

# **TOWN** *Of* **PARADISE VALLEY**



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## **STAFF REPORT**

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**TO:** Mayor Bien-Willner and Town Council Members

**FROM:** Jill Keimach, Town Manager  
Douglas Allen, CFO

**DATE:** June 24, 2021

**AGENDA TITLE:**

**Adoption of Resolution Number 2021-12 Adopting the FY2021/22 Final Budget, Capital Improvement Plan and the Strategic Revenue Plan.**

**SUMMARY STATEMENT:**

One of the most important duties of the Mayor and Town Council is to adopt an annual budget for the Town. The budget process provides the Council with the opportunity to match the needs of the Town and available resources with the intent of gaining the maximum return on each dollar.

The Town's budget is a result of all departments, management and Town Council's collaborative efforts to set and communicate the Town's financial plan, policies and operational guide for the upcoming fiscal year 2021/22.

Guided by the long-standing traditions of Paradise Valley's solid fiscal policy and prudent budgeting lead by the Mayor, Town Council and Management, the Town has saved and set-aside sufficient resources for fiscal emergencies to maintain Town services.

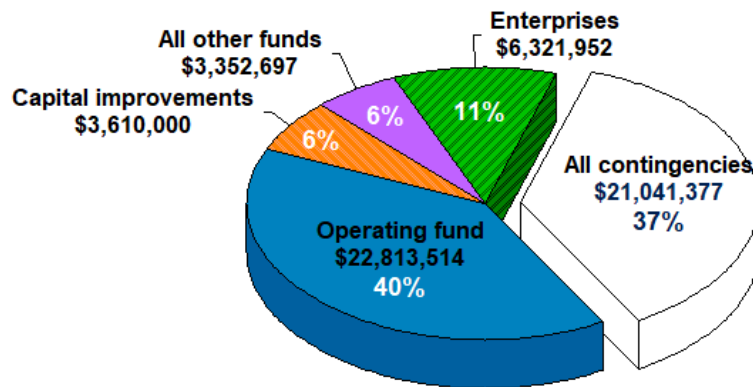
The tentative budget includes funding for all department's priority two operating budgets, payment of debt obligations, contingencies and continuing the capital improvement program while remaining poised to resume full operations when revenues rebound.

**REQUEST OF MAYOR AND COUNCIL JUNE 24TH**

After a brief summary from staff:

- 1 Hold a public hearing;
- 2 Consider proposed amendments to the *Tentative budget*; and
- 3 Consider adopting resolution 2021-12 that adopts the budget, as amended for FY2021/22 and includes:
  - Single year funding for the Capital Improvement;
  - The Strategic Revenue Plan for FY2022; and
  - Single year delegation of authority to the Town Manager to reopen department 'priority three' when Council approved criteria discussed in previous department budget presentations have been reached.

The total Tentative Town budget is comprised as illustrated below for a total of \$57,139,540.



## ADOPTING BUDGETS

### A. TENTATIVE BUDGET ON STATE FORMS

The tentative budget includes funding for all department's "priority two" operating budgets effective July 1, payment of debt obligations, capital improvement projects and the three enterprise services. Contingencies are not available July 1; but possibly later in the fiscal year if "specific criteria are met, and service demands materialize". The contingencies are set for a fluid transition when revenue rebounds and ensuring the Town maintains a financially sustainable structure even in the event the Town's revenue rebound is not realized in FY2021/22.

By adopting the "**Tentative**" budget, Council sets the maximum spending for the fiscal year. The Tentative budget will be posted for public inspection on the Town's website and the Scottsdale Republic on June 11<sup>th</sup> and 18<sup>th</sup>, and a public hearing will be held for public comment June 24<sup>th</sup>.

### B. FINAL BUDGET ON STATE FORMS

After public comments, the Council can still modify the tentative budget categorically, but cannot increase the maximum spending amounts. Council then adopts the final budget referred to as the "**Adopted**" budget.

### C. STATE BUDGET FORMS

- The AZ State forms provide the budget authority to spend; but it's not a mandate to do so
- The Tentative Budget sets the maximum spending for the fiscal year
- Even if resources become available, if expenditures are not budgeted, funds cannot be spent
- Contingencies help fill gaps for flexibility and adaptability of service priorities and fluctuations in revenues.
- The Tentative Budget State forms are posted for public inspection
- A Public Hearing will be held for public comment
- The Adopted Budget cannot exceed the total Tentative Budget; but the total *can be reduced, and amendments can be made between lines*
- The latest the Tentative budget can be adopted without a property tax is July 20.

## D. GFOA RECOMMENDED PRACTICE

A well-constructed budget is more than just a financial plan. The Governmental Finance Officers Association (GFOA) says a budget is intended to fulfill four major functions through its role as:

- A **Policy** Document
- A **Financial** Plan
- An **Operations** Guide, and
- A **Communications** Medium

## I. TRANSITION FROM RECOMMENDED TO THE TENTATIVE BUDGET

As the Budget transitions from the Town Manager's Recommended Budget to the Mayor and Council's Tentative Budget, the following changes were subsequent to or result of discussions with Council. These changes did not increase the total recommended budget; with the majority being carried forward in a previously funded project from FY2021 to FY2022.

CHANGES FROM THE RECOMMENDED TO TENTATIVE BUDGET		
Description / Year / Department	Amount	
<b>1) Emergency Management position approved in Feb.</b>		
2022 GF: Increase PD FTEs by 1.0; no \$ increase	\$ -	Neutral
The position was included in the personnel budget		
<b>2) Updated Historical Committee</b>		
2022 GF: Mayor, Council, Boards, Committees, Volunteers	\$ 6,500	Increase
2022 GF: AEL match contingency	(6,500)	Decrease
<b>3) Carryforward FY2021 funding to FY2022</b>		
2022 GF: Community services organizations - MCCBV	\$ 15,000	Increase
2022 GF: AEL match contingency	(15,000)	Decrease
2021 GF: Carry forward unassigned fund balance	15,000	Increase
<b>4) Carryforward FY2021 funding to FY2022</b>		
2022 GF: Conference rooms AV upgrades - IT	\$ 55,000	Increase
2022 GF: AEL match contingency	(55,000)	Decrease
2021 GF: Carry forward unassigned fund balance	55,000	Increase
<b>5) Carryforward FY2021 funding to FY2022</b>		
2022 CIP: 2021-03 56th to Invergordon Drive	\$ 100,000	Increase
2022 CIP: "Accounting" Contingency (Operating)	(100,000)	Decrease
2021 CIP Carry forward assigned fund balance	100,000	Increase

## II. TOWN MANAGERS RECOMMENDED BUDGET

The Town Manager's recommended budget includes funding for all department's priority two operating budgets, payment of debt obligations, contingencies and continuing the capital improvement program while remaining poised to resume full operations when revenues rebound and "specific criteria are met, and service demands materialize".

The total recommended budget is comprised of the Operating fund, Capital projects, Debt service, Other governmental programs and three Enterprises (Alarm, Fire and Wastewater services). As illustrated below, the total recommended budget is \$57,139,540, which is 11% less than prior year.

The primary reason for the decrease is the completion of major capital improvement projects and a prior issuance of excise tax proceeds to hedge cash flows for a development agreement where the Town fronts cash and then is reimbursed for capital improvements.

TOTAL BUDGET			STATE FORMS	
All Town Funds	Budget 2021/22	Budget 2020/21	Change \$	Change %
Operating fund expenditures *	\$ 22,737,014	\$ 22,233,512	\$ 503,502	2.3%
All contingencies	21,217,877	18,447,576	2,770,301	15.0%
Capital projects and debt service	6,387,064	16,638,028	(10,250,964)	-61.6%
All other governmental funds	475,633	324,345	151,288	46.6%
Enterprise funds	6,321,952	6,576,910	(254,958)	-3.9%
<b>Total budget</b>	<b>\$ 57,139,540</b>	<b>\$ 64,220,371</b>	<b>\$ (7,080,831)</b>	<b>-11.0%</b>
* The "Operating Fund" is the combination of the General and Highway User Revenue Funds				

### III. DEPARTMENT BUDGETS – “OPERATING FUND”

The Town’s “Operating Fund” accounts for financial resources that provide governmental services, including development services, police and public works.

The Town Manager’s Recommended “Department budgets” is a \$503,502 or 2% increase compared to last year’s budget. Included in the Department budgets are:

- an increase in staffing of 3.8 Full-time equivalents;
  - 2 new positions in Municipal Courts and 2 in Community Development;
- \$1.6 million for street maintenance projects;
- \$0.6 million in equipment and vehicle replacements; and
- reopening programs that were deferred over the pandemic.

OPERATING FUND - Expenditures by CATEGORY							
Funding by Source	Budget 2021/22	Budget 2020/21	Change		Projected 2020/21	Actual 2019/20	Actual 2018/19
			Amount	%			
Personnel	\$13,273,381	\$13,208,623	\$ 64,758	0%	\$12,804,915	\$12,899,244	\$12,101,248
Supplies and services	9,180,063	8,951,644	228,419	3%	8,102,569	7,779,953	9,137,387
Capital	283,570	73,245	210,325	287%	-	265,294	236,262
<b>Expenditures-Priority 2</b>	<b>\$22,737,014</b>	<b>\$22,233,512</b>	<b>\$ 503,502</b>	<b>2%</b>	<b>\$20,907,484</b>	<b>\$20,944,491</b>	<b>\$21,474,897</b>
Contingency Priority 3	\$ 2,220,435						

The department budgets maintain balance and do not encroach on funding for the Town to continue with the Town’s full CIP, pay debt obligations, maintain health emergency reserves and other budget priorities.

## EXPENDITURES: CONTINUED CAUTION

The recommended budget continues with caution not to over extend obligations and continues to “ease” into programs that were on-hold or deferred in FY2021. Last year departments began prioritizing on 3-tier scale. As revenues rebounded and programs could be reasonably sustained, Town Council eased back into most Town-wide programs.

## PUBLIC SAFETY

The Police department is the Town’s largest department and accounts for nearly half of the Town’s staffing and nearly 40% of the Operating fund expenditures.

FULL TIME EQUIVALENTS ("FTE")		
	Budget 2021/22	Percent of Total
Police	50.0	45.9%
Development and public works	29.0	26.6%
All other programs	29.9	27.5%
<b>Total operating expenditures</b>	<b>108.9</b>	<b>100.0%</b>

OPERATING EXPENDITURES		
	Budget 2021/22	Percent of Total
Police	\$ 8,947,952	39.4%
Development and public works	6,689,382	29.4%
All other programs	7,099,680	31.2%
<b>Total operating expenditures</b>	<b>\$ 22,737,014</b>	<b>100.0%</b>

Other public safety services: Alarm and Fire Services are considered Enterprise funds. These funds have dedicated service fee revenue and operate relatively self-sufficiently.

TOTAL BUDGET INCLUDING ENTERPRISES		
	Budget 2021/22	Percent of Total
Police, Alarm and Fire	\$ 12,568,254	35.0%
Development and public works	6,689,382	18.6%
Capital Improvement Plan	6,387,064	17.8%
Wastewater enterprise	2,786,213	7.8%
All other programs	7,490,750	20.9%
<b>Total expenditures*</b>	<b>\$ 35,921,663</b>	<b>100.0%</b>
Contingencies of \$ 21,217,877 are not included		

## IV. NON-RECURRING REVENUE

Recently, the Town has realized significant amounts of non-recurring resources. Per Town policy, non-recurring resources are not to be used for operating expenditures. The chart below shows the projected revenues for FY2020/21 and FY2021/22. Both years are estimated based on 2018 revenues.

REVENUES	RECURRING VS NON-RECURRING (ONE-TIME)			
	Budget 2021/22		Budget 2020/21	
SOURCE	Recurring	Non-recurring	Recurring	Non-recurring
Local taxes	\$13,651,800	\$ 5,860,000	\$12,775,800	\$ 5,805,000
Intergovernmental	5,366,370	50,000	5,749,040	50,000
License and permits	2,405,600	585,000	2,415,530	695,600
Fines and forfeitures	2,125,000	-	2,245,050	-
Franchises	1,191,000	-	1,191,000	-
Charges for services	341,250	-	314,940	-
All other	429,340	-	652,750	-
AZ Cares/ARA	-	3,500,000	-	1,680,424
CIP Reconciliation transfer in	-	-	-	5,000,000
<b>Total uses</b>	<b>\$25,510,360</b>	<b>\$ 9,995,000</b>	<b>\$25,344,110</b>	<b>\$13,231,024</b>
Non-recurring: Construction TPT, Building permits, In-house inspections, and grants in excess of recurring threshold				

Included in the recommended budget is to retroactively resume the practice of “assigning fund balances”, that was paused in March of 2020. Long-range planning and assigning fund balances smooths cash flows over 10+ years for significant expenditures such as:

- Facilities and fleet,
- Street maintenance programs,
- Equipment life cycle management,
- PSPRS unfunded liability reserve, and
- Capital improvement projects and debt service payments.

## **V. CAPITAL IMPROVEMENT PLAN (“CIP”)**

The CIP is a multiyear plan which identifies and prioritizes the Town’s anticipated capital needs over the next five years. It is adopted as a part of the budget resolution and presented as a separate section of the budget document. Capital projects differ from annual operating expenses in that they involve large dollar amounts (greater than \$100,000), may require special financing, occur at irregular intervals, and involve development of assets expected to have at least a 3-year useful life span.

Town staff annually reviews and updates the CIP; however, only the current year schedule (Fiscal Year 2022), when adopted by Town Council, is incorporated into the annual operating budget. The future year expenditure forecast aids in capital repairs, replacements, and acquisitions which allow for prudent and strategic financial planning. However, identification of a project in the CIP does not guarantee construction. In fact, a number of variables can impact a project as it advances toward design and construction, such as timing, costs, right of way acquisition, coordination with other public or private entities, public participation, financial outlook, and final Council project approval. The Town Council has a prudent practice of reviewing and approving a project after CIP adoption and after an initial design (prior to 30% design plans) and well before a construction contract is negotiated and considered by Town Council, as required.

Twenty-nine projects being considered in the upcoming 5-year CIP along with their priority ranking (high, medium, low) can be seen in the attached presentation.

### **ADOPTING THE CIP:**

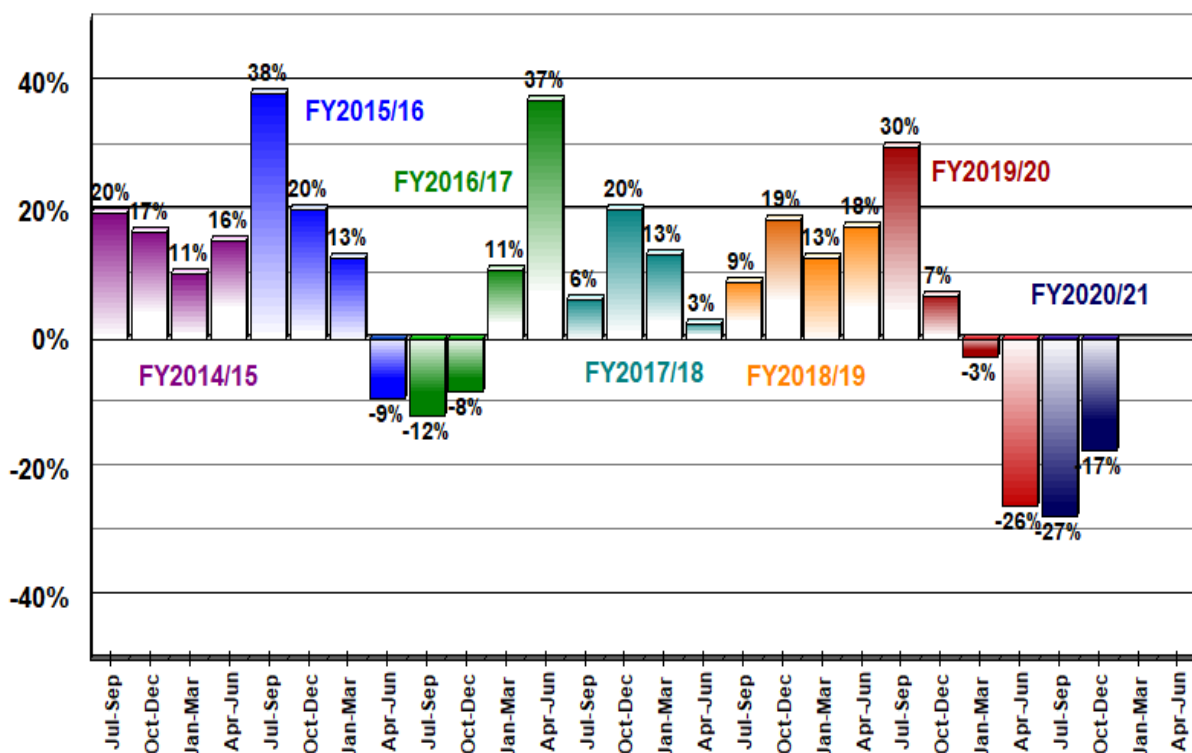
The CIP is adopted as part of the annual budget resolution. Historically, the adopted budget provides single year funding and budget authority for the Capital Improvement Plan as a whole; any and all new individual contracts and/or projects will be brought to Town Council for specific approval.

Any contract or expenditure over \$50,000 will require Town Council approval prior to commencing work.

## **VI. REVENUE ESTIMATES FY2021/22**

The Mayor, Vice Mayor, Council, Town Management and staff have:

- ▶ Been actively involved and monitoring revenues with monthly updates throughout the course of the year
- ▶ Remained flexible, adaptive, patient and ready to transition budget priorities as necessitated by revenue and economic conditions
- ▶ Been cautious not to over extend the Town and risk the need to pull back on programs or service commitments, unless warranted to mitigate an unforeseen economic crisis.





Looking forward 15 months to June 30, 2022 continues to be less routine and much more of a challenge than recent years prior to this pandemic.

The next 3-6 months will be a leading indicator for economic optimism for the FY2021/22 and revenues will continue to be monitored closely. The recommended FY2021/22 budget is estimating base revenues at a 2018 level but is also prepared to mitigate a crisis as necessary.

## **VII. EXPENDITURES**

With revenues trending toward 2018 levels, the recommended budget for FY2022 continues to be cautious to not over extend the Town's obligations and recommends continuing to ease into programs that were on-hold or deferred in FY2021.

Last fiscal year, Town department's prioritized programs on 3-tier priority scale. The Town began the fiscal year at Priority One and reopened programs as revenues rebounded and programs could be reasonably sustained.

Council action was required to reopen Priority Two and Three programs. During the year, Council authorized the Town to ease back into most Town-wide and less than half specific departmental Priority Two and Three programs.

Like last fiscal year, the FY2022 recommended budget uses the 3-tier priority approach.

However, it recommends that departments start the fiscal year at Priority Two in FY2022, rather than Priority One in FY2021.

Like last fiscal year; the FY2022 Priority Three programs are recommended to be held in a contingency account until "specific criteria are realized, and service demands materialize". Each department has defined what constitutes meeting the "specific criteria" test for each program in the priority three priorities for Council's considerations.

However, it is recommended that with the adoption of the FY2022 budget, Council authorize the Town Manager and Chief Finance Officer to determine when the "specific criteria are met, and service demands materialize" and has the authority to reopen the program. The Town Manager will communicate to Council before opening a Priority Three request, but further Council approval via formal budget amendment resolutions is not required.



## VIII. DEPARTMENT BUDGETS

This year's budget document was carefully crafted to serve multiple purposes in a single file. This first two slides for each department is the classic "Council presentation" for the Council meeting. The following half dozen or so pages resemble the department section of the classic "budget book". These slides will compile the budget book and will be available in PDF and paperback hard copies after adoption.

The first "presentation" slide provided a description of the department, services and an organization chart; as shown below with the Police Department slide 15.

### Public Safety

**OFFICE DESCRIPTION & SERVICES**

We provide high quality police services 24 hours per day, 7 days per week, 365 days during the year.

**We are always open!**

The service we provide includes responding to crimes, traffic collisions, medical emergencies, fires, public safety hazards, domestic disputes and other community needs.

We strive to fulfill the needs of our community through our Vacation Watch program, the Medication Drop Box, and regular visits to neighborhood schools, among other community oriented policing programs. We believe in high level of communication with our community and achieve that level through both traditional methods of communication (newspaper reports and columns) and non-traditional media platforms (social media and emergency notification methods).


### Police Department

**ORGANIZATIONAL CHART**

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graph TD
    PC[Police Chief] --- Admin[Administration]
    PC --- Patrol[Patrol]
    PC --- Comm[Communications]
    PC --- Invest[Investigations]

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15 Department Budgets – Public Safety Recommended Budget 2021/22 Department Budgets

The second "presentation" slide is for "Highlights and Changes"; as shown below with Public Works slide 39.

### Public Works

**HIGHLIGHTS**

In FY 20/21, the Public Works Department:

- Updated 62 ADA Ramps on Lincoln Drive
- Repaired Town Hall metal roof
- Imported GPS locations for all irrigation, back flows, meters, valves, culverts and drain locations into ARC GIS database
- Completed a full mill and inch and half rubberized asphalt overlay on Lincoln Drive.

**STAFFING LEVELS**

No changes, staffing of 13.0 as shown below

PUBLIC WORKS - Authorized positions by CLASSIFICATION	2021/22	2020/21	2019/20	2018/19	2017/18
PW Director	1.0	1.0	1.0	1.0	1.0
Lead building maintenance technician	1.0	1.0	1.0	1.0	1.0
Building maintenance technician	1.0	1.0	1.0	1.0	1.0
Lead fleet technician	1.0	1.0	1.0	1.0	1.0
Public works superintendent	1.0	1.0	1.0	1.0	1.0
Public works technician	7.0	7.0	7.0	7.0	7.0
Traffic sign technician	1.0	1.0	1.0	1.0	1.0
<b>Total full time equivalents</b>	<b>13.0</b>	<b>13.0</b>	<b>13.0</b>	<b>13.0</b>	<b>13.0</b>

### Highlights and Changes

**SERVICE STATS**


- The Streets Division maintains approximately 34 acres of landscape with over 5,000 plants
- The Streets Division maintains 144.5 linear miles of paved asphalt streets
- The Facilities Division maintains Seven Buildings totaling 68,393 square feet.
- The Fleet Division maintains approximately 76 vehicles and equipment

**EXPENDITURES**

Proposed budget items for FY21/22 (\$708,946 or 15% decrease):

- PD Carpet and Server Room A/C
- Mill & Asphalt Overlay Maintenance Section 12
- Public Works Flatbed Truck
- Traffic signal backup UPS batteries
- Mill & Asphalt Overlay Maintenance Section 5 (Priority 3)

PUBLIC WORKS - Expenditures by PRIMARY FUNCTION	Budget 2021/22	Budget 2020/21	Change Amount	%	Projected 2020/21
Facilities	\$ 679,711	\$ 633,712	\$ 45,999	7%	\$ 622,030
Fleet	299,448	296,750	2,698	1%	285,879
Streets	3,054,945	3,810,088	(755,143)	-20%	3,696,803
<b>Expenditures - Priority 2</b>	<b>\$4,034,104</b>	<b>\$4,740,550</b>	<b>(\$706,446)</b>	<b>-15%</b>	<b>\$4,604,712</b>
Contingency - Priorities 3	957,673	-	957,673	5%	-
<b>Total Expenditures</b>	<b>\$4,991,777</b>	<b>\$4,740,550</b>	<b>\$ 251,227</b>	<b>5%</b>	<b>\$4,604,712</b>



39 Department Budgets - Development Recommended Budget 2021/22 Department Budgets

The sections in the Department's "budget book" include:

- Mission, Vision
- Organizational Chart
- Description of the Services Provided
- Goals, Highlights, and Service Stats
- Summaries for:
  - Funding Levels
  - Staffing Levels
  - Expenditures
- Priority Three Contingencies
- Line Items

## IX. BUDGET CALENDAR

APRIL 8 - OPERATING FUND			Modified: April 22, May 7, June 10			MAY 13 - ALL FUNDS		
DAY 1	Work session	Time	CONSIDERATIONS & ACTIONS			DAY 3	Work session	Time
	Revenue outlook	0:10	<b>MAY 27 - TENTATIVE BUDGET</b>				Follow up from Day 2	0:10
	Personnel factors	0:10	DAY 4b Regular Session				<b>Other programs</b>	
	PSPRS Unfunded liability	0:30	Tentative budget discussion				Debt service	0:01
APRIL 22 - OPERATING FUND			<b>Resolution:</b>				Contingencies	0:01
DAY 2	Work session	Time	Adopt tentative budget FY2022				Public transit	0:02
	Follow up from Day 1	0:05	<b>JUNE 24 - FINAL BUDGET</b>				Grants and donations	0:10
	Budget document overview	0:05	DAY 6 Special Session				<b>Assigned balances</b>	0:10
	Operating fund summaries*	0:05	Public hearing & discussion				Fleet & facilities	
	<b>Central services</b>		<b>Resolution:</b>				PD & IT equipment	
	Finance office	0:05	Final budget adoption 2022				Debt Service & PRPRS reserve	
	Information technology	0:10	<b>JUNE 10 - OTHER</b>				Financial summaries	0:04
	<b>Public safety</b>		DAY 5 Regular Session				Financial forecast **	0:02
	Police department	0:20	Resolutions FY2022:				<b>Capital Improvement Plan</b>	0:50
	Alarm and fire services	0:05	Adoption of ARS: PSPRS policy				Direction from Council	TBD
	Municipal court	0:15	Designation of CFO for AELR				<b>ESTIMATED TIME 5/13</b>	<b>1:30</b>
	<b>Development</b>		Large purchases FY2022				<b>MAY 27 - WRAP UP</b>	
	Public works	0:15	<b>Resolutions FY2021:</b>			DAY 4a	Work session	Time
	CDD and Wastewater*	0:30	Financial Policy Amendment				Follow up from Day 3	0:10
	<b>Leadership</b>		*information available by April 20th				ARS: PSPRS funding policy	0:02
	Legal services*	0:10	**information available by May 11th				AZ "State budget forms"	0:03
	Town manager*	0:10					Changes for tentative budget	0:20
	Mayor and Council*	0:15					Direction from Council	TBD
	<b>Direction from Council</b>	TBD					<b>ESTIMATED TIME 5/27</b>	<b>0:35</b>
	<b>ESTIMATED TIME 4/22</b>	<b>2:30</b>						

## ATTACHMENT(S):

- A. Final Budget Presentation
- B. PV State Forms and Resolution 2021-12