



## Legislation Text

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

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

**DATE: October 22, 2020**

**DEPARTMENT: Finance**

**AGENDA TITLE:**

**Discussion and Possible Direction Regarding the FY2020/21 Monthly Financial Update No. 2 for October 2020.**

**SUMMARY STATEMENT:**

The document and presentation for the FY2020/21 Monthly Financial Update No. 2: October 2020 is now available. The entire Monthly Report *document* is not intended to be comprehensively covered by staff during Council's work session.

For the **revenue sections**, staff will provide an overview and focus on slides with a **NEW** stamp on it. Similar to last month's document, all slides are included to be available on screen if Council has a question or a request a specific point is addressed.

Also included in the October report are discussion points for the Mayor and Council's consideration to ease into opening **budget priorities held in contingencies**, *as planned* with the adopted budget FY2020/21. Staff will cover this section and ask for the Mayor and Council's direction. Management has prepared recommendations if the Mayor and Council decide it is time to open specific budget priorities.

**Overall, be ready for financial news that is good; and to consider options for easing into Budget Priorities !**

### **A. FY2020/21 MONTHLY FINANCIAL UPDATE NO. 2**

#### **I. INCLUDED IN THE OCTOBER UPDATE**

- a) Highlights and analysis of the Town's major and most impactful revenues; and
- b) Options for consideration to ease into opening **Expenditure priorities 2**.

## II. AVAILABILITY OF MATERIALS

The financial information necessary to complete accurate materials is not available to staff in time to be part of the Friday (October 16) release of the Mayor and Council agenda packet. The Monthly Financial Update document for October will be available by Tuesday October 20, 2020.

In an effort to keep the Mayor, Council and the Public informed on financial matters with the most up-to-date information, Management determined this to be the better approach, than delaying the Monthly Financial Updates until the next month (November 5).

## III. TIMING OF MAJOR REVENUE RECEIPTS

Revenues collected on behalf of the Town by Arizona Department of Revenue (ADOR) are received by the Town two months in arrears. Taxable activities in August are remitted to ADOR in September; which are available and reported to the Town mid-to-late-October.

At the time of printing this item, the Town's August's Transaction Privilege Tax (TPT) and Occupancy Tax amounts were not available.

By Wednesday October 21<sup>st</sup>, staff will update this agenda item, including revenue analysis, based on *August's* revenue subsequently received from ADOR.

## IV. Expectations for the October Update

**Overall, be ready for financial news that is good to consider options for easing into Expenditure Priorities !**

### **B. FY2021 REVENUES: TEIRED APPROACH**

With the Town experiencing a sharp revenue drop that was abrupt and extremely deep beginning in March 2020, and the duration for rebound still uncertain, caution was used in estimating revenues. To mitigate the Town from over extending spending obligations, or under budgeting operational needs, revenues were estimated on three levels.

**LEVEL I:** Based on a worse-case scenario based on actual or historical data, like an economic shutdown. Primarily for tourism related revenues.

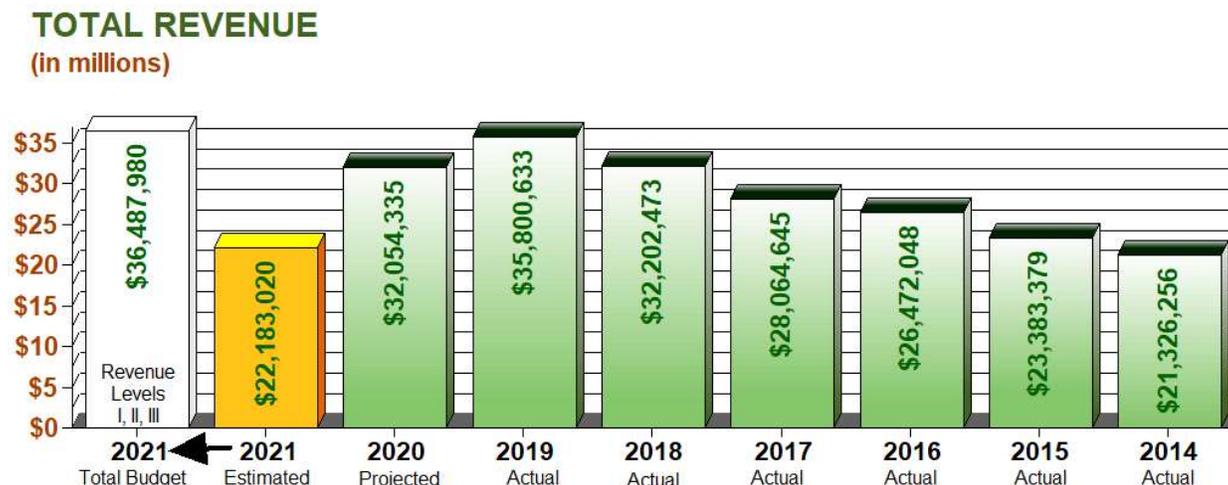
**LEVEL II:** Current crisis has not materially impacted. Revenues remain steady or a slight reduction. Revenues driven by construction or building permits and State shared revenues.

**LEVEL III:** Presumes the economic activity driving the revenue has not been impacted or the revenue is resuming to FY2019 trends. This includes Development agreements, contracts and franchise.

The FY2020/21 Strategic Revenue Plan will be less on stress testing revenues and focused on

setting tools for monitoring and tracking revenue recovery on a month-to-month basis.

The below is a graph used illustrates revenues for the Town’s “Operating Fund” as estimated in May 2020.



### C. OPERATING EXPENDITURES: PRIORITY APPROACH

The FY2021 Adopted department budgets have a built-in mechanism to fluidly transition back to their 2019 service levels as the Town’s revenues rebound.

**Priority One:** Is the base budget a vital, mandated, or primary service(s) that has a direct impact on residents. But it does not to keep pace with an increase in demand. Priority one is recommended to be funded effective July1.

**Priority Two:** Has an impact on Town operations and delivery of service, keeps pace with demand. Priority Two is recommended to be set aside in a contingency account and assessed in October 2020.

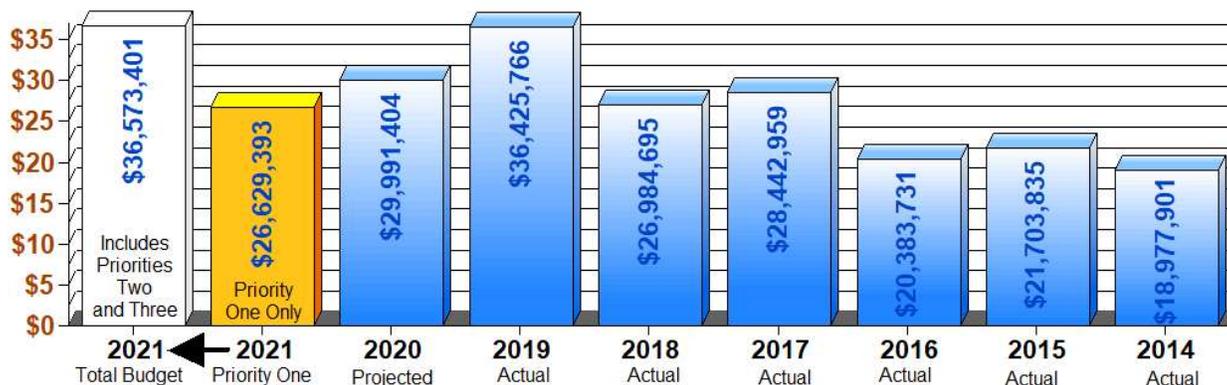
**Priority Three:** Represents where a department was heading in February ‘20. Poised to resume, but not likely to materialize for all requests in FY2021. Priority Three is recommended to be set aside in a contingency account and assessed early next calendar year Jan-Mar 2021. Depends on tourism and service demands.

By placing Priorities Two and Three in contingencies, the Town has the flexibility to ease into them as revenues rebound and are available. Had the Mayor and Council not budgeted these contingencies, then by state law, the Town would not be able to open these programs this fiscal year and would need to wait until next fiscal year.

The graph below illustrates the Town’s “Operating fund” total uses that includes expenditures and transfers out to other Town funds as adopted by Town Council in June 2020.

## OPERATING USES

(in millions)



## D. REVENUE LEVELS AND EXPENDITURE PRIORITIES

**Revenue levels** and **expenditure priorities** are not directly correlated. Revenue levels measure the current economic condition and climate to better monitor and expenditure priorities are based on services levels. Expenditure priorities are a mechanism to fluidly transition as revenues rebound and poised to adjust if revenues slump.

The Town is currently in Expenditure Priority One. As revenues rebound, staff will assess various factors before recommending the Mayor and Council to ease into opening Expenditure Priorities Two and Three. These factors include, but not limited to:

- Sustainability of the overall Town operations, short and long term;
- Sustainability to continue funding a Priority Two or Three program; and
- Staying aligned with the Town’s Financial Management Policies, including:
  - + One-time revenues are not used to fund recurring expenditures.
  - + Recurring revenues can be used to fund capital, contractual and other one-time expenditures; and
  - + Maintain an appropriate level of Emergency Reserves for unforeseen emergencies.

## E. STRATEGIC REVENUE PLAN

### I. FY2020 STRATEGIC REVENUE PLAN: **STRESS TEST DOCUMENT**

As part of last year’s FY2020 budget, the Town introduced a Strategic Revenue Plan. 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. The report brought 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 looked 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 helped 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 FY2020, Town staff was well prepared to mitigate the shock to the revenue stream in March 2020 in preparing the Town's FY2021 Budget.

However, the stress test model in FY2020 used previous economic down turns of which none were as deep or rapid in revenue decline and the duration for a rebound was not as uncertain as the Town, the State and the Nation are currently experiencing.

In FY2021, the stress test isn't academic as in FY2020's "what if" document. In FY2021, the stress test is the adopted operating & capital budget and monitoring revenues.

## II. FY2021 STRATEGIC REVENUE PLAN: **MONITORING TOOLS**

The Strategic Revenue Plan for FY2021 has evolved from a stress test model document to a series of monitoring and communication tools. These tools are being created and modified over the fiscal year to best represent current data and trends. Town Management is monitoring and will communicate revenues trends, provide monthly updates at Town Council meetings and will provide notice if any revenue trend or risk indicators signal an onset of materially adverse conditions that could be detrimental to the Town's financial condition.

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.



Going beyond the Town’s stress test, preparations are being made to mitigate if the Town’s overall revenue recovery duration is extended. Whether the actual revenue rebound is an “L, U, or V curve”, spending reductions may be necessary to ensure enough emergency reserve is available for Town operations to carry on services to residents.

## F. FY2020/21 MONTHLY FINANCIAL UPDATES

### I. September - Previous (September 24, 2020)

- Analysis and introduction to the FY2021 revenue monitoring models;
- Results of closing the Year ended FY2020 (unaudited);
- Status of the Town’s emergency reserve fund balance; and
- Illustration of the mechanics and relationship of the Town’s:
  - Three tiers of revenues; and
  - Three levels of expenditure priorities.

### II. October - CURRENT (October 22, 2020)

- Highlights and analysis of the Town’s major and most impactful revenues; and
- Options for consideration to ease into opening Expenditure priorities 2.

### III. November - Upcoming

- Highlights and analysis of the Town’s major and most impactful revenues; and
- Budget Amendment Resolution to ease into opening expenditure priorities.

### IV. December - Upcoming

- High level review of the Town’s overall revenue status

**V. January - Upcoming**

- a) Highlights and analysis of the Town's major and most impactful revenues;
- b) Status and updates on previously approved expenditures priorities; and
- c) Options for consideration to ease into / out of expenditure priorities.

**VI. February - Upcoming**

- a) Highlights and analysis of the Town's major and most impactful revenues; and
- b) Options for consideration to ease into / out of expenditure priorities.

**VII. March - Upcoming**

- a) Highlights and analysis of the Town's major and most impactful revenues;
- b) Options for consideration to ease into / out of expenditure priorities; and
- c) Budget Amendment Resolution, if applicable.

**VIII. April / May / June - Upcoming (Budget Process FY2021/22)**

- a) Full review of all Town's revenue, by line item available; and
- b) Reflection and framework for FY2022's Financial Updates.

**ATTACHMENT(S):**

Presentation will be available by Tuesday October 20, 2020