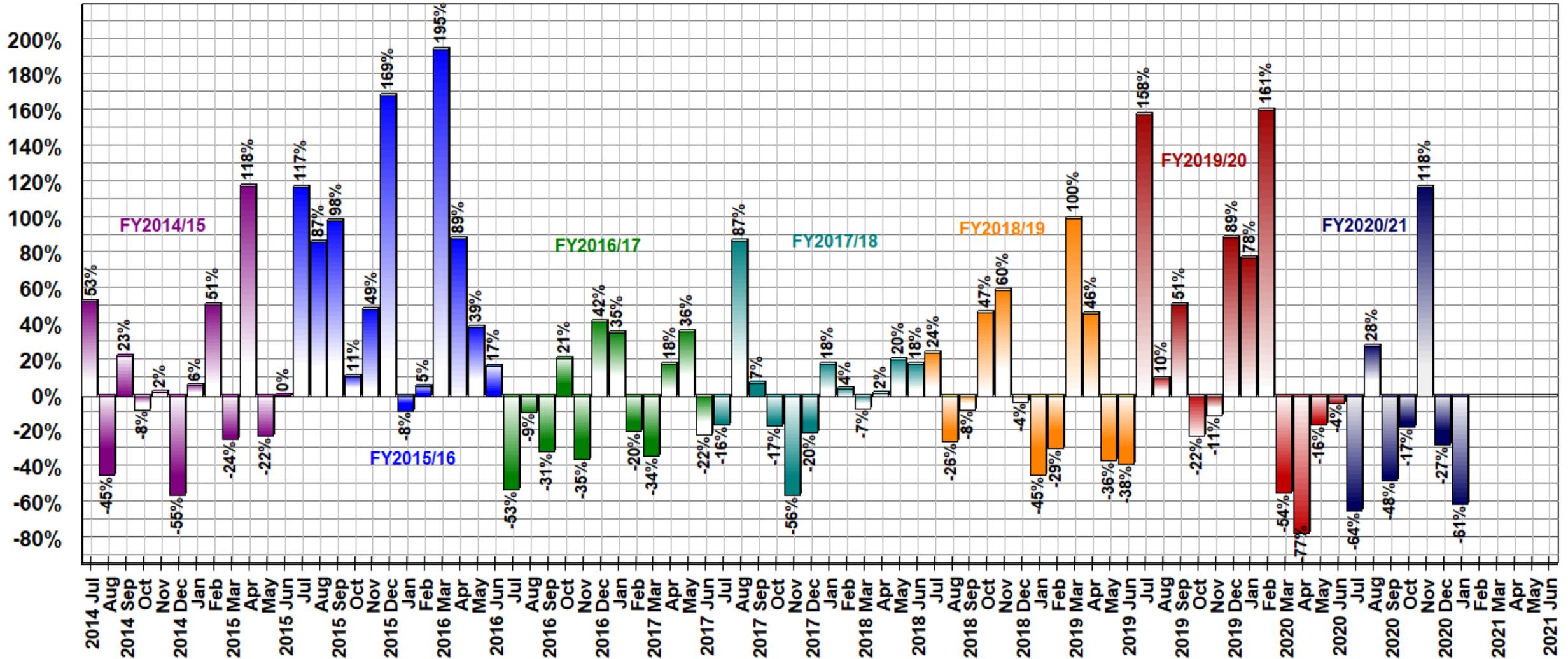


(All amounts are in Thousands)

Building Permits

Change in Monthly Collections

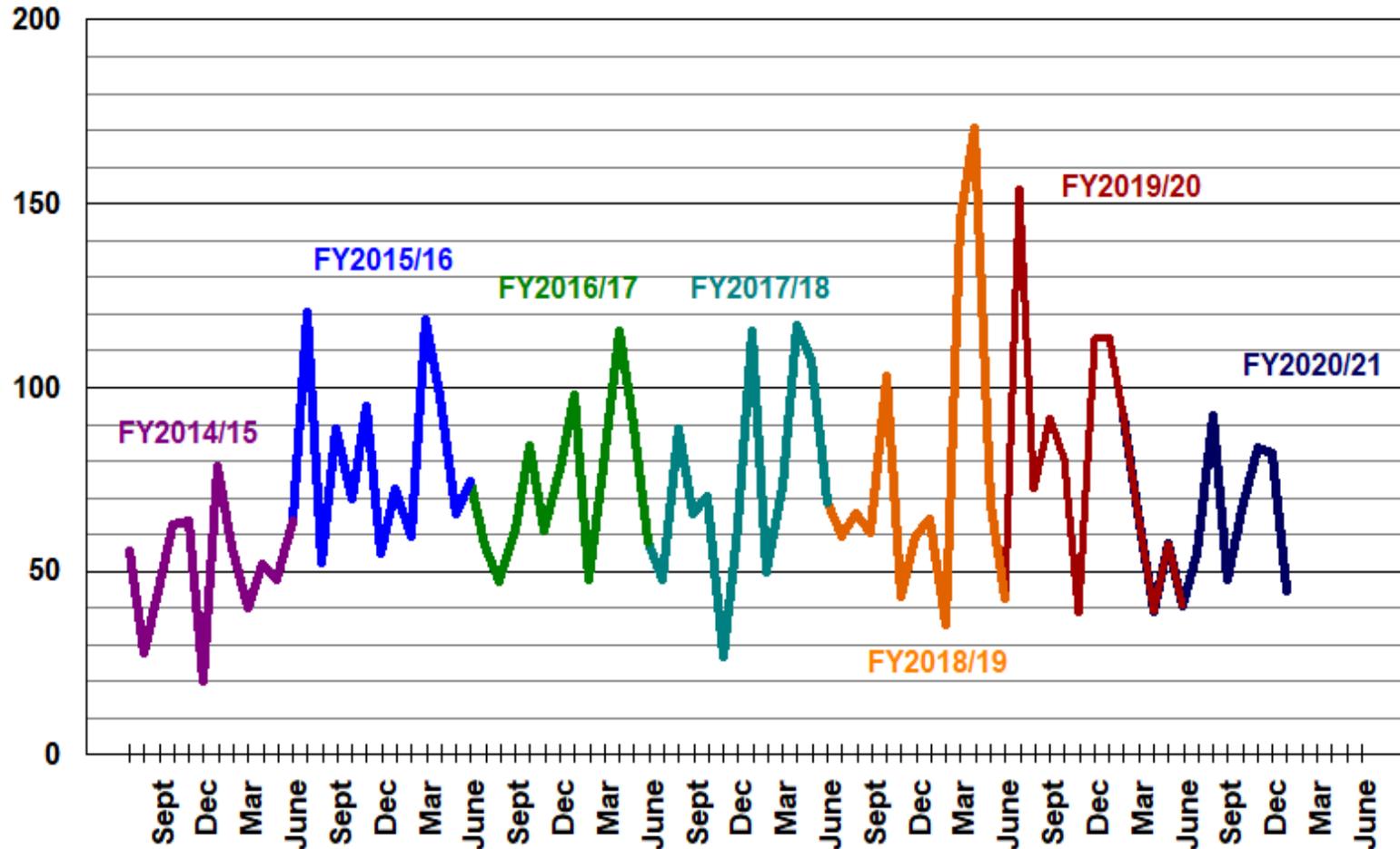
Change in Monthly Collects from Previous Year



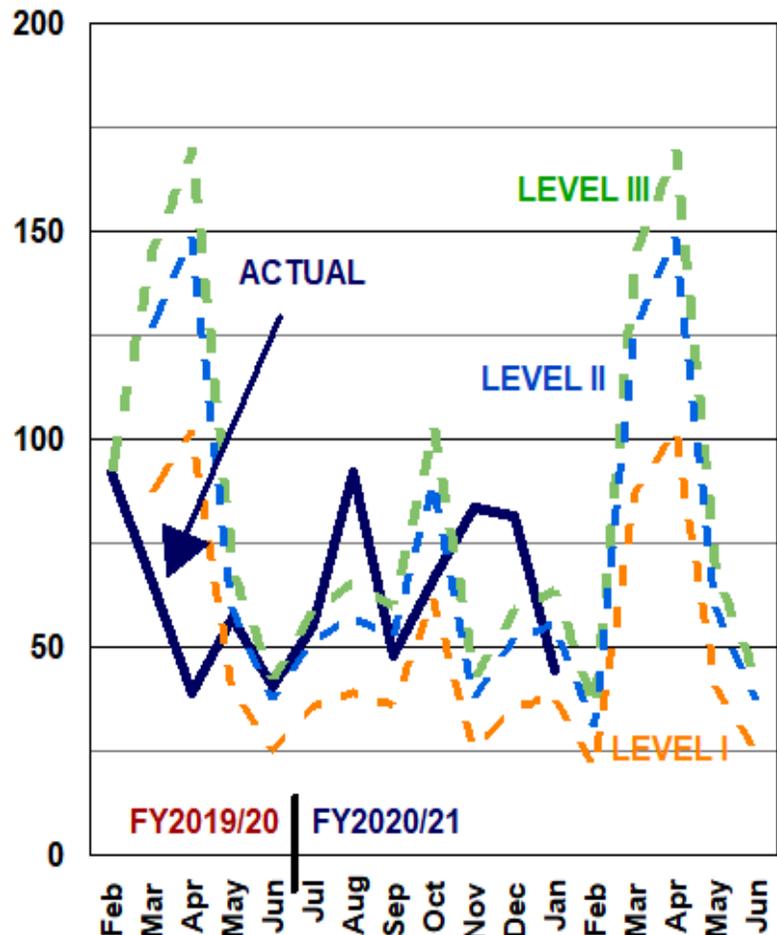
Building Permits

Actual Monthly Collections

Historical FY2015 to FY2020 and FY2021 Revenue Levels



FY2021 Collections To-Date

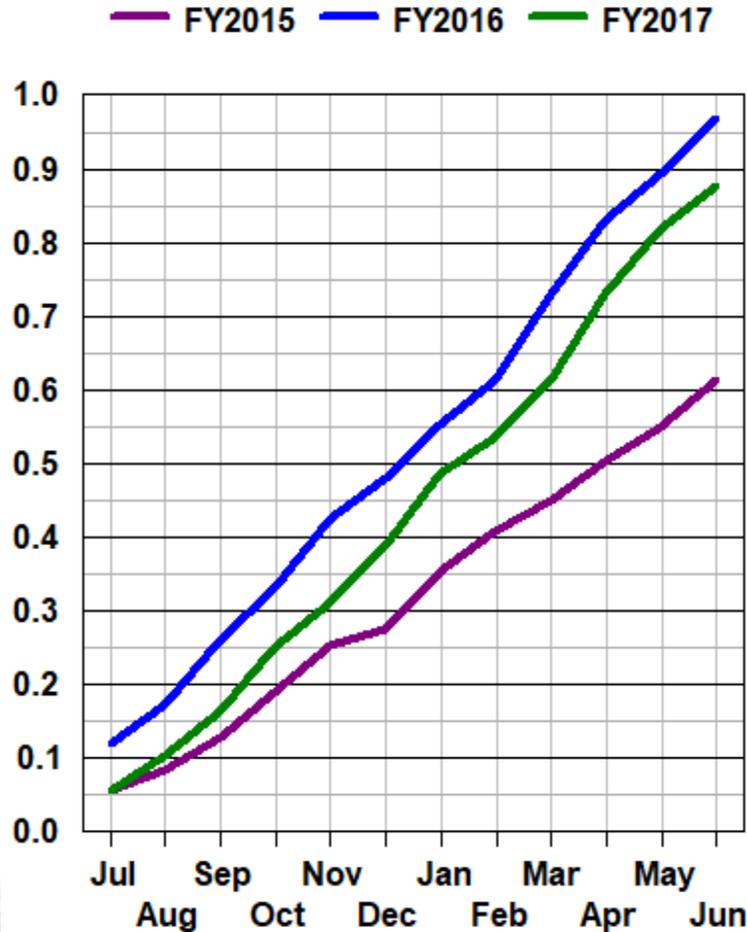


(All amounts are in Thousands)

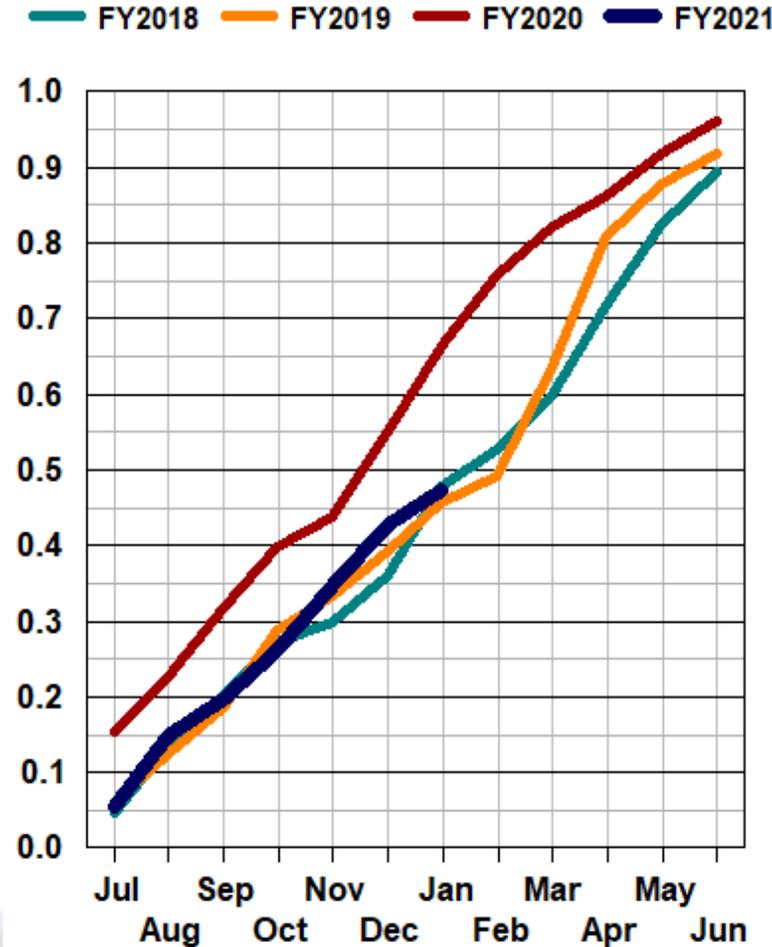
Building Permits

Accum. Collections by Month

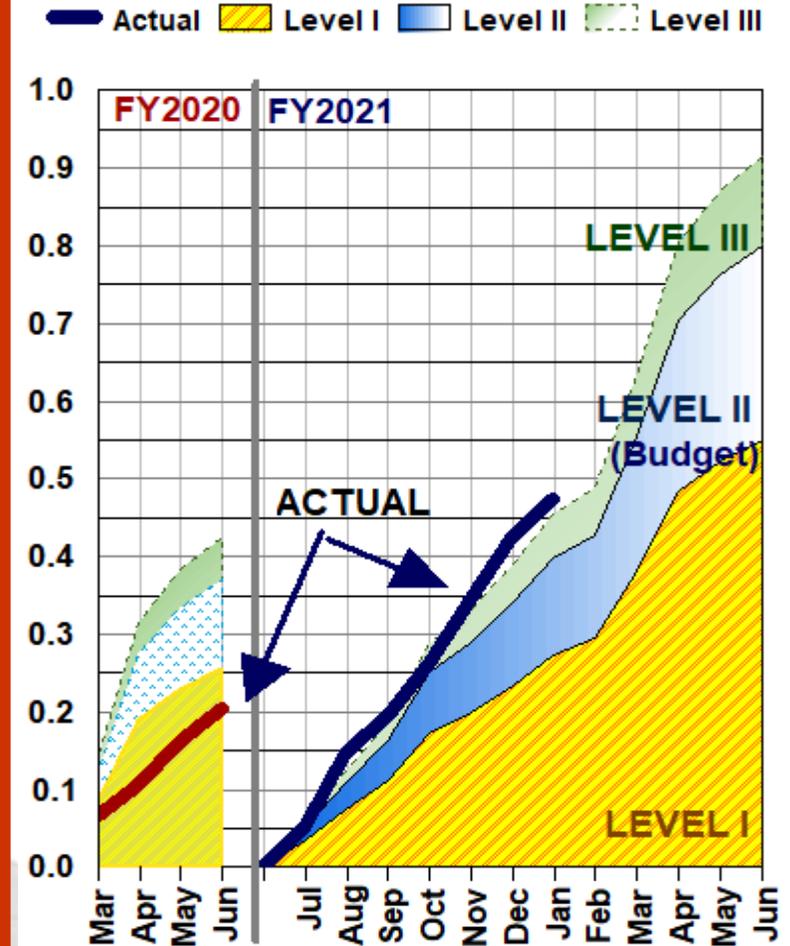
Historical FY2015 to FY2017



Historical FY2018 to FY2020



Current Actual FY2021

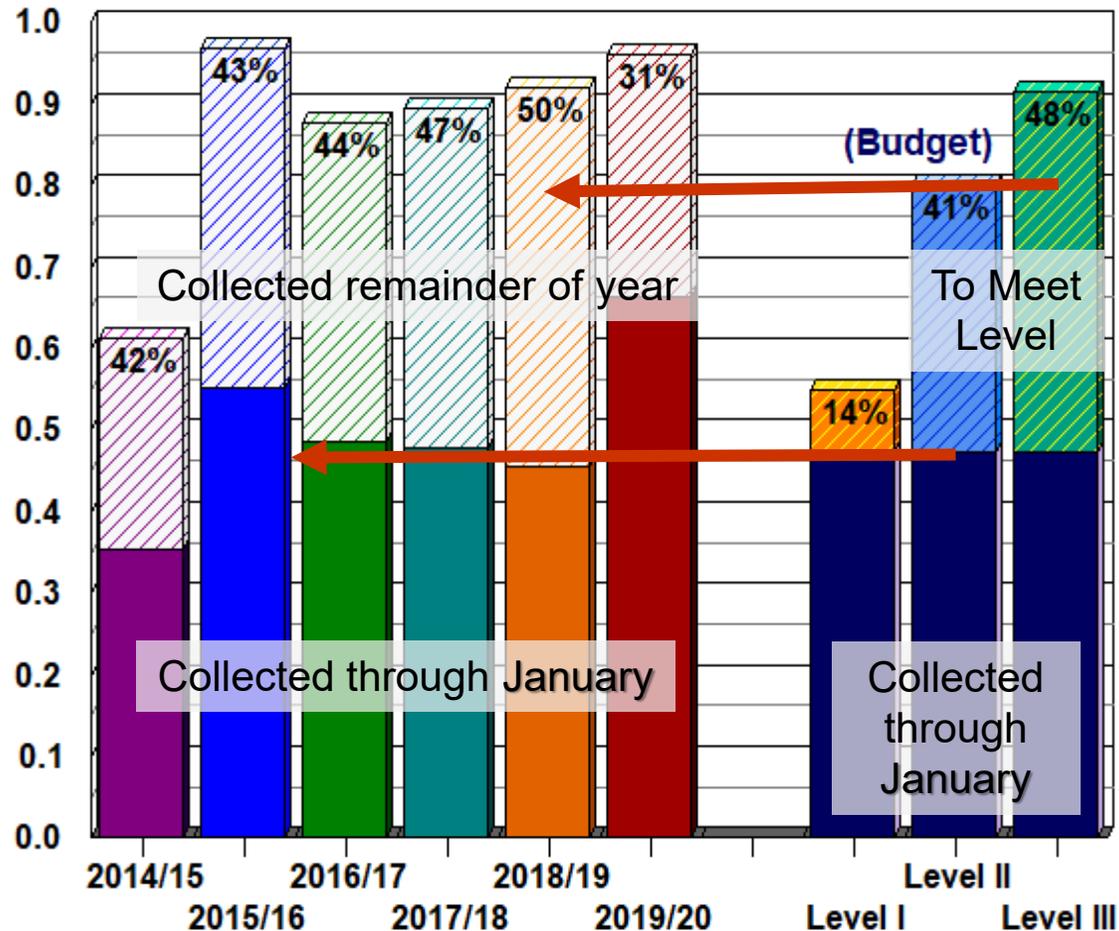


(All amounts are in Millions)

Building Permits

Summary

INTERPOLATION – PERCENTAGE OF TOTAL



(All amounts are in Millions)

SUMMARY

- ▶ The Town budgeted Building permits at **LEVEL II** to ensure the Town does not over extend expenditures, but not under estimate activity.
- ▶ Had this revenue showed signs of slowing to **LEVEL I**, the Mayor and Council would had been notified and with mitigating actions assessed for consideration as necessary.

Factors impacting FY2021:

- ▶ Though some sectors slumped since March 2020, construction in Paradise Valley continued to be strong.
- ▶ Major developments are still on the horizon.
- ▶ The first \$550,000 of Building permit revenue collected is considered recurring and funds general Town operations; all collections in excess of \$550,00 is considered non-recurring and funds non-recurring expenditures.

CONCLUSION



February 25th, 2021

RECOMMENDATION

As outlined with the FY2021 budget:

- ▶ Remain flexible, adaptive, patient and ready to transition as needed.
- ▶ Consider easing into opening select budgeted priorities.
- ▶ Continue to provide monthly financial updates:
 - ❖ With FY2022 budget underway, postpone the March monthly update until April where all topics and more will be covered.
 - ❖ Provide notice if any revenue trend or risk indicator signals a materially adverse impact to the Town's financial condition.

OPENING BUDGET PRIORITIES

- ▶ Management has been cautious not over extend the Town and risk the need to pull back on programs or service commitments, unless warranted to mitigate an unforeseen economic crisis.
- ▶ Council has approved \$5,400,000 for paying the PSPRS Unfunded Liability; management has been directed to bring back to Council for direction before making payments and will do so with the upcoming budget hearings with Council.

CONSIDERATION FACTORS FOR BUDGET PRIORITIES

- ▶ 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.
- ▶ Continue to maintain an appropriate level of Emergency Reserves for unforeseen emergencies.



REVENUE UPDATE FY2020/21

SPOTLIGHTED SOURCES

- Information and possible discussion.



February 25th, 2021

FOLLOW-UP

Question from Council



February 25th, 2021

FY2019/20 AUDIT AUDITOR RECOMMENDATION Question from Council



Follow up for Council #2:
➤ What is the PV Municipal Court's collection process ?

February 25th, 2021

Auditor's Recommendation



Findings and Recommendations

• Recommendations

1. Allowance for court receivables

- A significant number of court receivables dating back years continue to accumulate and have been allowed for in the past.

– We recommend the Town adopt a policy detailing a reasonable period of time the Town will pursue outstanding receivables before "writing them off".

2. Customer Deposit Liability

- We noted a significant number of deposits dating several years back that are no longer active or have not had any activity or progress made on the customer account in the recent years.
 - After two years of attempting to return refundable deposits, we recommend the Town escheat the deposits to the State when applicable or recognize the revenue for the deposits with no remaining historical information to use in escheatment.

Offering You More

Criteria

Though Municipal Court does not have authority to write off debt, the Town may adopt a policy to write-off court obligations owed the Town.

Since the Court does not have statutory authority to forgive outstanding obligations, the Court's reported receivables include all outstanding debt from inception of the Court's case management system January 1, 2000 through June 30, 2020.

If the Court collects a debt after the Town had written it off in Accounts Receivable; it is remitted to the Town recorded as current year revenue in the Town's records.

Actual Town "Work Paper"

| Court Accounts Receivable and Estimated Bad Debts: | |
|--|--------------------------|
| 6/30/2020 | |
| | Town Only (Not State) |
| Account Receivable | 996,281.84 |
| Allowance for Bad Debts | 755,531.81 |
| All AR outstanding 365 days or more | |
| Net | 240,750.03 |

Provided by Municipal Court

Typically, the Court collects 96% of the ordered sanctions and the remaining 4% is referred to collections. In effort to keep our collection rate high and outstanding debt low, Court utilizes the following collection methods:

1. Court provides a 10-day payment window after due date to pay outstanding debt.

a. Civil Cases:

If payments or arrangements have not been made after the 10-day window, a default judgment is imposed on case. Judgment includes default fee assessment and driver's license suspension (if applicable).

Provided by Municipal Court

b. Criminal Cases:

If payment or arrangements have not been made within the 10-day window, an Order to Show Cause Hearing is set for failure to comply. If the defendant fails to appear for hearing or make payment arrangements, a warrant is issued for the outstanding debt.

The majority of defendants after receiving the Notice of Default Judgment/Order to Show Cause Hearing will contact the Court to pay in full or make payment arrangements.

2. Debt outstanding 30 days or more from the default judgment/warrant date is referred to collections and the State's Debt Set Off Tax Interception Program.

FY2019/20 AUDIT AUDITOR RECOMMENDATION Question from Council

Municipal Court is available for further questions at a March Council meeting or at their budget hearing in April.



February 25th, 2021

CIP PROCEEDS, SERIES 2020

Question from Council



Follow-up for Council #1:

- What is the Current Accounts Receivable (A/R) for Five-Star Reimbursements for Certain Road improvements?

February 25th, 2021

CIP Number 2016-14

Accounts Receivable (A/R)

Payments through February 19, 2021

Paradise Valley, AZ

CIP No. 2016-14: Lincoln, Mockingbird, Indian Bend Roadway and Utility Improvements

ACTUAL: Design, Construction, Drainage, Right-of-Way

Activity through January 29, 2021:

| | Town Portion | Five Star Portion | |
|--|---------------------|---------------------|---------------------|
| | | Five-Star Paid | PV paid (Reimb.) |
| Paid by Town of Paradise Valley, AZ | \$ 3,622,893 | - | \$ 6,881,328 |
| Five Star Reimbursed Town of Paradise Valley, AZ | - | \$ 2,276,918 | (2,276,918) |
| Five Star Direct Payment to Vendor | - | 297,254 | - |
| Sub-Total Current Balances | 3,622,893 | 2,574,171 | 4,604,410 |
| Open Purchase Orders (Contractual Commitment) | 1,209,261 | - | 4,379,681 |
| Total Project without Additional Reimbursements | \$ 4,832,154 | \$ 2,574,171 | \$ 8,984,091 |

BUDGET: Design, Construction, Drainage, Right-of-Way

| | Town Portion | Five Star Portion | |
|---------------------------------|---------------------|-------------------|-------------|
| | | Total | A/R to PV |
| Total Project Commitment | \$ 4,832,154 | 11,558,263 | \$ - |

Loitering PV's Idled Cash

Includes Design, Construction, Drainage and Right-of-way, **not** Inspections or Management Fee:

- Five Star's portion that was fronted by the Town is **\$6,881,328**;
- Five Star has reimbursed the Town **\$2,276,918**;
- **Unreimbursed = \$4,604,410.**

Five Star's portion of open Purchase Orders is **\$4,379,681.**

- If the Town does not receive reimbursements for fronting cash for the remainder of the project, the Town's total unreimbursed amount would be approximately **\$8,984,091.**

To hedge timing of reimbursements per development agreement and not disrupt Town operations or financial strategies:

- Management can draw proceeds for **Town Projects under Series 2020**;
- Proceeds not used for paying Five Star's portion.
- Amounts drawn would be to the extent of delayed reimbursements.

CIP PROCEEDS, SERIES 2020 APPENDIX



From January 28th, 2021

CIP Proceeds, Series 2020

Why Draw Proceeds

REASONS TO HEDGE REIMB.

- Enable the Town to maintain its current investment portfolio, by not liquidating investments prematurely.
- Avoid redirecting cash, budget authority and AEL capacity from Town programs.
- Remain compliant with the Annual Expenditure limitation if CIP and PSPRS payments “bottle neck”.
- Brings cash from the trustee’s holdings (custodian bank) to the Town’s investment program.

USE OF PROCEEDS

To give the Town flexibility, the “bond” language was deliberate to not include specific projects:

Per Resolution No. 2020-06: Proceeds can be used to “finance roadway and utility construction and improvements, drainage improvements, municipal facilities improvements, and equipment and technology purchases”.

Proceeds can be used for the Town’s Capital Improvement Program from September 21, 2020 to March 12, 2023.

CIP Proceeds, Series 2020

Excerpt from May 14, 2020

SERIES 2020 - \$8.1M

In 2019, Council diligently and thoroughly examined prospects for issuing debt obligations, even though the Town and state were experiencing good economic times.

Days before the financial market crisis of 2020, Council approved a private placement with an interest rate of 1.09%.

This cemented the financial plan's path to ensure the Town:

- ✓ Remains compliant with the Annual Expenditure Limitation; while
- ✓ Honors the Five Star development agreement obligation to front cash for projects and invoice for reimbursement; and
- ✓ Hedges the actual timing of reimbursements. And
- ✓ Continue the current CIP and status quo Town operations;
- ✓ Meet Council's goal of paying down the PSPRS UAAL; and
- ✓ Maintain sufficient reserves to protect the town from external stresses.

Similar to a line of credit

Proceeds are held by a trustee bank in a separate account. The Town draws the proceeds as needed. Drawn proceeds will need to be repaid with "assigned" cash or with *future pledged revenues*.

After three years, any unused proceeds are transferred to the payment account, with the trustee bank, to pay principal and interest. Balances in the trustee accounts are *subject to arbitrage*. General Fund cash "assigned" for paying principal and interest is not.

CIP PROCEEDS, SERIES 2020

Question from Council



February 25th, 2021

FY2020/21

MONTHLY FINANCIAL UPDATED

No. 5: February 2021



February 25th, 2021