



## Legislation Text

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

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

**DATE:** June 11, 2020

**DEPARTMENT:** Finance

**AGENDA TITLE:**

**Adoption of Resolution Number 2020-17 Adopting the FY2020/21 Final Budget, Capital Improvement Plan and the Strategic Revenue Plan**

**RECOMMENDATION:**

Adopt Resolution number 2020-17 adopting the FY2020/21 Final Budget, Capital Improvement Plan and the Strategic Revenue Plan.

**SUMMARY STATEMENT:**

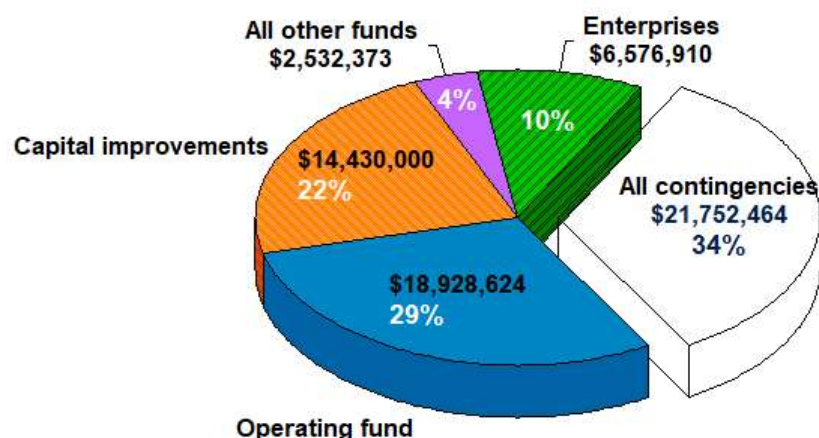
One of the most important duties of the Mayor and Town Council is to adopt an annual budget for the Town. The budget process provides the Council with the opportunity to match the needs of the Town and available resources with the intent of gaining the maximum return on each dollar.

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 2020/21.

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 one operating budgets, payment of debt obligations, contingencies and continuing the capital improvement program while remaining poised to resume full operations when revenues rebound.

The total Tentative Town budget is comprised as illustrated below for a total of \$64,220,371.



## **A. ADOPTED BUDGET**

### **I. TENTATIVE BUDGET ON STATE FORMS**

The tentative budget includes funding for all department's "priority one" operating budgets effective July 1, payment of debt obligations, capital improvement projects and the three enterprise services. Contingencies are not available July 1; but possible later in the fiscal year. The contingencies are set for a fluid transition when revenues rebound and to assist in ensuring the Town maintains a financially sustainable structure even in the event the Town's revenue rebound is not realized in FY2020/21.

By adopting the "**Tentative**" budget, Council set the maximum spending for the fiscal year, which was posted for public inspection on the Town's website and the Scottsdale Republic on June 5<sup>th</sup> and 10<sup>th</sup>, and a public hearing will be held for public comment.

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.

### **II. STATE BUDGET FORMS**

- State forms provide the authority to spend; but it's not a mandate to do so.
- State budget forms set the maximum a municipality can spend in that fiscal year.
- Even if more resources become available, if expenditures are not budgeted, they can't be spent
- Any carry forward balances from CIP, must be re-budgeted on the forms.
- Contingencies help fill gaps for flexibility and adaptability of service priorities and fluctuations in revenues.
- The latest the Tentative budget can be adopted without a property tax is July 20.

### **III. UNIQUE BUDGET PROCESS**

The Town underwent a unique budget process this year. Departments submitted their budget requests for their programs, incorporating specific needs. Then over a month later, they were asked to reprioritize their entire requests in anticipation of limited revenue for an unknown duration of time.

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

Local tourism activity revenues are received by the Town two months in arrears. The biggest months for Tourism activity revenues are March and April. Although actual revenues will not be known by the Town until May and June, respectively, we do know they will be drastically lower than normal.

From July 2019 through February 2020, the Town had experienced elevated tourism and was on-track to exceed its minimum revenue goal for the current fiscal year ending June 30, 2020. Though the Town could sustain a 25% drop in tourism the rest of the fiscal year and meet the minimum revenue goal, the recent drop in tourism is much deeper. As a result, the Town will fall short of its minimum revenue goal.

To maintain the high standard of Town services, Town Management and all Departments continue identifying various mitigating financial options to address its revenue shortfalls over a longer-term as discussed with the Mayor and Council during the last few Council meetings and will continue to be discussed throughout the year.

#### **IV. OPERATING EXPENDITURES AND TRANSFERS OUT:**

The FY2021 Recommended 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 July 1.

**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 September / 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.

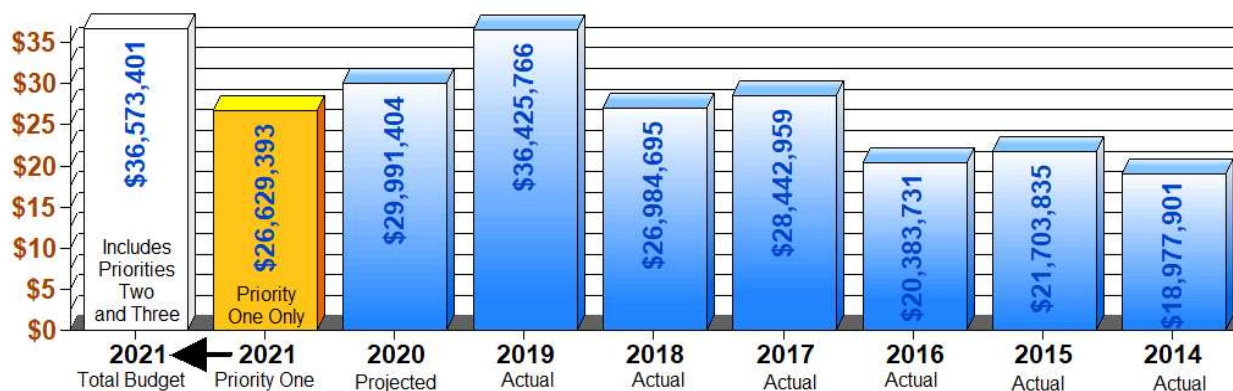
Going beyond the Town's stress test, preparations are being made to mitigate if the Town's overall revenue recovery duration is extended. Whether the actual revenue rebound is an "L, U, or V curve", spending reductions may be necessary to ensure enough emergency reserve is available for Town operations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

The graph below illustrates the Town's "Operating fund" total uses that includes expenditures and

transfers out to other Town funds.

## OPERATING USES

(in millions)



## B. CAPITAL IMPROVEMENT PLAN (“CIP”)

### I. FY2021 CIP FUNDING AND BUDGET AUTHORITY

The intent and purpose of the Town’s FY2021 budget adoption is to provide single year funding and budget authority for the Capital Improvement Plan, as a whole; not to authorize new individual projects and/or contracts in FY2021 or thereafter. Any and all new contracts and/or projects will be brought to Town Council for specific approval.

### II. CIP DESCRIPTION

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 2021), 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, several 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, and financial outlook.

### III. PROJECT EVALUATION

In 2019, Town Council and staff implemented a new CIP process to improve how capital projects are

considered, evaluated, and prioritized over the next five to ten years, starting with Fiscal Year 2020, which began July 1, 2019.

This year's CIP evaluation committee was made up of seven Town staff members representing one member from each department, except Courts. Using the new scoring criteria presented to the Town Council on March 14, 2019, the committee evaluated thirty-three projects being considered in the upcoming 5-Year CIP and the results based on the three categories (High, Medium, Low) are as follows:

11 projects scored greater than 7.0	(High, range 7 to 10)
17 projects scored between 4.0 to 6.9	(Medium)
5 projects scored less than 4.0	(Low)
2 projects recommended for deferral	

#### **IV. RECOMMENDATIONS**

The two projects being recommended for deferral beyond 5-years due to availability of other fund sources are:

SRP 38th St & Bethany Home Rd Underground Conversion, 2026, \$3,700,000  
SRP 40th St & Lincoln Dr Underground Conversion, 2029, \$3,700,000

Moreover, due to uncertainty of the Town's forecasted revenues, nine projects, which amount to \$2,900,000, are proposed to be deferred from FY21, in order of future fiscal year are as follows:

Miscellaneous Drainage Improvements (various locations), FY22, \$200,000  
Public Works / Engineering Remodel, FY22, \$1,500,000  
Police Department Remodel, FY22, \$125,000 (design)  
56<sup>th</sup> St & Doubletree Ranch Rd Intersection Improvement, FY22, \$125,000  
Lincoln Dr & Tatum Blvd Intersection Improvement, FY23, \$230,000  
56<sup>th</sup> St Sidewalks: Mockingbird to Doubletree Ranch, FY24, \$90,000 (design)  
Tatum Sidewalks: Doubletree Ranch to Mountain View, FY24, \$30,000 (design)  
RWC Fiber Connection (Lincoln Dr) Phase I conduit only, FY25, \$200,000  
RWC Fiber Connection (Lincoln Dr) Phase II fiber, FY25, \$400,000

The FY21 projects being recommended are based on the following, in no particular order:

1. Leverage other funding sources (Five Star, SRP, Flood Control District)
2. Contractual mandate (Five Star DA, Highlands Dr Easement Agreement)
3. Protect health & safety of the Town (Sewer, License Plate Reader)
4. Prevents irreparable damage to existing facilities (Lincoln Dr)
5. Project coordination:
  - Lincoln Drive mill & overlay scheduled FY22
  - City of Phoenix water line on Mockingbird Ln: 56<sup>th</sup> St to Invergordon Dr

All of the FY21 projects proposed on Lincoln Dr were evaluated and recommended to be completed prior to the Town's mill and overlay project on Lincoln Dr currently scheduled in Summer 2021.

All thirty-three projects being considered in the upcoming 5-year CIP along with their associated score can be seen in the attached presentation.

## **C. 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 tradition of Paradise Valley's values and directives for fiscal prudence and stability. The report brought together 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.

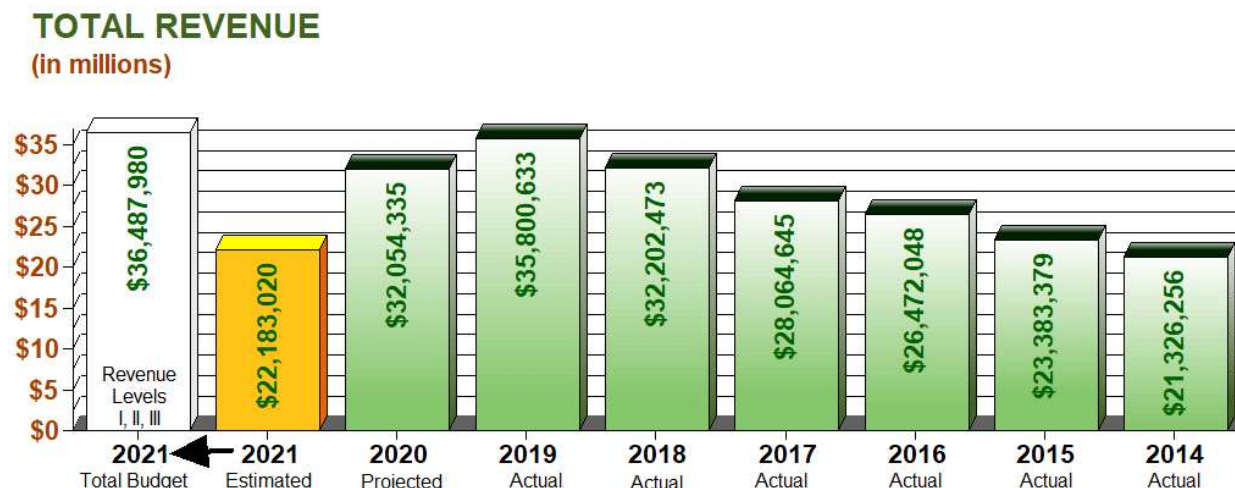
By using the stress test from FY2020, Town staff were prepared to deal with a shock to the revenue stream in FY2021 and has used the plan as a starting point for addressing today's crisis.

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 budget and operations.

### **II. FY2021 REVENUES:**

The below graph illustrates revenues for the Town's "Operating Fund".



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

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

**LEVEL II:** Current crisis has not materially impacted. Revenues remain steady or a slight reduction. Such as a contract or franchise.

**LEVEL III:** Presumes the economic activity driving the revenue has not been impacted or the revenue is resuming to FY2019 trends.

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.

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.

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

The Strategic Revenue Plan for FY2021 will evolve from a stress test model document to a series monitoring and communication tools. These tools will be created and compiled over the fiscal year. Town Management will monitor and communicate revenues trends, provide monthly updates at Town Council meetings and will continue to provide notice if any revenue trend or risk indicator signal an onset of materially adverse conditions that could be detrimental to the Town's financial condition.





## ATTACHMENT(S):

### Presentation:

- 01 Presentation - Resolution 2020-17 Adopting the Budget, CIP and Strategic Revenue Plan ("State Forms")

### Official Document:

- 02 PV Official State Forms Final Budget FY2021 (and Resolution adopting the Budget, CIP and Strategic Revenue Plan)

### Other Information and documentation:

- 03 Information - Resolution 2020-17 Appendix (Summaries and schedules in the Town's format)
- 04 Capital Improvement Plan FY2021-25 (for FY2021 Funding Only)