



**TOWN COUNCIL MEETING
6401 E. LINCOLN DRIVE
PARADISE VALLEY, ARIZONA 85253
SUMMARIZED MINUTES**

DECEMBER 9, 2010

CALL TO ORDER

Mayor LeMarr called to order the Town Council special workshop meeting of the Town of Paradise Valley, Arizona, held in the Vista Boardroom, Sanctuary Resort, 5700 E McDonald Dr., Paradise Valley on 9:07 AM.

COUNCIL MEMBERS PRESENT

Mayor Scott P. LeMarr
Vice Mayor Mary Hamway
Council Member Michael Collins
Council Member Paul E. Dembow
Council Member Pam Kirby
Council Member Vernon B. Parker
Council Member Lisa Trueblood

STAFF MEMBERS PRESENT

Town Manager James C. Bacon, Jr.
Town Attorney Andrew Miller
Town Clerk Duncan Miller
Budget & Finance Director / Assistant Town Manager David Andrews

Mr. Bacon stated that the Town of Paradise Valley is experiencing a high degree of fiscal stress because of two things: 1) revenues are decreasing approximately 6% a year; and 2) a financing plan to fund fire services never materialized. The Town's actual revenue dropped from \$22,136,000 in FY 2006/07 to \$15,399,000 in FY 2010/11. The Town quickly responded to the reduction in revenue by reducing expenditures which fell from \$19,490,000 in FY 2009 to \$15,684,000 in FY 11. As part of the expenditure reductions, budgeted positions fell from 108 to 84 in the same period. In addition, salaries were frozen in 2009 and will continue to be frozen for another three to four years.

He said the capital improvement project budget and debt service are currently being funded by the fund balance. In July 2006, the Town experienced its highest revenue collection year. This was the same year the Town approved the fire service IGA with Phoenix Fire. Unfortunately the revenue source identified to fund those capital and operational costs were resorts which never materialized. Revenues intended to fund Town's CIP and debt service are now used to pay operating expenses. Debt service payments are made by using Town's reserves. He summarized that current revenues continue to decrease. Expenditure reductions continue to be made. The Town has no capital budget. Reserves continue to decline and the Town still does not have a plan to finance fire services.

Mr. Bacon explained that a budget serves four roles simultaneously. It is a policy document, financial plan, operating guide, and communications tool. The Town Council establishes financial policies and provides direction on revenues and priority projects. They review the recommended budget based on that policy direction. Once the Council approves the budget, the Town cannot exceed the budgeted amount. It is a ceiling but not the floor. If revenues do not materialize you can use money from the fund balance or reduce spending.

He said the Town Manager's role is to refine revenue estimates based on policy direction and recommend spending levels based on revenues and organizational needs.

Mr. Bacon explained that budget variances are the difference between the budgeted and actual amount. It applies to both revenues and expenditures. The sum of all budget variances at the end of the fiscal year is used to change the fund balance from the "budgeted" fund. The fund balance is money held in reserve from each of the Town's governmental funds. Fund balances can be designated as restricted or unrestricted. Fund balances are increased when the net budget variances are positive. Fund balances are decreased when either fund balance reserves are designated as a revenue source for a special project or program, or net budget variances are negative. Fund balances are also known as "reserves" or "savings".

Council discussed the HURF fund which is money collected by the state from the gas tax and distributed to cities and towns based on a formula. The funds are restricted and may only be used to fund transportation projects. HURF funds have traditionally been included in "general revenue"; however, it may be more accurate to separate HURF from general revenue fund. Council asked if it was possible to request the legislature to remove the restrictions on how the funds may be used. Mr. Bacon responded that it is possible but it is unlikely that the legislature will be willing to entertain such a request.

He said revenue estimates are the foundation of the budget process. Budget authority cannot be increased after it is initially set. Budget authority is not reduced simply because revenue estimates are not realized. Variances and the uses of reserves impact Town's financial performance.

Mr. Bacon reviewed the budget calendar. The recommended budget will be presented in April. The tentative budget will be presented on May 12, 2011 and final adoption on May 26, 2011.

The Council recognized that there are structural problems with the revenue budget. The Town does not currently have dedicated funds to pay for capital and debt service. They discussed a proposal to increase the sales tax from 1.65% to 2.25%. The proposal would “sunset” in 2019 and would be used to pay debt service on the fire stations and public safety communications equipment. Council requested more data on alternative sales tax proposals, issuing bonds to finance public safety communications, and development of a fire service fee similar to the Rural/Metro model.

Mr. Bacon stated that financial policies establish an early warning system about the Town’s financial condition and allow time for appropriate action by the Town Council. The goal of a financial policy is to provide flexibility, limit growth of reserves, improve identification of reserve fund uses, and provide “brakes” to future project growth. The key feature of the Town’s policy is that current revenues equal current expenses. Ongoing operating expenses will be supported by ongoing stable revenue sources. It includes amounts for budgeted for operating expense contingencies and prevents the use of debt proceeds for fund balances to finance ongoing operating expenses. The general fund contingency shall be in an amount of no less than 1% of the adopted budget total, but not more than 3% of the total. This appropriation shall be funded from current revenues, just as any other planned expenditure. The administrative authority to shift an appropriation within funds shall not exceed \$50,000.

At the end of the fiscal year, any positive variance in the General and HURF funds shall first be used to maintain a reserve of 110%. If the positive variances realized exceed the amount needed to maintain the 110% level the excess shall be transferred to the capital projects accumulation fund. The minimum and maximum required amounts will decrease based on expected revenues for FY 2011-12.

The CIP is funded using dedicated revenues, grants, and use of the fund balance. The CIP budget in FY 2010-11 is \$90,480. No dedicated revenues have been available for FY 2009 through FY2012. CIP reserves will be \$1 million at June 2011. At least 10% of CIP budget must be available in reserves by policy. The minimum reserve requirement is \$1 million.

He said a five year capital improvement plan will be developed within the constraints of the Town’s ability to finance improvements. Therefore, the CIP shall be financed from designated, reoccurring revenues, and those which will be financed from the CIP reserve fund.

Mr. Andrews discussed the revenue estimates for FY 2011/12. Four revenue sources account for approximately 74% of the Town’s revenue: sales & use tax; bed tax; permit revenues; and the Town’s share of state sales and income tax receipts. Preliminary staff recommendations were:

Sales/Use Taxes	\$ 5,675,000
Bed Tax	\$ 2,402,000
Permits	\$ 917,500
Shared Taxes	\$ 2,142,000
Other Revenues	\$ 4,015,690
Total FY 2011-12:	\$15,152,190

He said based on this recommendation, \$629,000 in cuts must be made in the FY 2011-12 budget.

Mr. Andrews discussed each revenue fund separately.

He said actual revenues have been stable the preceding five years. The recommendation was \$2,422,000. The recommendation assumes a 4.8% increase over FY2009-10 actual collections. Council agreed with the staff recommendation of \$2,422,000.

Mr. Andrews stated that construction sales tax is hard to calculate because it is difficult to determine if the market has hit bottom. Revenue growth has been negative since FY 2007-08 (\$4.4 million). Permit valuations have decreased by 82.6% from FY 2007 to FY 2009. In FY 2010 there were 23 new permits. This FY to date, only 12 new permits have been issued. Council asked if a trend analysis could be done on building permit activity to further refine the revenue estimate. Pending that analysis, Council agreed with staff's recommendation of \$1,470,000.

He said revenues for all other industries include communications & utilities, retail, real estate, restaurants & bars, and services. Council agreed with staff's suggestion of \$1,783,000.

He said bed tax revenue is expected to remain flat taking into account the increase in the bed tax rate. Council agreed with staff's recommendation of \$2,402,000.

Mr. Andrews summarized that Council agreed to a budget revenue estimate of \$15,152,190 which is \$629,000 less than the current year budget.

Mr. Bacon summarized recent trends on the expenditure side. He said the rate of growth exceeded the revenue growth rate. He said two new services were added in the last five years which increased employment levels: in-house plan review and median island maintenance. Previously, the compensation plan provided for two salary adjustments during the year; a market adjustment and a merit adjustment. There was an increasing reliance on reserves to finance the capital budget. The operating budget was reduced to meet expected revenues. The last salary adjustments were given in FY 2008-09. The fund balance has been used to finance the capital budget and debt service. He explained that the following principles should be used when considering budget reductions: they should be permanent and sustainable; minimize effect on service; and they should align with the Town's strategic initiatives.

He reminded Council that the Town's strategic initiatives are:

- Diligently preserve the special character of Paradise Valley by enforcing the land use policies identified in the Town's General Plan, Town Code, and SUP Agreements
- Continuously provide high quality public safety services for Town residents and visitors
- Regularly invest in public facility and infrastructure projects
- Conscientiously manage the Town's financial and human resources
- Consistently identify opportunities to create and promote a more sustainable community

Mr. Bacon explained what steps have been taken over the last two years to reduce expenditures. He said funding for 25 positions has been eliminated. A salary freeze was implemented in 2008/09. The police department retention bonuses were eliminated, overtime has been reduced, and training & travel has been limited.

Council discussed the training and travel budget. They wanted to make sure that employees are still getting the training they need to do their jobs effectively and efficiently while at the same time being cautious about how the Town spends money.

Mr. Bacon continued saying the Town has eliminated contracts for median maintenance, street sealing, media relations, and lobbying. He said the Town sold assets, refinanced bonds, and reduced budget variances.

Mr. Bacon discussed the agency funding targets for FY 2011/12. He said the Human Services budget has been reduced from a high of \$114,600 in 2007 to \$50,000 in 2011. He recommended the same amount for next fiscal year. Pursuant to the agreement negotiated with the Scottsdale Convention and Visitors Bureau last year to increase the bed tax and contributed the resulting increase in revenue to the CVB, next year's funding level will be \$850,000. This represents a \$25,000 increase from the current year. There was Council discussion that this seems inconsistent with the rest of the budget. Revenues are expected to be down and cuts are being made in most other expenditures, yet the CVB will receive an increase. It was suggested that the increased bed tax revenue could be used to pay for CIP projects related to the resort community. Additionally, there was discussion about further reducing funding for human services organizations. Finally, there was discussion that if the decision is made to reduce payments to CVB there should be a commensurate reduction in the bed tax.

Mr. Bacon's recommended budget included that all estimated General Fund and HURF revenues would be used to balance the operating budget; no projects would be included in the capital budget; and debt service would be paid from reserves. The recommended operating budget would be between \$486,600 and \$950,000 lower than what is currently approved. Reductions will come from a series of strategies.

He recommended the following steps to balance the budget: reduction in employee benefits, reduction in funded positions, reduction in capital equipment, reduction in budget variances, and reduction in operating contingency. He recommended reducing the Town's contribution to the 401(a) and elimination of the Town's contribution to the HRA program resulting in a \$150,000 savings. Additionally, health insurance contributions will change. He said the Town's legislative agenda would include changing the employee contribution to the public safety retirement pension to be consistent with the civilian plan, eliminate the police DROP. Council also suggested a program to allow employees to opt out of health insurance.

Mr. Bacon continued by saying structural changes would be made in the Public Works Department to reduce staffing by two resulting in a savings of \$130,000.

He said capital equipment costs will be pushed up into this fiscal year for a savings of \$100,000 next year. The fire service IGA contract and Police Department budget variances will be reduced as well as the operating contingency. He anticipated that the total savings would bring expenditures down to be equal with the revenue budget.

Mr. Bacon stated that other options including a furlough plan and base pay reduction, but those would not be necessary if the other cuts are made. If either were necessary it would be implemented across the entire organization.

Motion and vote – Vice Mayor Hamway moved to go into executive session at 2:10 p.m. Councilmember Kirby seconded the motion which passed unanimously. Councilmember Kirby departed the meeting at 2:28 p.m.

Mayor LeMarr reconvened the meeting. 2:37 p.m.

Mr. Bacon briefly discussed other strategies to balance next year's budget. There was no interest among the Council to reduce police patrol minimum from three to two; close or reduce hours in the post office, or implement a four day work week at Town Hall.

The final item was a discussion of the Capital Budget. Mr. Bacon stated that revenue support for the capital budget has varied over the years but has declined to zero. In consequence, there was little interest in ranking items in the CIP Plan. Even so, there was interest in APS undergrounding District 6. Staff estimates that the District could be undergrounded for \$1,258,500. There was discussion that if the District is not undergrounded next year it will not happen.

It was suggested that when funding becomes available for capital projects, a new process should be developed to consider and rank capital projects based on how they relate to the General Plan.

Motion and vote – Councilmember Trueblood moved to go into executive session at 3:05 p.m. Vice Mayor Hamway seconded the motion which passed by a vote of 6 – 0.

Mayor LeMarr reconvened the meeting at 3:15 p.m.

ADJOURNMENT

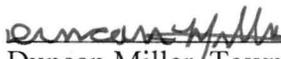
Motion and vote – Councilmember Collins moved to adjourn. Council Member Dembow seconded the motion which passed by a vote of 6-0.

Mayor LeMarr adjourned the meeting at 3:16 p.m.

ATTEST:



Scott P. LeMarr, Mayor



Duncan Miller, Town Clerk