



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

**DECEMBER 13, 2012**

**CALL TO ORDER**

Vice Mayor Collins called to order the Town Council special workshop meeting of the Town of Paradise Valley, Arizona, held at the Hermosa Inn, 5532 Palo Cristi Rd., Paradise Valley at 8:00 AM.

**COUNCIL MEMBERS PRESENT**

Vice Mayor Michael Collins  
Council Member Paul E. Dembow  
Council Member Pam Kirby  
Council Member Dan Schweiker  
Council Member David Sherf  
Council Member Lisa Trueblood arrived at 8:54 AM

Mayor Scott P. LeMarr was not present

**STAFF MEMBERS PRESENT**

Town Manager James C. Bacon, Jr.  
Town Attorney Andrew Miller  
Town Clerk Duncan Miller  
Finance Director Scott McCarty  
Public Works Director/Town Engineer James Shano  
Police Chief John Bennett departed at 11:30 AM  
Human Resources Manager Jinnett Hancock departed at 11:00 AM

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Vice Mayor Collins stated that Mayor LeMarr is out-of-state and will not be present.

Town Manager Jim Bacon explained the budget calendar for the year. He said following this meeting, the Council will meet on February 14 to discuss the capital budget, employee benefits, and financial policies. On April 4 the Council will review the Town Manager's recommended budget. It will be discussed again and finalized on April 11. The tentative budget adoption will be on May 9 and the Final budget will be adopted on May 23.

The first topic discussed was environmental factors affecting the preparation of the Town's FY 13-14 budget. Finance Director Scott McCarty explained that environmental factors are key in how the town develops its budget. First, he said the US economy is growing. He said two-thirds of the US economy is consumer spending which is relevant to economic activity in Paradise Valley. He said Arizona is a growth and tourism state. At the federal level, the fiscal cliff, Affordable Healthcare Act, crisis in Europe, and limited policy options will also influence forecasting.

He said consumer debt has declined by \$1.7 trillion over the last 4 years. Wealth levels are improving, homes and stocks are up, and consumer confidence is improving. Arizona's job growth ranking is improving. In 1009 it was 49<sup>th</sup>. In 2012 our ranking improved to 6<sup>th</sup>. Job creation in Arizona is also improving. He summarized that growth will be slow but every year will be better with 2015 being back to stable.

He summarized the possible state legislation regarding sales tax changes. There is an attempt to align state and city taxable transaction definitions. There is also an attempt to clarify the definition of point of taxable transaction, with the exception of construction. The Town will also acknowledge that online retailers, like Amazon, will begin to pay sales tax. Construction activity may change to the place where materials are purchased. This would result in a 100% loss of construction sales tax.

He said the environmental factors are the foundation of the budgeting process. The degree of accuracy varies by source: state shared income tax is absolutely certain but construction sales tax is less certain. He said projections will be refined when new information is available.

He said about 40% of operating revenues come from the resort industry. The base budget, even when the sales tax increase sunsets, will increase by 4% while expenditures will increase by 3%. The Town will be about to fund base operating expenses over the next 5 years.

Mr. McCarty stated that the Town will change the way staff prepares budget projections. First, the FY 12-13 budget will be revised based on FY 11-12 actuals. The FY13-14 estimates will be based on FY 12-13 revised budget. Budget adjustments during the year will also be provided to give a higher level of security.

The FY 12-13 revised budget will see a 6% increase in revenue. The budget delta was \$400,000. He explained the following four adjustments:

Resort revenue estimates were based on reports from Smith Travel, Scottsdale CVB, and AZ Department of Tourism. Demand is strong for luxury upscale properties. Luxury occupancy is at 73%. Paradise Valley occupancy year to date is 69%. There was discussion about conducting bed and sales tax audits of the resort industry.

There appeared to be no need to adjust construction sales tax forecasting. However, fines are down from \$1.2 million to \$900,000. The Town's investment portfolio earnings rate and duration is decreasing. As of October 31, the annualized return is 0.64%. The annualized return net of fees is 0.54%. He said that Town does not have an investment plan and that should be a priority given the current environment.

He summarized that FY 12-13 revenue estimates will be increased from \$18.3 Million to \$18.7 million.

Mr. McCarty discussed the following FY 13-14 estimates:

<b>Revenue</b>	<b>Change from FY 12-13 Revised Budget</b>	<b>FY 13-14 Estimate</b>	<b>Change from FY 12-13 Revised</b>
Sales Tax (All Categories)	\$0.4M	\$9.1M	+5%
State Shared Income Tax	\$0.2M	\$1.5M	+15%
State Shared Sales Tax	\$0.1M	\$1.1M	+5%
Bed Tax	\$0.1M	\$3.0M	+5%

He said sales tax projections were developed by category using industry specific information. He said that 80% of annual revenue comes from approximately 75 accounts. He said the FY 13-14 estimated sales tax would generate \$9.1 million, a 5% increase. It does not include any revenue from Mountain Shadows. He discussed resort sales tax, construction sales tax, state shared revenues, bed tax, charges for services, building permit, court fines, interest income, franchise fees, and operating revenues.

Mr. Bacon explained expenses. As with revenues, FY 12-13 expenses were revised in preparation for the FY 13-14 budget. He said the revised FY 12-13 expenses were \$15.9 million. The largest changes were an increase in pavement management and addition of holiday trolley. Additionally, 50% of the expenses for the fire service IGA into a separate fund. In summary the expense budget was adjusted from \$16.9 million to \$15.9 million.

Mr. Bacon presented the key expense considerations for FY 13-14. Moving the fire IGA costs to a new fund will impact comparative analysis. Personnel costs are approximately 60% of operating expenses (after removing the fire IGA). Healthcare and workers' compensation expenses are opportunities for improved value and lower costs. He stated the retirement system costs will have a significant impact on the budget. He said areas likely to see recommended increases include:

- Police staffing: \$172K
- Retirement: \$125K
- Employee salaries: \$225K
- CVB and capital: \$200K
- Pavement management: \$225K

Regarding police staffing, Mr. Bacon said that administrative staffing was reduced from 11 to 5 over the past 5 budget years. This resulted in reduced staffing for administrative tasks, and elimination of crime prevention and education positions. There is minimal support for special projects and initiatives. He said the FY 13-14 budget should include an additional position to focus on crime prevention/education and special projects.

The Town has tried 5 different ways to address the administrative and educational function. There has been a civilian administrator, four uniformed options (assistant chief, lieutenant, sergeant, and/or police officer). He said he has researched similar communities to learn how administrative staffing is done.

He said the best option now is a lieutenant because they are more flexible. A uniformed position is able to design and staff community crime prevention and education. Also, the position is able to lead special projects which affect officers and civilians, able to perform other command staff roles, and it is a promotional opportunity.

Chief Bennett explained current staffing and command structure of the police department. He said there are four shifts with five officers assigned to a shift. Each shift has a corporal and sergeant. Due to time off and injury it is common for shifts to have less than five officers on-duty and patrolling. In addition to patrol officers there are 5 detectives, one commander, and one police chief. Moreover, there are 22 police volunteers that supplement patrol and increase law enforcement visibility. He said more information will be provided at a work session in January regarding police staffing recommendations.

Mr. Bacon described his recommendation regarding employee compensation changes. The recommended budget will include \$225K for base pay increases, which works out to a 3%. The last base pay increase was 5 years. He also said he would recommend the elimination of the 401(a) retirement plan, changes in the healthcare insurance plan. Plan changes would include fewer plans, addition of a health savings account, and selection of a different consultant/broker.

He explained that the town will increase current ranges based on market without increasing individual pay. The increases will be distributed based on FY 11-12 job performance ratings. The \$225K allocation includes amounts for FICA, Medicare, and pension.

He anticipated a 10% increase in healthcare expenses in FY 13-14 if the current plans are renewed. The cost curves for dental and vision will be essentially flat. He stated that the town is investigating options to join a pool or self-insure. Other changes would include emphasizing wellness and increase employee involvement and awareness.

In February, staff will report on the number and types of plans including retiree eligibility, town/employee cost sharing, risk assumption, new benefits consultant, and healthcare provider. A five member employee committee will be formed to make recommendations to the town manager. Council will adopt changes as part of the FY 13-14 budget process.

Finally, he presented a proposal to eliminate the 401(a). The Town's cost savings would be approximately \$35K annually.

Mr. McCarty then explained the five year projections. He said the projects do not include revenue and expenses related to fire service. He said a separate fund for fire service will be created. The fire service contract and fire service fee will be run like an enterprise fund. There was discussion regarding delinquent payments and bad debt. There was direction to emphasize on the bills and website the penalty for not paying.

Mr. McCarty presented the projections for the fund balance. An understanding of these projections will establish the basis for capital projections funding discussions. There was discussion about establishing a reserve policy for the fire service fund. Making budget adjustments during the year, will impact the amount of money that is transferred to the capital projects budget at the end of the year.

He explained the FY 13-14 CIP project adjustments. He said the FY 12-13 capital project budget will be revised. The Town is able to fund the FY 13-14 project recommendations, but there are limited resources available after FY 13-14.

Mr. Bacon explained the following recommended projects for FY 13-14:

Public safety communications tower equipment	\$1 million
Stanford Drive	\$2 million
Echo Canyon Parking	\$0.5 million
2 Master Plans	\$0.3 million
Traffic signal upgrades	\$1.2 million
Utility undergrounding	\$1 million

He said there is a chance that echo canyon parking improvements will not occur. If that occurs, those funds will be diverted to public safety communications funding. It is anticipated that communications improvements will cost significantly more than originally thought.

Public Works Director James Shano explained that the 2 master plans come from the General Plan, like adding bicycle lanes or visually significant corridors/gateways. He said a traffic signal study is being conducted which will be completed by December 2012. Upgrades are recommended and would include controller cabinets, preemption devices, video detection, and rewire intersections. The town has an on-going traffic signal study by Michael Baker Corporation. The study has uncovered that the intersection infrastructure does not meet the federal highway administration standards. Much of the equipment is obsolete and the wiring has a potential to fail unexpectedly. There was discussion that the infrastructure be designed to accommodate the HALO intersection preemption device.

Finally, he described the remaining utility underground districts. APS District 21 design and construction total to the Town equals \$575,000, \$475,000 allocated in FY 12-13 and \$100,000 in FY 13-14. The last APS district is District 30. The design cost would be \$50,000. The remaining SRP districts are more challenging to fund because the town/SRP cost share is different.

Mr. McCarty stated the objective of a long-term capital funding is to develop an operating budget that maintains existing services levels while increasing funding for repair and replacement of existing infrastructure and the capital improvement plan. He said there are two approaches: a resource-based approach (current approach) and a needs-based approach (recommended). In a needs-based approach the CIP defines funding requirements. Repair and replacement and CIP compete with department budgets for funding. The key policy questions are: how should operating revenues be allocated and are existing operating revenues enough?

Mr. McCarty made the following recommendations: develop of a comprehensive asset management plan for streets, traffic signals, vehicles, information technology, and facilities; establish individual sinking accounts and build annual funding into operating budget for vehicles, information technology, and facilities; establish financial policy to set targeted funding level amount; establish financial policy to set targeted funding level amount; and re-evaluate existing financial policies. Specifically, the policy re-evaluation would include \$1 million CIP fund reserve, operating budget with a 1%-3% contingency, and the 90%-110% operating reserve.

Mr. Bacon summarized his recommendation that the Town transition to a needs-based approach in FY 14-15. He said repair and replacement and CIP funding will become a larger portion of the operating budget. He said additional work is necessary to determine repair and replacement and CIP priorities.

There was consensus to increase street preservation in FY 13-14 to \$1.4 million and beyond. The Council will need to provide guidance on CIP funding beyond FY 13-14, operating contingency and reserve amounts, and healthcare funding and cost sharing.

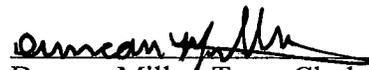
**ADJOURNMENT**

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

Vice Mayor Collins adjourned the meeting at 2:00 p.m.

ATTEST:

  
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Scott P. LeMarr, Mayor

  
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Duncan Milley, Town Clerk