TOWN OF PARADISE VALLEY, ARIZONA

STRATEGIC REVENUE PLAN

FISCAL YEAR 2020

June 13, 2019

{This page is intentionally left blank}

TABLE OF CONTENTS

	Page
Overview	7
Summary	11
Transaction Privilege Tax (Sales Tax)	19
Construction Transaction Privilege Tax	20
Retail and Hospitality Transaction Privilege Tax	22
All Other Transaction Privilege Tax	24
Occupancy Tax (Bed Tax)	26
State Shared Income Tax	28
State Shared Transaction Privilege Tax	30
Highway User Revenue Fund (HURF)	32
Court Fines	34
Building Permits	36
Other Information and Data	38
Paradise Valley Revenue Risk Assessment	41
Mitigating actions	48

{This page is intentionally left blank}

OVERVIEW

{This page is intentionally left blank}

OVERVIEW

INTRODUCTION

The Strategic Revenue Plan is inspired by a Mayor's initiative and the long-standing traditions of Paradise Valley's values and directives for fiscal prudence and stability. This report brings together an ASU graduate students' "Paradise Valley Revenue Risk Assessment" study, GFOA recommended practices, and the Town's revenue analysis, and the annual financial forecast and budget preparation. The Strategic Revenue Plan looks 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 helps to determine the Town's ability to withstand shocks and stress in revenues while maintaining services over a recovery period.

ADOPTION

The Capital Improvement Plan and the Strategic Revenue Plan are both integral components of the Town's annual budget document and are stand-alone documents to serve specific purposes. The Strategic Revenue Plan draws from the Town's Annual Budget and is adopted by Council in a single resolution that also includes the Capital Improvement Plan.

UPDATES

The intent of the Town is to update the Strategic Revenue Plan annually and be included in its annual adopted budget document.

MONITORING AND COMMUNICATIONS WITH COUNCIL

Town Management currently provides quarterly reports that includes the current status of actual quarter-to-date revenues and expenditures and forecasted revenues and expenditures through the end of the fiscal year end.

Beginning fiscal year 2020, Town Management will monitor the Town's revenues no less than monthly throughout the fiscal year and provide the Town Council with written notice if any revenue trend or risk indicator signal an onset of materially adverse conditions that could be detrimental to the Town's fiscal condition. Depending on the severity and estimated duration, and agenda item may be scheduled for the next regularly scheduled Town Council meeting.

IMPROVEMENTS

In the spirit of transparency and full disclosure, this Strategic Revenue Plan document is intended to be reader friendly and improved each year. The Town welcomes and encourages you to share any questions, concerns, comments and / or any suggestions you may have.

{This page is intentionally left blank}

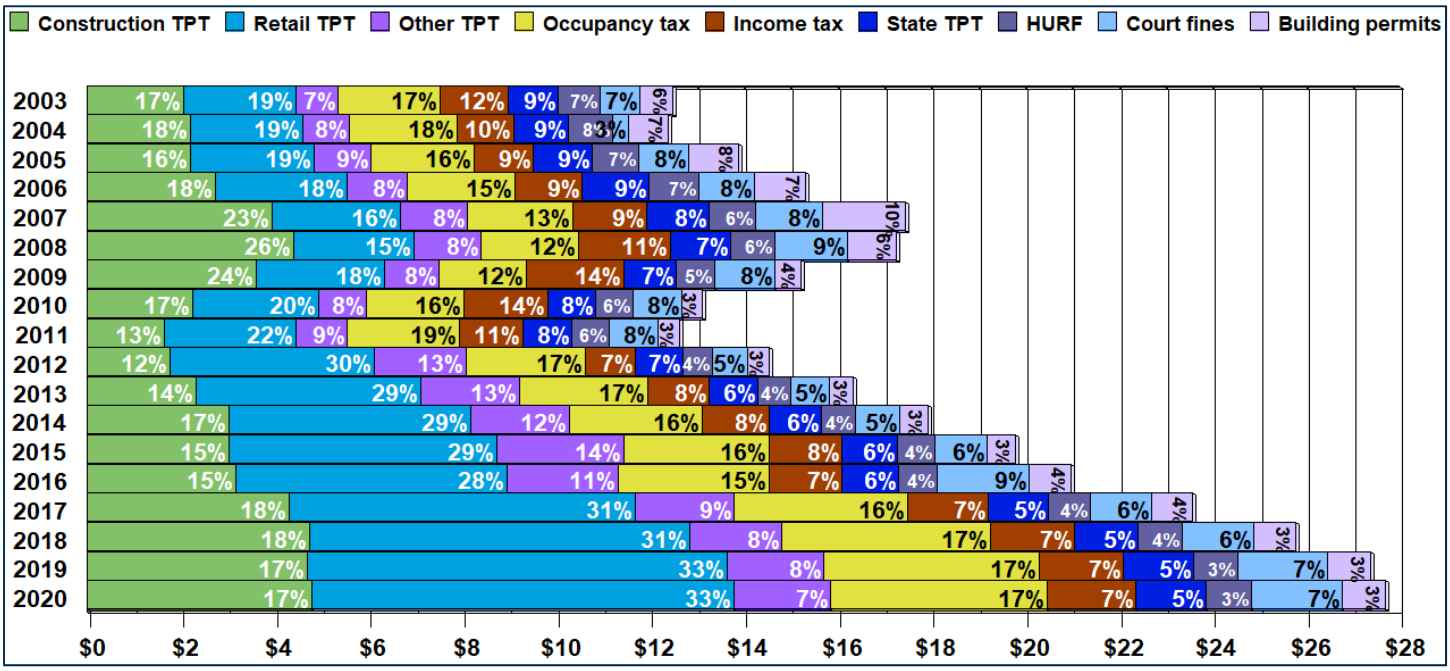
SUMMARY

{This page is intentionally left blank}

SUMMARY

Major revenues are a combination of seven (7) individually reported revenue sources. Trends show that historically, these seven revenues generally meet the benchmark of 80% of total governmental revenues (78%-83% from 2013 to 2020). Estimating these seven sources with reasonable accuracy is vital to adequately managing and supporting the Towns financial strategies.

MAJOR OPERATING REVENUE ESTIMATED FOR 2020						
Revenue Major Sources	Actual 2014/15	Projected 2015/16	Actual 2016/17	Actual 2017/18	Projected 2018/19	Estimated 2019/20
1-Transaction privilege tax (sales):						
Retail and hospitality	$ 5,705,830	$ 5,788,062	$ 7,370,408	$ 8,088,233	$ 8,960,000	$ 9,000,000
Construction & contracting	3,049,241	3,181,485	4,327,639	4,762,342	4,708,000	4,800,000
All other	2,692,378	2,376,355	2,120,270	1,982,947	2,059,000	2,060,000
2-Occupancy tax (bed)	3,117,450	3,207,626	3,701,739	4,443,281	4,577,734	4,623,500
State shared revenues:						
3-State income tax	1,551,940	1,543,526	1,703,256	1,778,003	1,807,858	1,891,800
4-State sales tax	1,171,604	1,217,296	1,277,675	1,378,388	1,487,842	1,502,000
5-Highway user revenue fund	793,772	828,858	897,142	933,034	953,225	968,900
6-Court fines	1,118,688	1,964,887	1,318,793	1,528,206	1,920,403	1,921,120
7-Building permits	613,269	894,704	876,434	893,751	900,432	919,440
Total major revenues	$ 19,814,172	$ 21,002,799	$ 23,593,356	$ 25,788,185	$ 27,374,494	$ 27,686,760
Non major revenue	3,569,271	4,939,641	4,530,042	6,414,288	5,767,526	5,679,620
Total operating revenue	$ 23,383,443	$ 25,942,440	$ 28,123,398	$ 32,202,473	$ 33,142,020	$ 33,366,380
% Major revenue to total	85%	81%	84%	80%	83%	83%



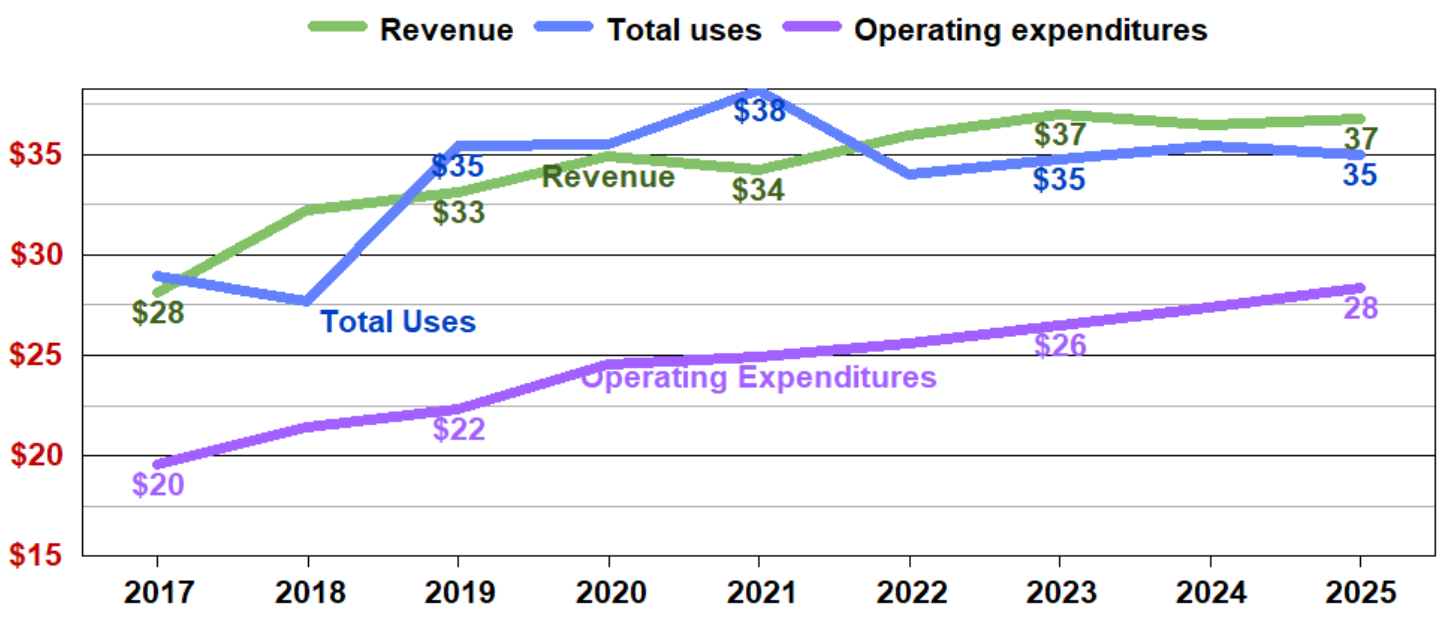
SUMMARY

The forecast below is based on the forecast in the recommended budget for FY2019/20.

FINANCIAL FORECAST 2020						
Financial Forecast from the Recommended Budget 2019/20	Estimated 2019/20	Forecast 2020/21	Forecast 2021/22	Forecast 2022/23	Forecast 2023/24	Forecast 2024/25
REVENUE:						
Major revenues	$ 27,686,760	$ 29,019,949	$ 30,734,630	$ 31,755,374	$ 31,226,413	$ 31,560,568
Non major revenues	5,679,620	5,209,620	5,209,620	5,209,620	5,209,620	5,209,620
Transfers in	1,500,000	-	-	-	-	-
Total revenue	**$ 34,866,380**	**$ 34,229,569**	**$ 35,944,250**	**$ 36,964,994**	**$ 36,436,033**	**$ 36,770,188**
USES:						
Base operations	24,530,963	24,925,949	25,622,328	26,491,082	27,393,062	28,383,990
Debt obligations	168,494	1,474,585	1,475,883	1,471,800	1,472,337	-
Assigned for:						
PSPRS unfunded liability	6,000,000	5,233,108	-	-	-	-
Repair and replacement	479,210	523,102	873,188	799,022	569,786	555,382
Capital improvement plan	4,300,000	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000
Total uses	**$ 35,478,667**	**$ 38,156,744**	**$ 33,971,399**	**$ 34,761,904**	**$ 35,435,185**	**$ 34,939,372**
Increase (decrease) fund balance	**$ (612,287)**	**$ (3,927,175)**	**$ 1,972,851**	**$ 2,203,090**	**$ 1,000,848**	**$ 1,830,816**
This forecast deviates from the 2020 budget document by reporting "transfer in" as a revenue in the 2019/20 column						

The graph below illustrates the financial forecast for 2020.

If the **total uses line** is over the **revenue line**, then the Town is using fund balance, like in FY2019-2021. If the **revenue** line is over the **total uses line**, then the town is accruing fund balance that is carried for future years, like FY2022-2025. If the **operating expenditure line** were over the **revenue line**, then the Town would be facing a structural deficit.



SUMMARY

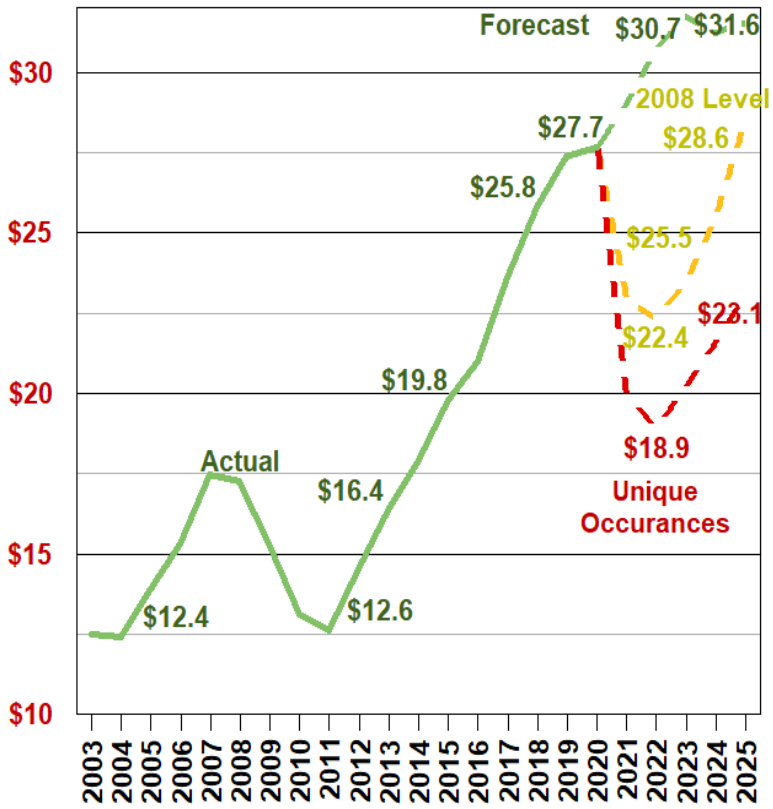
Stressing the forecast: Based on the previous pages, a goal is to maintain the revenue line above the expenditure line and focusing on major revenues is a logical *step one*.

Green line: shows the current revenue forecast that is then stressed in two scenarios.

Yellow line: runs a trend that mirrors the economic downturn late 2008 through 2011 for each major revenue.

Red line: represents a unique situation, either legislative action or a change in the revenue base for each major revenue.

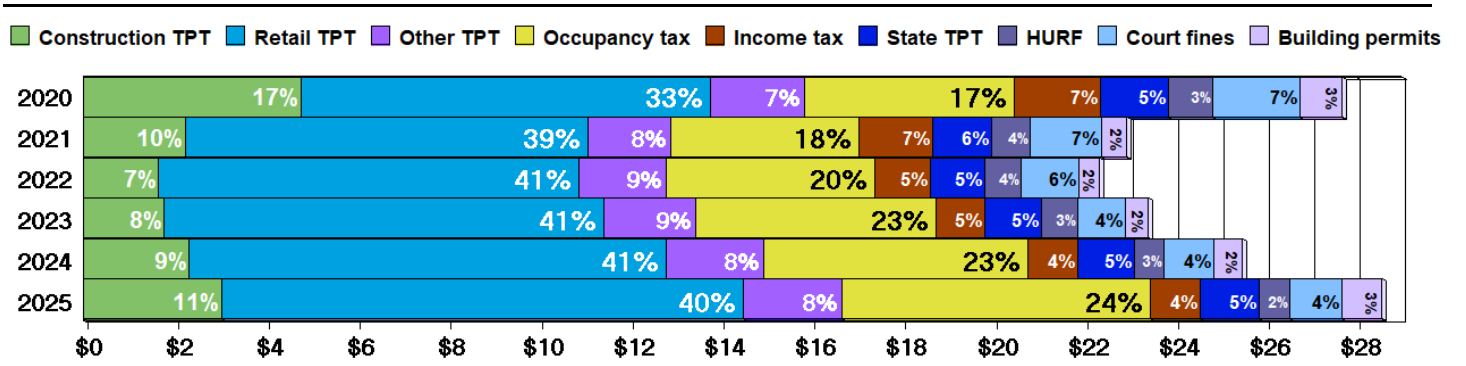
Step two is to test how these two scenarios support the Towns forecasted expenditures for operations, debt payments, capital improvements, planned repairs and replacement of vehicles and equipment.



YELLOW LINE: REVENUE IMPACTS - STRESS TEST: 2008-2011 MODEL						
MAJOR REVENUES	Estimated 2019/20	Forecast 2020/21	Forecast 2021/22	Forecast 2022/23	Forecast 2023/24	Forecast 2024/25
MAJOR REVENUES:						
Financial forecast 2020	$ 27,686,760	$ 29,019,949	$ 30,734,630	$ 31,755,374	$ 31,226,413	$ 31,560,568
Stress: 2008-2011 model	**27,686,760**	**22,959,849**	**22,356,496**	**23,436,173**	**25,492,940**	**28,573,942**
Shortfall: less than forecast	$ -	$ (6,060,100)	$ (8,378,134)	$ (8,319,201)	$ (5,733,473)	$ (2,986,626)
* Due to the inclusion of multiple scenarios, "equivalent net worth" is not shown						

The chart above compares major revenues in the forecast in the 2020 budget and a stress test modeled after impacts to revenue 2008-2011.

The graph below shows each major revenue and the percentage the account for in the total major revenue.

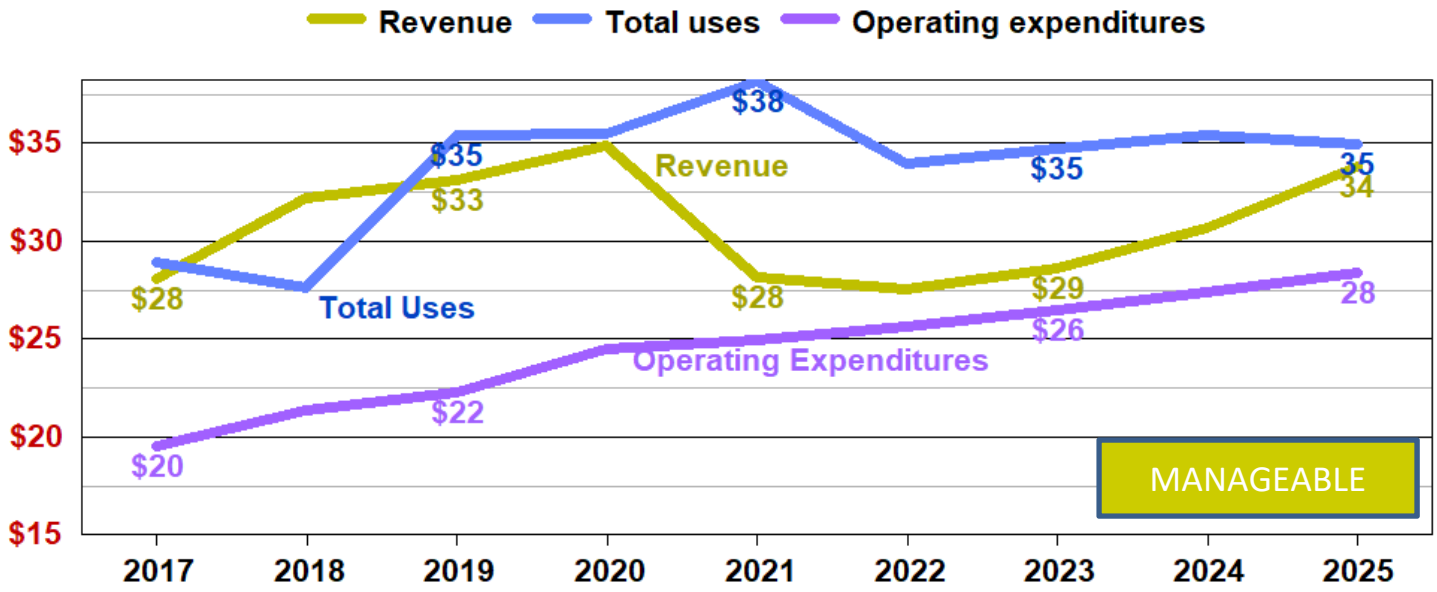


SUMMARY

The forecast below is based on simulating patterns of major revenues with economic conditions from late 2008-2011.

YELLOW LINE: FINANCIAL FORECAST - STRESS TEST: 2008-2011 MODEL						
Financial Forecast based on the 2008-2011 model*	Estimated 2019/20	Forecast 2020/21	Forecast 2021/22	Forecast 2022/23	Forecast 2023/24	Forecast 2024/25
REVENUE:						
Stress: 2008-2011 model	$ 27,686,760	$ 22,959,849	$ 22,356,496	$ 23,436,173	$ 25,492,940	$ 28,573,942
Non major revenues	5,679,620	5,209,620	5,209,620	5,209,620	5,209,620	5,209,620
Transfers in	1,500,000	-	-	-	-	-
Total revenue	$ 34,866,380	$ 28,169,469	$ 27,566,116	$ 28,645,793	$ 30,702,560	$ 33,783,562
USES:						
Base operations	24,530,963	24,925,949	25,622,328	26,491,082	27,393,062	28,383,990
Debt obligations	168,494	1,474,585	1,475,883	1,471,800	1,472,337	-
Assigned for:						
PSPRS unfunded liability	6,000,000	5,233,108	-	-	-	-
Repair and replacement	479,210	523,102	873,188	799,022	569,786	555,382
Capital improvement plan	4,300,000	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000
Total uses	$ 35,478,667	$ 38,156,744	$ 33,971,399	$ 34,761,904	$ 35,435,185	$ 34,939,372
Increase (decrease) fund balance	$ (612,287)	$ (9,987,275)	$ (6,405,283)	$ (6,116,111)	$ (4,732,625)	$ (1,155,810)
Different from Forecast 2020	$ -	$ (6,060,100)	$ (8,378,134)	$ (8,319,201)	$ (5,733,473)	$ (2,986,626)
This forecast deviates from the 2020 budget document by reporting "transfer in" as a revenue in the 2019/20 column						

Though not as compelling as in the forecast in the FY2020 budget, **the revenue line** does remain above **operating expenditures**. By looking at each revenue source, there are possible actions that can be taken on the expenditure side to lower **the blue line** in this graph. Simply using fund balance to cover all revenue shortfalls would leave the Town vulnerable in future years. However, fund balance can be the bridge to navigate over this type of revenue stress.



SUMMARY

The chart below identifies some possible mitigation actions that could be taken on the expenditure side, should revenues decline to the extent in the stress test.

YELLOW LINE: POSSIBLE ACTIONS - STRESS TEST: 2008-2011 MODEL						
Possible actions to mitigate impacts of 2008-2011 type stress	Estimated 2019/20	Forecast 2020/21	Forecast 2021/22	Forecast 2022/23	Forecast 2023/24	Forecast 2024/25
Defer capital improvement plan		$ 3,000,000	$ 3,500,000	$ 4,000,000	$ 3,500,000	$ 3,000,000
Reprogram street maintenance	-	152,120	226,552	254,183	438,091	451,234
Defer PSPRS unfunded liability	-	-	-	-	-	-
Reduce contractual services	-	130,000	130,000	130,000	75,000	-
Reduce contribution to tourism	-	410,753	509,519	606,056	414,519	55,677
Staffing reductions	-	-	-	-	-	-
Other expenditure offsets	-	-	-	-	-	-
Defer assignments for:						
Fleet	-	-	-	-	-	-
Facilities	-	-	-	-	-	-
Technology	-	-	-	-	-	-
Total before use of fund balance	$ -	$ 3,692,873	$ 4,366,071	$ 4,990,239	$ 4,427,610	$ 3,506,911
Use of (replenish) fund balance:						
PSPRS unfunded liability	612,287	5,233,108	-	-	-	-
PSPRS debt obligations	-	-	-	-	-	-
Operating expenditures	-	-	-	-	-	-
Capital improvement plan	-	1,061,294	2,039,212	1,125,872	305,015	(2,351,101)
CIP debt obligations	-	-	-	-	-	-
Use of (replenish) fund balance	**612,287**	**6,294,402**	**2,039,212**	**1,125,872**	**305,015**	**(2,351,101)**
Total actions to balance deficit	**$ 612,287**	**$ 9,987,275**	**$ 6,405,283**	**$ 6,116,111**	**$ 4,732,625**	**$ 1,155,810**
Total deficit from 2008-2011 stress	**$ 612,287**	**$ 9,987,275**	**$ 6,405,283**	**$ 6,116,111**	**$ 4,732,625**	**$ 1,155,810**

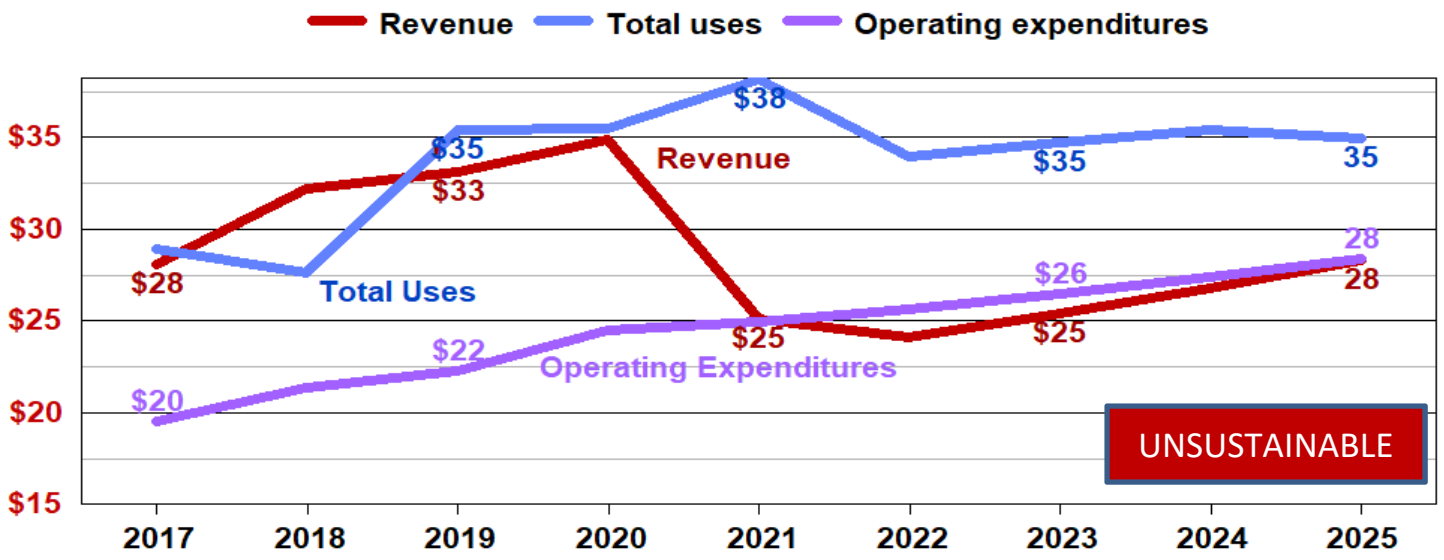
Unassigned **fund balance** is the cumulative difference of revenue and expenditures carried forward to the next fiscal year, that is not assigned or restricted. The chart below shows the amount of unassigned balance as a percentage (%) of next year's forecasted **operating expenditures**.

YELLOW LINE: FINANCIAL FORECAST - STRESS TEST: 2008-2011 MODEL						
Fund balance amount and as % of subsequent year	Estimated 2019/20	Forecast 2020/21	Forecast 2021/22	Forecast 2022/23	Forecast 2023/24	Forecast 2024/25
Unassigned fund balance	**$ 29,459,015**	**$ 23,164,613**	**$ 21,125,401**	**$ 19,999,529**	**$ 19,694,514**	**$ 22,045,615**
Stress: 2008-2011 model	**118%**	**90%**	**80%**	**73%**	**69%**	**75%**
Financial Forecast 2020	118%	100%	104%	108%	108%	111%

SUMMARY

The second stress test applies a unique situation, either legislative action or a change in the revenue base for each major revenue and presents the information in the same format as previous forecasts.

RED LINE: REVENUE IMPACTS - UNIQUE OCCURANCES						
MAJOR REVENUES	Estimated 2019/20	Forecast 2020/21	Forecast 2021/22	Forecast 2022/23	Forecast 2023/24	Forecast 2024/25
MAJOR REVENUES:						
Financial forecast 2020	$ 27,686,760	$ 29,019,949	$ 30,734,630	$ 31,755,374	$ 31,226,413	$ 31,560,568
Stress: Unique occurances	**27,686,760**	**19,917,358**	**18,921,490**	**20,229,901**	**21,564,009**	**23,096,383**
Shortfall: less than forecast	$ -	$ (9,102,591)	$(11,813,140)	$(11,525,473)	$ (9,662,404)	$ (8,464,185)



RED LINE: FINANCIAL FORECAST - UNIQUE OCCURANCES						
	Estimated 2019/20	Forecast 2020/21	Forecast 2021/22	Forecast 2022/23	Forecast 2023/24	Forecast 2024/25
REVENUE:						
Major revenues	$ 27,686,760	$ 19,917,358	$ 18,921,490	$ 20,229,901	$ 21,564,009	$ 23,096,383
Non major revenues	5,679,620	5,209,620	5,209,620	5,209,620	5,209,620	5,209,620
Transfers in	1,500,000	-	-	-	-	-
Total revenue	$ 34,866,380	$ 25,126,978	$ 24,131,110	$ 25,439,521	$ 26,773,629	$ 28,306,003
USES:						
Base operations	24,530,963	24,925,949	25,622,328	26,491,082	27,393,062	28,383,990
Debt obligations	168,494	1,474,585	1,475,883	1,471,800	1,472,337	-
Assigned for:						
PSPRS unfunded liability	6,000,000	5,233,108	-	-	-	-
Repair and replacement	479,210	523,102	873,188	799,022	569,786	555,382
Capital improvement plan	4,300,000	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000
Total uses	$ 35,478,667	$ 38,156,744	$ 33,971,399	$ 34,761,904	$ 35,435,185	$ 34,939,372
Increase (decrease) fund balance	$ (612,287)	$(13,029,766)	$ (9,840,289)	$ (9,322,383)	$ (8,661,556)	$ (6,633,369)
Different from Forecast 2020	$ -	$ (6,060,100)	$ (8,378,134)	$ (8,319,201)	$ (5,733,473)	$ (2,986,626)
This forecast deviates from the 2020 budget document by reporting "transfer in" as a revenue in the 2019/20 column						

REVENUES

{This page is intentionally left blank}

TRANSACTION PRIVILEGE TAX

The *Arizona Department of Revenue ("ADOR")* describes the Arizona Transaction Privilege Tax as: "although commonly referred to as a **sales tax**, the Arizona transaction privilege tax (TPT) is actually a tax on a vendor for the privilege of doing business in the state. Various business activities are subject to transaction privilege tax and must be licensed."

"If a business is selling a product or engaging in a service subject to TPT. A license from the ADOR would likely be needed as well as a transaction privilege tax or business / occupational license from the city or cities in which the business is based and / or operates."

"ADOR collects the tax for the counties and cities; however, tax rates vary depending on the type of business activity, the city and the county."

RATES & CATEGORIES

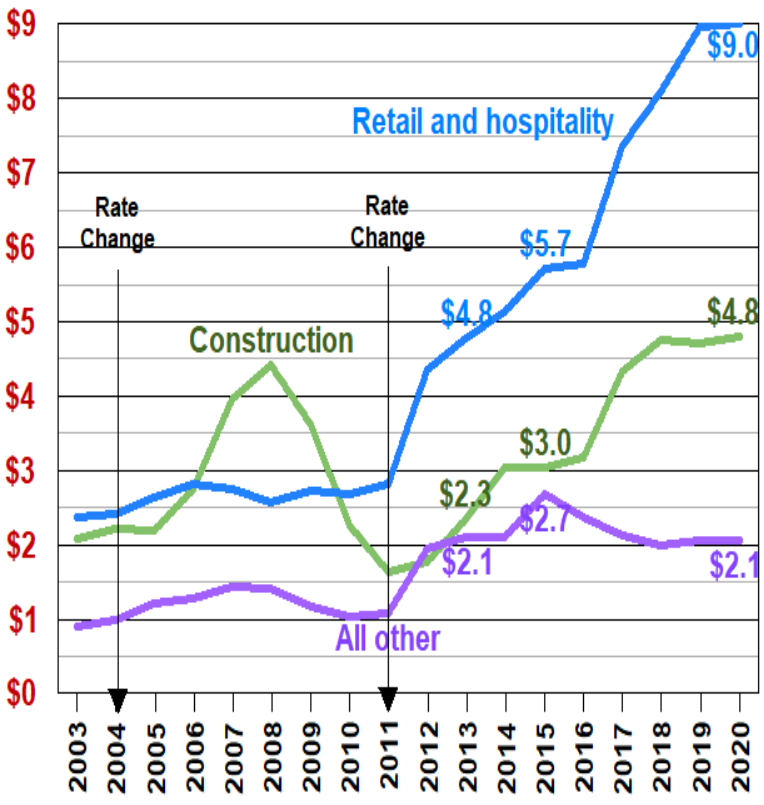
On January 1, 1999, the Town's TPT rate increased from 1.2% to 1.4%; increased to 1.65% on September 1, 2004 and 2.50% on August 1, 2011.

There are numerous components and taxable activities within the local sales tax (TPT) and can be simplified into three (3) main categories: Construction, Hospitality and Retail, and All Other.

Construction is generally considered a non-recurring revenue and is primarily used for the Town's Capital Improvement Plan.

Retail and hospitality is a significant category for the Town because of its potential to be recurring year-to-year and recent growth.

The line graph to the right shows these categories for local sales tax from 2003-2020 (**in millions**).



TRANSACTION PRIVILEGE TAX						
Revenue By category	Actual 2014/15	Actual 2015/16	Actual 2016/17	Actual 2017/18	Projected 2018/19	Estimated 2019/20
Construction	$ 3,049,241	$ 3,181,485	$ 4,327,639	$ 4,762,342	$ 4,708,000	$ 4,800,000
Retail and hospitality	5,705,830	5,788,062	7,370,408	8,088,233	8,960,000	9,000,000
All other	2,692,378	2,376,355	2,120,270	1,982,947	2,059,000	2,060,000
Total transaction privilege taxes	$ 11,447,449	$ 11,345,902	$ 13,818,317	$ 14,833,522	$ 15,727,000	$ 15,860,000

CONSTRUCTION TPT

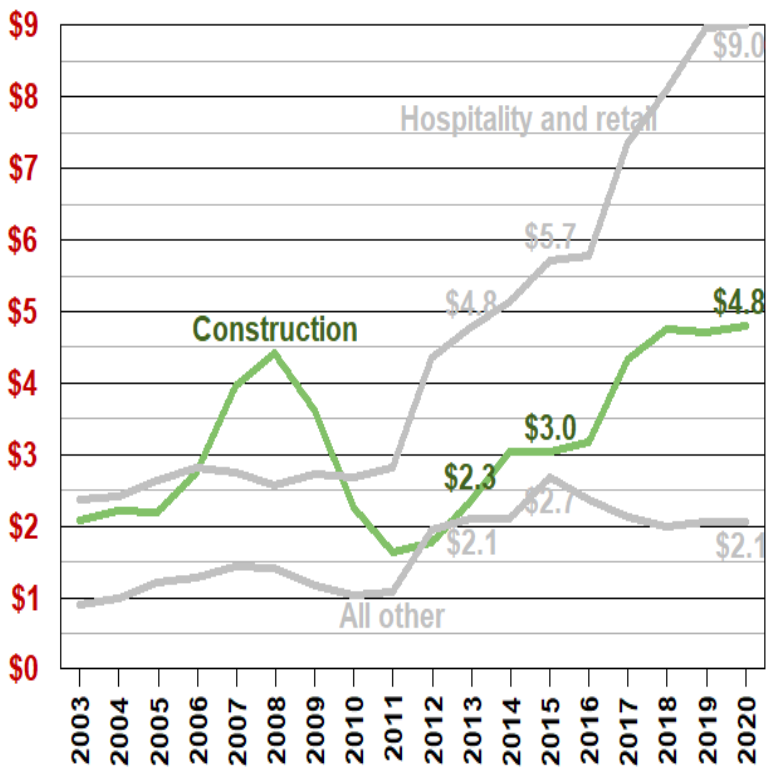
Construction is the most volatile of the three TPT categories.

Construction TPT is generally considered a non-recurring revenue, because once the specific construction project is completed, that activity is done.

Construction is volatile and cyclical in the Town. The majority of the Town's construction is for major projects, such as building resorts.

As the Town's residential areas are being "built out", it is expected that a level of construction will be maintained with remodels and "scrape and build".

The line graph to the right shows highlights the Construction TPT from 2003-2020. (**in millions**).



RISK ASSESSMENT																		
Significance and Likelihood	Volatility			Legislative Action			State Allocation			Stagnant Population			Income Recession			Overall Risk Rating		
Significantly impact	H	M	L	H	M	L	H	M	L	H	M	L	H	M	L	H	M	L
Likelihood of occurrence	H	M	L	H	**M**	L	H	M	L	H	M	L	H	**M**	L	H	**M**	L
Assessment is from the "Paradise Valley Revenue Risk Assessment"																		

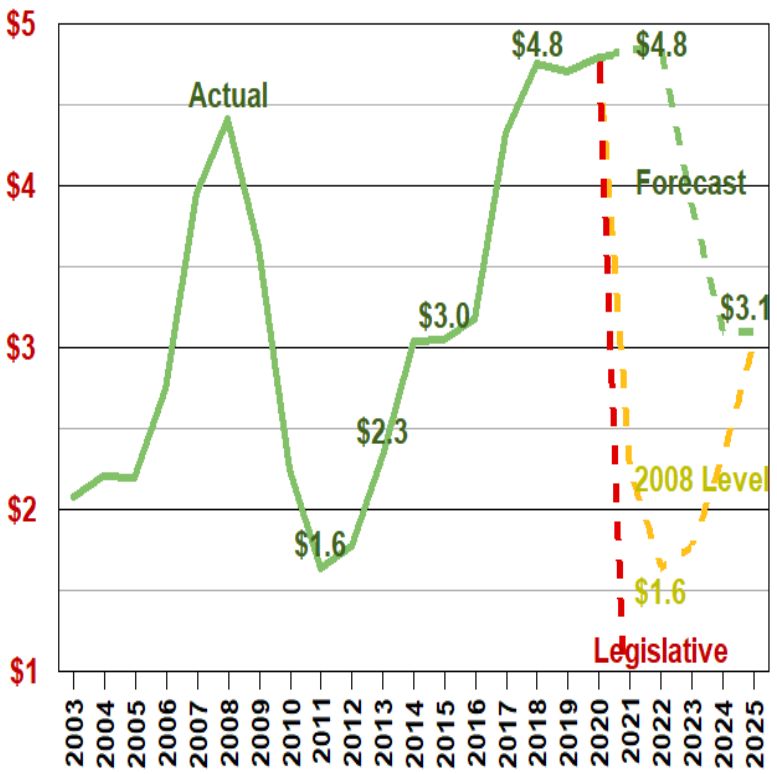
The risk assessment shows Construction TPT is highly volatile and has limited residential growth; and is vulnerable to potential legislative action (at the State level) and the strength of the economy relative to building.

RESTRICTIONS ON USE OF REVENUE		
Legal or Legislative	Town Designation	General Use
None	All revenue in excess of $500,000 is for the **Capital Improvement Program**	First $500,000 can be used for general operations
A shortfall defers CIP or uses other sources		

The Town has a policy that the first $500,000 of Construction TPT received can be used for general operations and all amounts in excess of $500,000 is transferred to the Capital Improvement Program (CIP).

When the Town experiences a reduction in Construction sales tax revenue, the initial impact is on the CIP. The Town's CIP currently includes funding from other sources than Construction TPT. Town Council would need to determine weather to offset a reduction in Construction TPT by deferring CIP projections or augmenting the short fall with other revenues or other Town programs.

CONSTRUCTION TPT



The green line represents the financial forecast for FY2020 through FY2025. It projects that construction levels will remain at peak for the next few years. This will then level off as major projects are completed. This forecast does not specifically predict the completion in FY2024, but in years after FY2023.

The yellow line emulates the trend of construction TPT in the nation-wide economic downturn that began in late 2008 and construction resumes 3 years later.

The red line illustrates legislative action that could be materially detrimental to the Town's revenue upon action.

The line graph (in millions) and charts show the three forecast scenarios for Construction TPT for the next 5 years.

SCENERIO #1 - YELLOW LINE - STRESS TREND PATTERNED ON 2008-2011						
CONSTRUCTION & CONTRACTING	Estimated 2019/20	Forecast 2020/21	Forecast 2021/22	Forecast 2022/23	Forecast 2023/24	Forecast 2024/25
Construction & contracting:						
Financial forecast 2020	$ 4,800,000	$ 4,848,000	$ 4,848,000	$ 3,878,400	$ 3,102,720	$ 3,102,720
Stress: 2008-2011 model	**4,800,000**	**2,250,756**	**1,645,850**	**1,780,801**	**2,340,481**	**3,048,856**
Shortfall: less than forecast	$ -	$ (2,597,244)	$ (3,202,150)	$ (2,097,599)	$ (762,239)	$ (53,864)
Estimated 5-year accumulated shortfall		$ (8,713,096)				

The nation-wide economic downturn that began in late 2008 halted most major construction projects in the state. The Town was fortunate that projects within the Town were not cancelled but delayed and construction resumed in 2012.

SCENERIO #2 - RED LINE - LEGISLATIVE CHANGES						
CONSTRUCTION & CONTRACTING	Estimated 2019/20	Forecast 2020/21	Forecast 2021/22	Forecast 2022/23	Forecast 2023/24	Forecast 2024/25
Construction & contracting:						
Financial forecast 2020	$ 4,800,000	$ 4,848,000	$ 4,848,000	$ 3,878,400	$ 3,102,720	$ 3,102,720
Stress: Legislative action	**4,800,000**	-0-	-0-	-0-	-0-	-0-
Shortfall: less than forecast	$ -	$ (4,848,000)	$ (4,848,000)	$ (3,878,400)	$ (3,102,720)	$ (3,102,720)
Estimated 5-year accumulated shortfall		$(19,779,840)				

Since the Town uses Construction TPT for its capital improvement plan, any factors that negatively impacts this revenue, directly impacts the Town's Capital Improvement Plan.

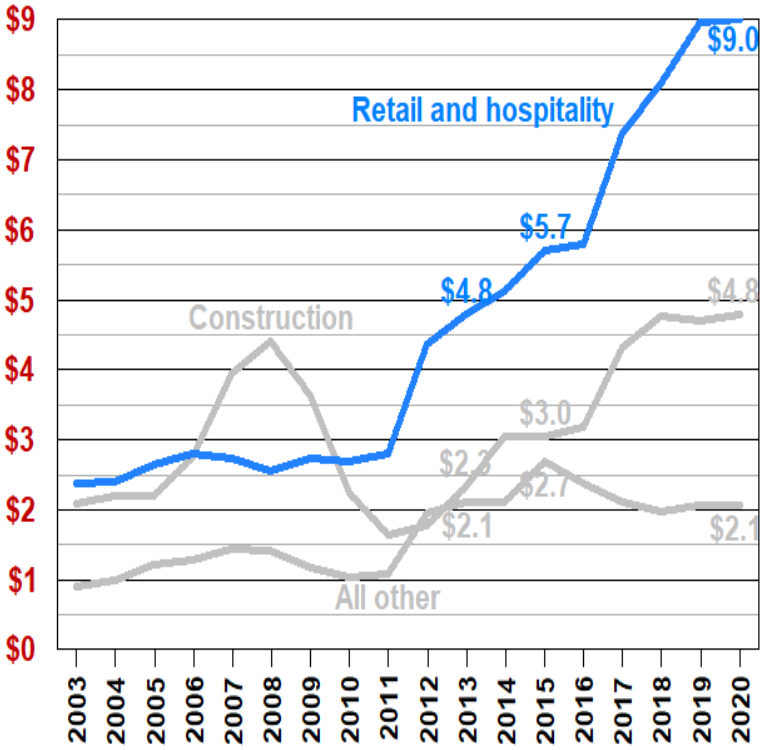
RETAIL & HOSPITALITY TPT

Retail and hospitality is a significant revenue category. In 2016 it became the most predominant of the three categories of Transaction Privilege Tax (TPT).

Retail and hospitality TPT is a recurring revenue and is available to support the Town's governmental operations, which includes Public Safety.

Retail and hospitality revenue was consistent between $2.4 million and $2.8 million from 2003 to 2011. Beginning in 2012, this revenue began a continued steep increase from $3 million to an estimated $9 million in 2020. This is a direct result of new amenities within the Town.

The graph (in millions) highlights the Retail and hospitality TPT from 2003-2020.



RISK ASSESSMENT

Significance and Likelihood	Volatility			Legislative Action			State Allocation			Stagnant Population			Income Recession			Overall Risk Rating		
Significantly impact	H	M	**L**	H	M	**L**	H	M	**L**	H	M	**L**	**H**	M	L	H	**M**	L
Likelihood of occurrence	H	M	**L**	H	M	**L**	H	M	**L**	H	M	**L**	H	**M**	L	H	M	**L**

Assessment is from the "Paradise Valley Revenue Risk Assessment"

The risk assessment shows the nature of the Town's Retail and hospitality has low volatility and not susceptible to legislative action, state allocation or stagnant population. But, since Retail and hospitality is dependent on tourism, it does have a high risk should there be impacts on income levels, such as a recession.

RESTRICTIONS ON USE OF REVENUE

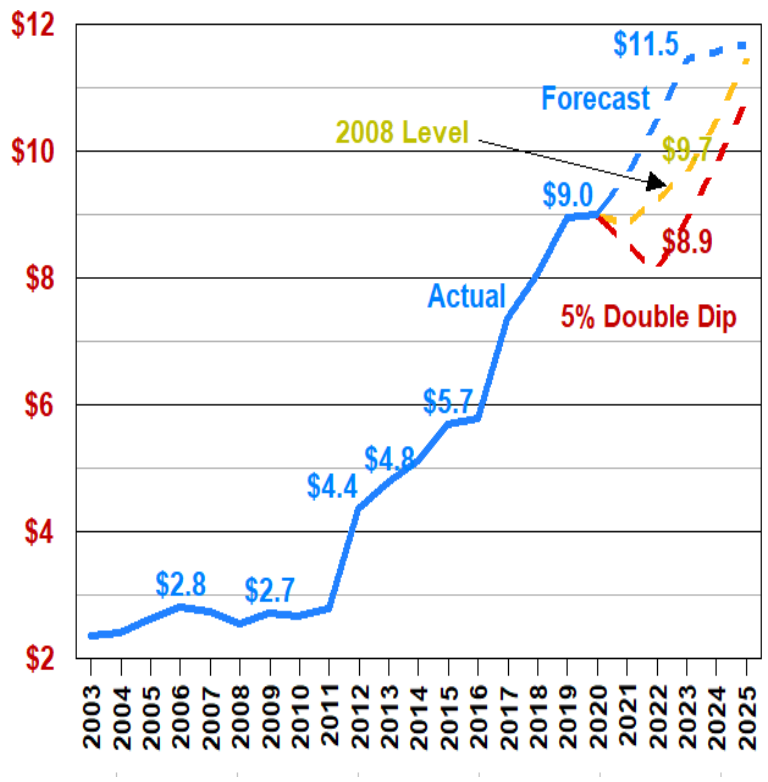
Legal or Legislative	Town Designation	General Use
None	None	All revenue is for general use

A shortfall could impact Town's operations

There are no specific legislative or Town designations imposed on Retail and hospitality revenue, other than laws regarding the use of public funds.

Retail and hospitality revenue is for general use and provides funding for the recurring governmental operations of the town and is also available to supplement other programs where other funding may temporarily fall short, such as the Capital Improvement Program.

RETAIL & HOSPITALITY TPT



The blue line is the forecast for FY2020 and continues to include new retail and hospitably amenities opening over the next few years. Consist with prior years, revenue for new retail space is estimated by using a "per square foot" formula. The tapering of the steep increase in 2023 isn't specific to that year but recognizing less "new" amenities in out years.

The yellow line trends the economic downturn from late 2008-2011. The impacts on the Town's Retail and hospitality revenue were not as sever compared to the other revenue sources and the rest of the state.

The red line calculates a two-year decline of 5%. The reason for this to occur could be a change in rates, revenue basis, income levels or a natural or other event that effects tourism.

The graph (in millions) and charts show the three forecast scenarios for the next 5 years.

YELLOW LINE - STRESS TREND PATTERNED ON 2008-2011						
RETAIL & HOSPITALITY	Estimated 2019/20	Forecast 2020/21	Forecast 2021/22	Forecast 2022/23	Forecast 2023/24	Forecast 2024/25
Retail and hospitality:						
Financial forecast 2020	$ 9,000,000	$ 9,630,800	$ 10,478,546	$ 11,470,831	$ 11,585,539	$ 11,701,394
Stress: 2008-2011 model	**9,000,000**	**8,864,314**	**9,261,692**	**9,676,884**	**10,478,546**	**11,470,831**
Shortfall: less than forecast	$ -	$ (766,486)	$ (1,216,854)	$ (1,793,947)	$ (1,106,993)	$ (230,563)
Estimated 5-year accumulated shortfall		$ (5,114,843)				

In the timeframe of 2008-2011, the total dollar impact to this revenue stream wasn't as significant when compared to other revenues or the rest of the state. However, as this revenue has grown, that percentage change equals larger dollars. This model recognized that if there was a 2008 type of economic downturn that impacts construction, then building new amenities would be delayed.

RED LINE - 2 YEARS OF 5% REDUCTION, 5% ANNUAL GROWTH THEREAFTER						
RETAIL & HOSPITALITY	Estimated 2019/20	Forecast 2020/21	Forecast 2021/22	Forecast 2022/23	Forecast 2023/24	Forecast 2024/25
Retail and hospitality:						
Financial forecast 2020	$ 9,000,000	$ 9,630,800	$ 10,478,546	$ 11,470,831	$ 11,585,539	$ 11,701,394
Stress: 5% double dip	9,000,000	8,550,000	8,122,500	8,934,750	9,828,225	10,811,048
Shortfall: less than forecast	$ -	$ (1,080,800)	$ (2,356,046)	$ (2,536,081)	$ (1,757,314)	$ (890,347)
Estimated 5-year accumulated shortfall		$ (8,620,588)				

Even though 2 years of 5% reduction are followed with 3 years of 5% growth, such an occurrence that negatively affects tourism would be detrimental to the Town's revenue stream.

ALL OTHER TPT

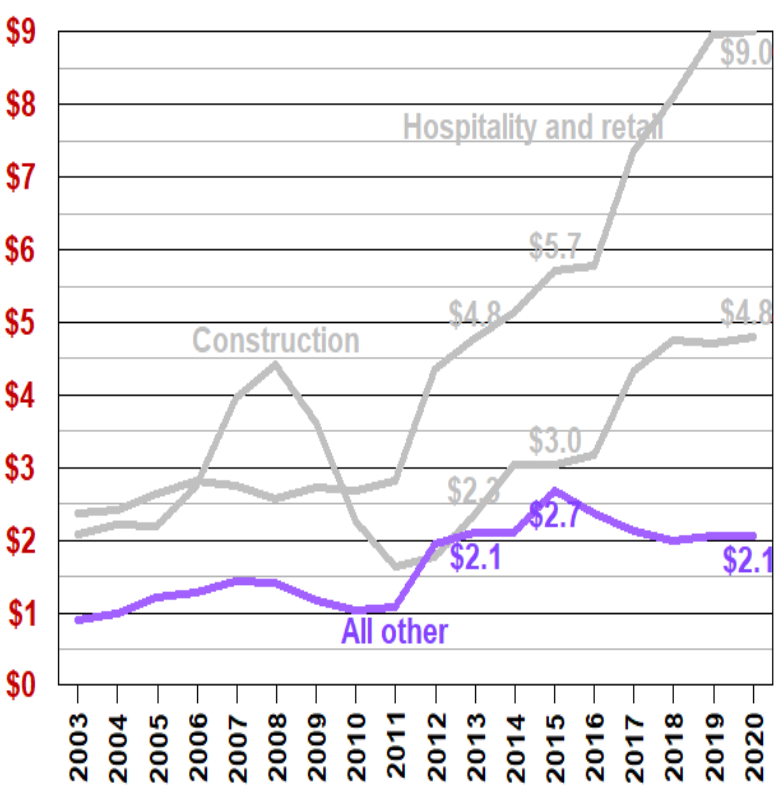
"All other" is the category that contains all other classifications of Transaction Privilege Tax (TPT) other than "Construction and contracting" or "Retail and hospitality".

All other TPT, in total, is the most consistent but is still vulnerable to business and building cycles.

All other TPT, in total, is generally considered recurring revenue and is available to support the Town's governmental operations, including Public Safety.

Since 2003 to 2020, All other TPT has ranged from $1 million to $2.7 million and is estimated at $2.1 million for 2020.

The graph (in millions) highlights the All other TPT from 2003-2020.



RISK ASSESSMENT

Significance by Category	Volatility			Legislative Action			State Allocation			Stagnant Population			Income Recession			Overall Risk Rating		
Communications	H	M	**L**	H	**M**	L	H	M	**L**	H	**M**	L	H	**M**	L	H	M	**L**
Utilities	H	M	**L**	H	**M**	L	H	M	**L**	H	**M**	L	H	**M**	L	H	M	**L**
Manufacturing	**H**	M	L	H	**M**	L	H	M	**L**	H	M	**L**	H	M	**L**	H	M	**L**
Finance and insurance	**H**	M	L	H	**M**	L	H	M	**L**	H	M	**L**	H	M	**L**	H	M	**L**
All other	**H**	M	L	H	M	**L**	H	M	**L**	H	**M**	L	H	**M**	L	H	**M**	L

Assessment is from the "Paradise Valley Revenue Risk Assessment"

The risk assessment did not account for all classifications in "all other" TPT but did look at the higher revenue classifications and combined the rest in "all other". Though there are a few areas with the potential for high volatility and medium legislative action, stagnant population and recession; overall this is considered a low risk revenue, as a whole.

RESTRICTIONS ON USE OF REVENUE

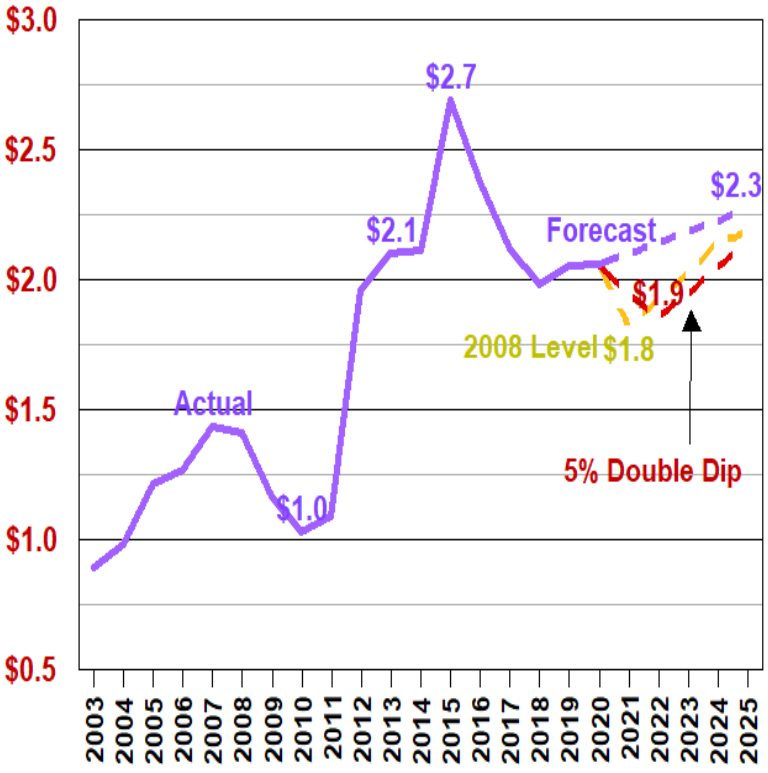
Legal or Legislative	Town Designation	General Use
None	None	All revenue is for general use

A shortfall could impact Town's operations

There are no specific legislative or Town designations imposed on Retail and hospitality revenue, other than laws regarding the use of public funds.

All other TPT is for general use and provides funding for the recurring governmental operations of the Town and is also available to supplement other programs where other funding may temporarily fall short.

ALL OTHER TPT



The purple line is the forecast for FY2020. To minimize the risk of over-extending the use of this revenue it was conservatively estimated flat, with a modest increase to recognize a growing inflationary factor to the cost of goods and services.

The yellow line trends the economic downturn from late 2008-2011. Even though the percentage reduction was 33%, the total amount of $0.5 million impacts on the All other TPT revenue was not as severe compared to the other revenue sources and the rest of the state.

The red line calculates a two-year decline of 5%. The reason for this to occur could be a change in rates, tax basis, manufacturing, real estate, or income levels.

The graph (in millions) and charts show the three forecast scenarios for the next 5 years.

YELLOW LINE - STRESS TREND PATTERNED ON 2008-2011						
ALL OTHER TPT	Estimated 2019/20	Forecast 2020/21	Forecast 2021/22	Forecast 2022/23	Forecast 2023/24	Forecast 2024/25
All other TPT:						
Financial forecast 2020	$ 2,692,378	$ 2,101,200	$ 2,143,224	$ 2,186,088	$ 2,229,810	$ 2,274,406
Stress: 2008-2011 model	**2,692,378**	**1,825,046**	**1,922,951**	**2,026,108**	**2,143,224**	**2,186,088**
Shortfall: less than forecast	$ -	$ (276,154)	$ (220,273)	$ (159,980)	$ (86,586)	$ (88,318)
Estimated 5-year accumulated shortfall		$ (831,311)				

The overall, 5-year negative impact to All other TPT in the 2008-2011 economic downturn model is $831,311.

RED LINE - 2 YEARS OF 5% REDUCTION, 5% ANNUAL GROWTH THEREAFTER						
ALL OTHER TPT	Estimated 2019/20	Forecast 2020/21	Forecast 2021/22	Forecast 2022/23	Forecast 2023/24	Forecast 2024/25
All other TPT:						
Financial forecast 2020	$ 2,692,378	$ 2,101,200	$ 2,143,224	$ 2,186,088	$ 2,229,810	$ 2,274,406
Stress: 5% double dip	**2,692,378**	**1,957,000**	**1,859,150**	**1,952,108**	**2,049,713**	**2,152,199**
Shortfall: less than forecast	$ -	$ (144,200)	$ (284,074)	$ (233,981)	$ (180,097)	$ (122,207)
Estimated 5-year accumulated shortfall		$ (964,559)				

A dip of 5% for two consecutive years would have larger impact than a 2008-2011 type of event. The 5% reduction could be from a combination of changes in the taxable activities tax basis, manufacturing, real estate, or income levels

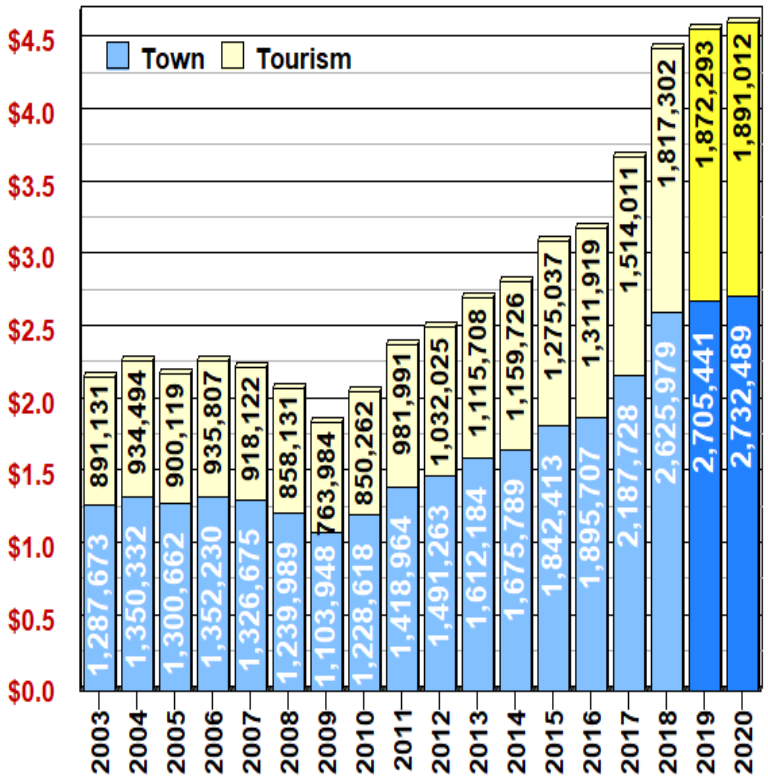
OCCUPANCY (BED) TAX

Tourism and the hospitality industry are critical elements and contribute greatly to the Town's character. This industry generates a good portion of the Town's operating revenue. As a result, the Town dedicates significant resources to invest in tourism promotion.

Occupancy tax is a recurring revenue and has specific legislative restrictions regarding how the Town can use this revenue.

Occupancy tax revenue was consistently less than $2.5 million until 2013. With the addition of new resorts, the Town has seen a significant increase in Occupancy tax revenue with an estimated $4.6 million in 2020.

The graph (in millions) shows a history of the Occupancy (bed) tax from 2003-2020.



RISK ASSESSMENT

Significance and Likelihood	Volatility			Legislative Action			State Allocation			Stagnant Population			Income Recession			Overall Risk Rating		
Significantly impact	H	**M**	L	H	**M**	L	H	M	**L**	H	M	**L**	**H**	M	L	H	**M**	L
Likelihood of occurrence	H	**M**	L	H	M	**L**	H	M	**L**	H	M	**L**	H	**M**	L	H	**M**	L

Assessment is from the "Paradise Valley Revenue Risk Assessment"

The risk assessment views Occupancy tax to have medium volatility and susceptibility to legislative action. Though the risks for state allocation and the Town's stagnant population are low, there is a high risk of impact form shifts in income and recession. Overall, this revenue has a medium risk.

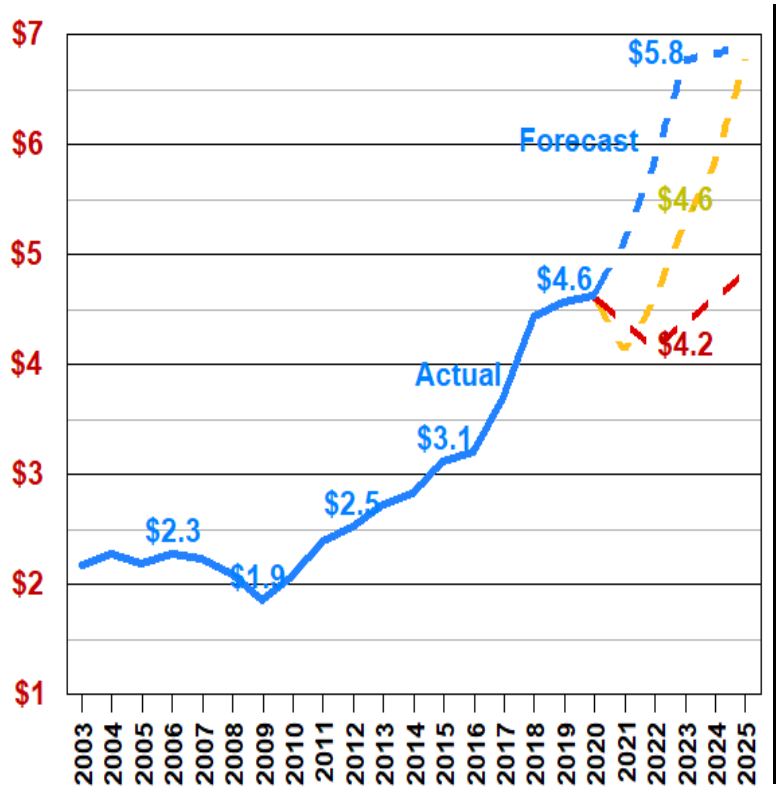
RESTRICTIONS ON USE OF REVENUE

Legal or Legislative	Town Designation	General Use
{This section is under review}		

Arizona Revised Statutes 9-500.06

{This section is under review}

OCCUPANCY (BED) TAX



The blue line is the forecast for FY2020 and like Retail, continues to include new amenities opening over the next few years. Revenues are estimated based on the growing number of room keys and the expected occupancy rate. The tapering of the steep increase in 2024 isn't specific to that year but recognizes that major projects will be completed in out years.

The yellow line trends the economic downturn from late 2008-2011. The impacts on the Town's Occupancy tax were visible, but quick to recover, unlike other revenue sources and the rest of the state.

The red line calculates a two-year decline of 5%. The reason for this to occur could be a change in rates, revenue basis, income levels or a natural or other event that effects tourism.

The graph (in millions) and charts show the three forecast scenarios for the next 5 years

YELLOW LINE - STRESS TREND PATTERNED ON 2008-2011						
OCCUPANCY (BED) TAX	Estimated 2019/20	Forecast 2020/21	Forecast 2021/22	Forecast 2022/23	Forecast 2023/24	Forecast 2024/25
Occupancy (bed) tax						
Financial forecast 2020	$ 4,623,500	$ 5,120,535	$ 5,826,870	$ 6,772,639	$ 6,840,365	$ 6,908,769
Stress: 2008-2011 model	**4,623,500**	**4,116,249**	**4,581,102**	**5,290,839**	**5,826,870**	**6,772,639**
Shortfall: less than forecast	$ -	$ (1,004,286)	$ (1,245,768)	$ (1,481,800)	$ (1,013,495)	$ (136,130)
Estimated 5-year accumulated shortfall		$ (4,881,479)				

Even though in 2008-2011 the Occupancy tax was quick to recover, there was still a significant dollar impact in the next 5 years. This model recognizes that if there were a 2008 type of economic downturn that impacted construction, then additional room keys would not be cancelled, but delayed.

RED LINE - 2 YEARS OF 5% REDUCTION, 5% ANNUAL GROWTH THEREAFTER						
OCCUPANCY (BED) TAX	Estimated 2019/20	Forecast 2020/21	Forecast 2021/22	Forecast 2022/23	Forecast 2023/24	Forecast 2024/25
Occupancy (bed) tax						
Financial forecast 2020	$ 4,623,500	$ 5,120,535	$ 5,826,870	$ 6,772,639	$ 6,840,365	$ 6,908,769
Stress: 5% double dip	**4,623,500**	**4,392,325**	**4,172,709**	**4,381,344**	**4,600,411**	**4,830,432**
Shortfall: less than forecast	$ -	$ (728,210)	$ (1,654,161)	$ (2,391,295)	$ (2,239,954)	$ (2,078,337)
Estimated 5-year accumulated shortfall		$ (9,091,957)				

Even though 2 years of 5% reduction are followed with 3 years of 5% growth, such an occurrence that negatively affects tourism would be detrimental to the Town's revenue stream.

STATE INCOME TAX

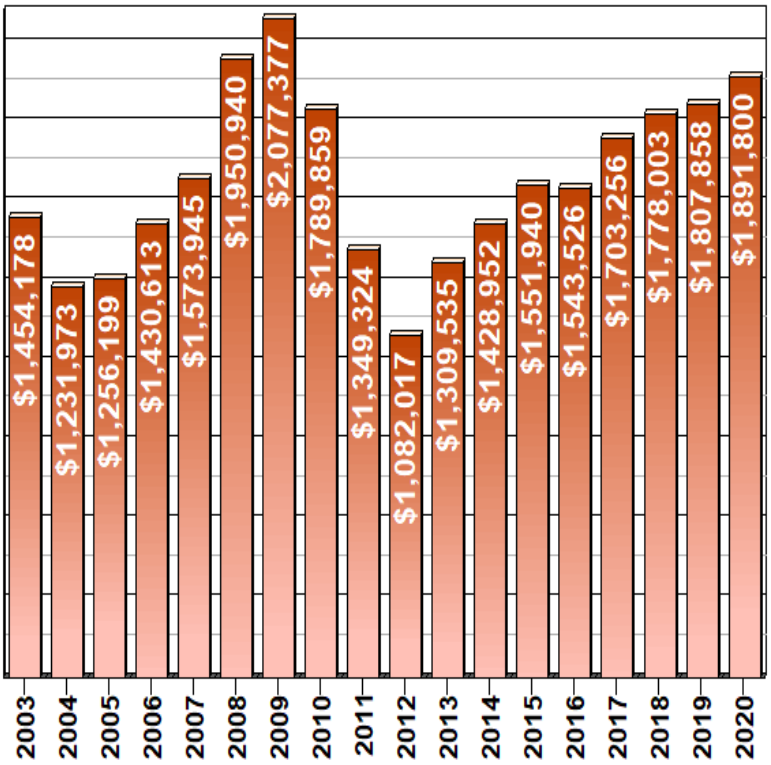
The State of Arizona imposes and collects an income tax.

The income tax is part of the state's revenue sharing program and is distributed to Arizona cities, towns and counties based on their population.

State shared income tax is a recurring revenue and is available to support the Town's governmental operations, including Public Safety.

This revenue is dependent on the state's economic conditions and has ranged from $2.1 million in 2009 to $1.1 million in 2012. Since 2012, this revenue has gradually increased each year.

The graph shows the Town's portion of the State's shared income tax from 2003-2020 (in millions).



RISK ASSESSMENT

Significance and Likelihood	Volatility			Legislative Action			State Allocation			Stagnant Population			Income Recession			Overall Risk Rating		
Significantly impact	H	**M**	L	**H**	M	L	**H**	M	L	**H**	M	L	H	M	**L**	**H**	M	L
Likelihood of occurrence	H	**M**	L	H	**M**	L	H	**M**	L	**H**	M	L	H	**M**	L	H	**M**	L

Assessment is from the "Paradise Valley Revenue Risk Assessment"

The risk assessment shows the nature of the State shared income tax has medium volatility and is highly sensitive to legislative actions, state allocation methods and the Town's stagnant population compared to the rest of the state. Overall, this revenue has a high-risk rating.

RESTRICTIONS ON USE OF REVENUE

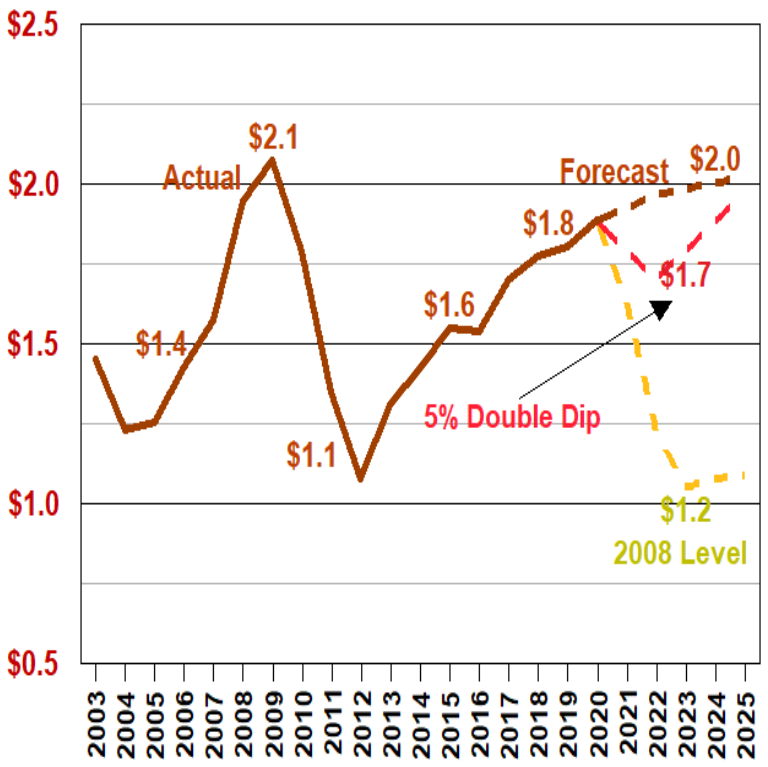
Legal or Legislative	Town Designation	General Use
None	None	All revenue is for general use

A shortfall could impact Town's operations

There are no specific legislative or Town designations imposed on the State shared income tax revenue, other than laws regarding the use of public funds.

State shared income tax is for general use. It provides funding for the recurring governmental operations of the Town and is also available to supplement other programs where other funding may temporarily fall short.

STATE INCOME TAX



The hazelnut line is the forecast for FY2020 that continues to follow the current trend, but with less of a slope. This revenue is distributed based on population and the Town's population is growing less than the state average. This results in the Town's revenue increase being lower than the state's average. The 2020 census will be important to the Town.

The yellow line trends the economic downturn from late 2008-2011. The impact was significant to the Town's portion and the entire state.

The red line calculates a two-year decline of 5%. This could occur by a change in rates, revenue basis, legislative action, state allocation, or income levels.

The graph (in millions) and charts show the three forecast scenarios for the next 5 years.

YELLOW LINE - STRESS TREND PATTERNED ON 2008-2011						
STATE SHARED INCOME TAX	Estimated 2019/20	Forecast 2020/21	Forecast 2021/22	Forecast 2022/23	Forecast 2023/24	Forecast 2024/25
State shared income tax:						
Financial forecast 2020	$ 1,891,800	$ 1,929,636	$ 1,968,229	$ 1,987,911	$ 2,007,790	$ 2,027,868
Stress: 2008-2011 model	**1,891,800**	**1,629,967**	**1,228,786**	**1,058,717**	**1,079,891**	**1,090,690**
Shortfall: less than forecast	$ -	$ (299,669)	$ (739,443)	$ (929,194)	$ (927,899)	$ (937,178)
Estimated 5-year accumulated shortfall		$ (3,833,383)				

The economic downturn of 2008-2011 was significant to State's shared income tax revenue. This stress test shows that this revenue is still vulnerable should this type of incident occur again.

RED LINE - 2 YEARS OF 5% REDUCTION, 5% ANNUAL GROWTH THEREAFTER						
STATE SHARED INCOME TAX	Estimated 2019/20	Forecast 2020/21	Forecast 2021/22	Forecast 2022/23	Forecast 2023/24	Forecast 2024/25
State shared income tax:						
Financial forecast 2020	$ 1,891,800	$ 1,929,636	$ 1,968,229	$ 1,987,911	$ 2,007,790	$ 2,027,868
Stress: 5% double dip	**1,891,800**	**1,797,210**	**1,707,350**	**1,792,717**	**1,882,353**	**1,976,470**
Shortfall: less than forecast	$ -	$ (132,426)	$ (260,880)	$ (195,194)	$ (125,437)	$ (51,398)
Estimated 5-year accumulated shortfall		$ (765,334)				

Even though 2 years of 5% reduction are followed with 3 years of 5% growth, such an occurrence of legislative action, state allocation, or an event that effects income levels or recession would be detrimental to the Town's revenue stream.

STATE TPT (SALES TAX)

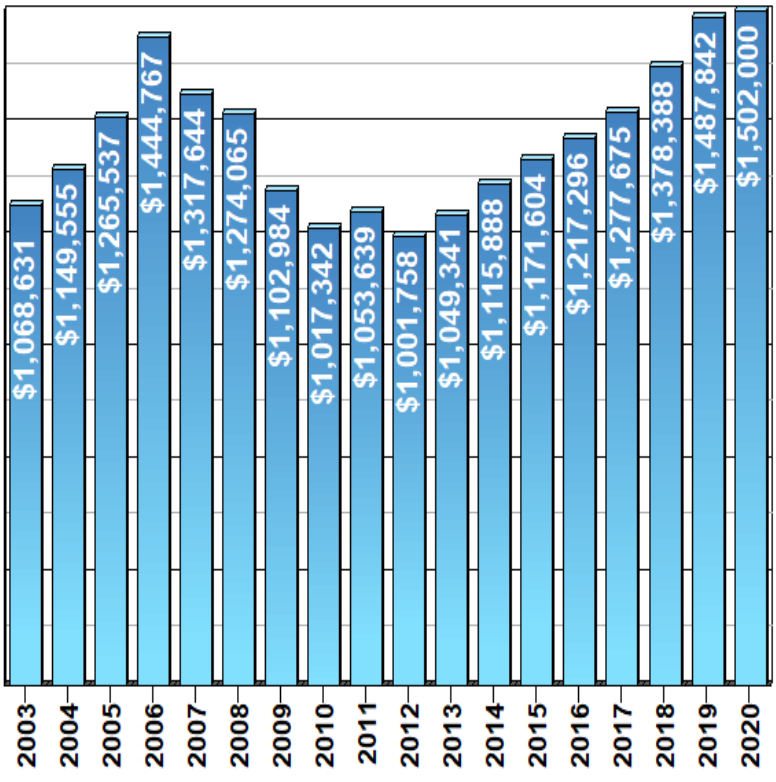
Commonly referred to as a "sales tax", the State of Arizona levies a Transaction Privilege Tax (TPT) on various business activities. The state rate is 5.60%

State shared TPT is part of the state's revenue sharing program and is distributed to Arizona cities, towns and counties based on their population.

State shared TPT is a recurring revenue and is available to support the Town's on-going governmental operations, which includes Public Safety.

This revenue is dependent on the state's economic conditions and has ranged from $1.0 million in 2012 to $1.5 million estimated in 2020.

The graph shows the Town's portion of the State shared TPT from 2003-2020 (in millions).



RISK ASSESSMENT

Significance and Likelihood	Volatility			Legislative Action			State Allocation			Stagnant Population			Income Recession			Overall Risk Rating		
Significantly impact	H	M	**L**	H	**M**	L	H	**M**	L	H	**M**	L	**H**	M	L	H	**M**	L
Likelihood of occurrence	H	M	**L**	H	**M**	L	H	**M**	L	**H**	M	L	H	**M**	L	H	**M**	L

Assessment is from the "Paradise Valley Revenue Risk Assessment"

The risk assessment shows the State shared TPT has low volatility and has medium sensitivity to legislative actions, state allocation methods and the Town's stagnant population compared to the rest of the state and high sensitivity to income and recession. Overall, the rating is medium-risk.

RESTRICTIONS ON USE OF REVENUE

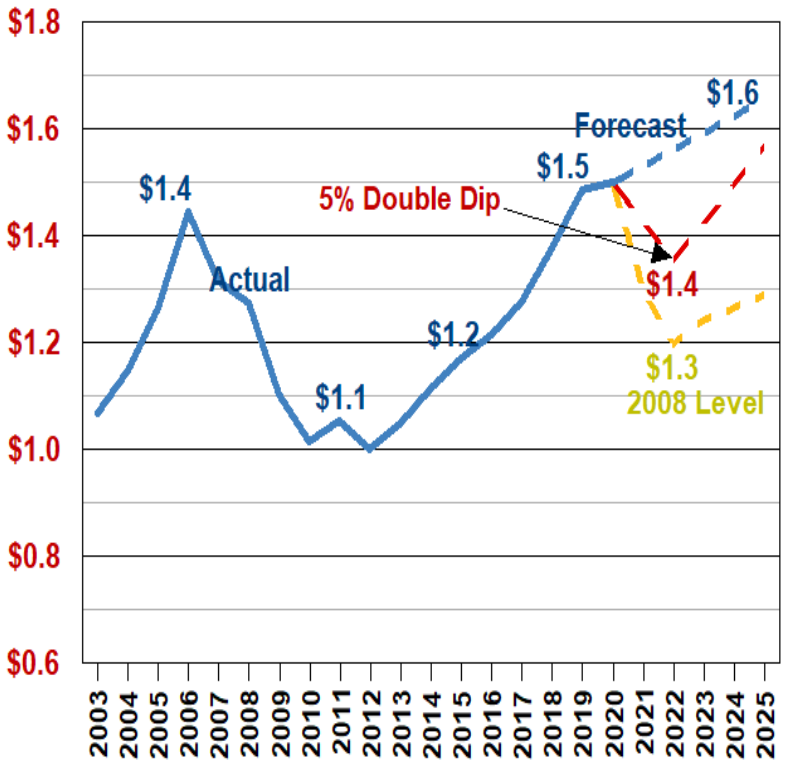
Legal or Legislative	Town Designation	General Use
None	None	All revenue is for general use

A shortfall could impact Town's operations

There are no specific legislative or Town designations imposed on the State shared TPT revenue, other than laws regarding the use of public funds.

State shared TPT is for general use and provides funding for the recurring governmental operations of the Town. It is also available to supplement other programs where other funding may temporarily fall short.

STATE TPT (SALES TAX)



The blue line is the forecast for FY2020 that continues to show mild year-to-year change in this revenue as compared to other sources. As economic conditions are favorable for commerce, State shared TPT collections are expected to maintain its trend. The Town uses estimates provided by the Arizona League of Cities and Towns for its budget preparation.

The yellow line trends the economic downturn from late 2008-2011. The impacts on this revenue were significant for the Town and the State.

The red line calculates a two-year decline of 5%. The reason for this to occur could be a change in rates, revenue basis, income levels or a natural or other event that effects commerce activities

The graph (in millions) and charts show the three forecast scenarios for the next 5 years.

YELLOW LINE - STRESS TREND PATTERNED ON 2008-2011						
STATE SHARED TPT (SALES TAX)	Estimated 2019/20	Forecast 2020/21	Forecast 2021/22	Forecast 2022/23	Forecast 2023/24	Forecast 2024/25
State Shared TPT (sales tax)						
Financial forecast 2020	$ 1,502,000	$ 1,532,040	$ 1,562,681	$ 1,593,935	$ 1,625,814	$ 1,658,330
Stress: 2008-2011 model	**1,502,000**	**1,300,312**	**1,199,348**	**1,242,139**	**1,266,982**	**1,292,322**
Shortfall: less than forecast	$ -	$ (231,728)	$ (363,333)	$ (351,796)	$ (358,832)	$ (366,008)
Estimated 5-year accumulated shortfall		$ (1,671,697)				

The economic downturn of 2008-2011 was significant to the State shared TPT. This stress test shows that this revenue is still vulnerable should this type of incident occur again.

RED LINE - 2 YEARS OF 5% REDUCTION, 5% ANNUAL GROWTH THEREAFTER						
STATE SHARED TPT (SALES TAX)	Estimated 2019/20	Forecast 2020/21	Forecast 2021/22	Forecast 2022/23	Forecast 2023/24	Forecast 2024/25
State Shared TPT (sales tax)						
Financial forecast 2020	$ 1,502,000	$ 1,532,040	$ 1,562,681	$ 1,593,935	$ 1,625,814	$ 1,658,330
Stress: 5% double dip	**1,502,000**	**1,426,900**	**1,355,555**	**1,423,333**	**1,494,499**	**1,569,224**
Shortfall: less than forecast	$ -	$ (105,140)	$ (207,126)	$ (170,602)	$ (131,315)	$ (89,106)
Estimated 5-year accumulated shortfall		$ (703,289)				

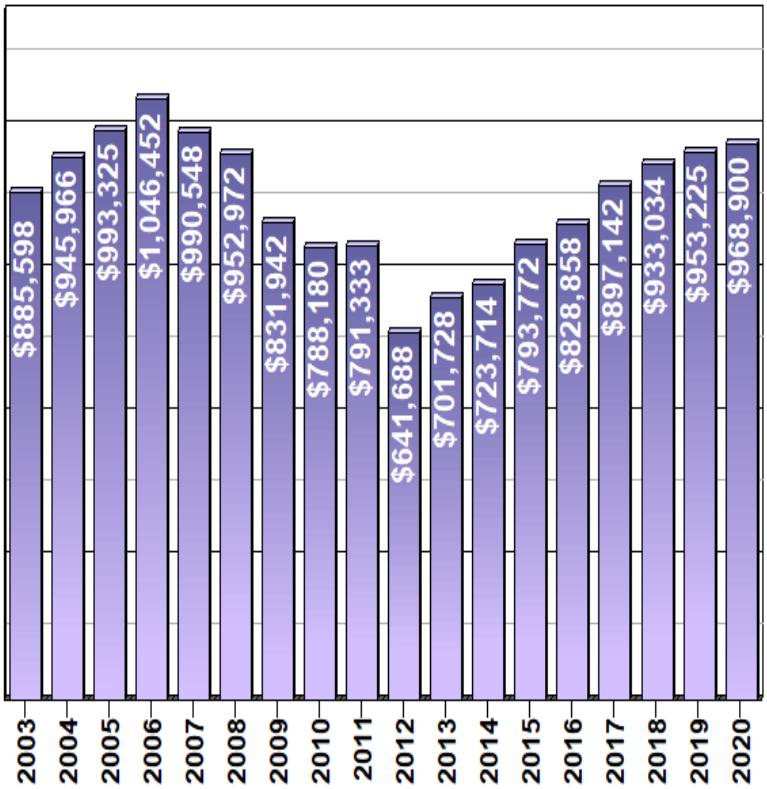
Even though 2 years of 5% reduction are followed with 3 years of 5% growth, such an occurrence of legislative action, state allocation, or an event that effects commerce activities would be detrimental to the Town's revenue stream.

HIGHWAY USER REVENUE

Arizona Department of Transportation explains: "Arizona taxes motor fuels and collects a variety of fees and charges relating to the registration and operation of motor vehicles on the public highways of the state. These collections include gasoline and use-fuel, motor-carrier and vehicle-license taxes, motor vehicle registration fees and other miscellaneous fees. These revenues are deposited in the Arizona Highway User Revenue Fund (HURF) and are then distributed to the cities, towns and counties and to the state highway fund."

These taxes represent a primary source of revenues available state-wide for roadway construction, improvements and other related expenditures.

The graph shows Town HURF revenue from 2003-2020 (**in millions**).



RISK ASSESSMENT

Significance and Likelihood	Volatility			Legislative Action			State Allocation			Stagnant Population			Income Recession			Overall Risk Rating		
Significantly impact	H	**M**	L	**H**	M	L	**H**	M	L	**H**	M	L	H	M	**L**	**H**	M	L
Likelihood of occurrence	H	**M**	L	H	**M**	L	H	**M**	L	**H**	M	L	H	**M**	L	H	**M**	L

Assessment is from the "Paradise Valley Revenue Risk Assessment"

The risk assessment shows the HURF has medium volatility and is highly sensitive to legislative actions, state allocation methods and the Town's stagnant population compared to the rest of the state. Overall, this revenue has a high-risk rating.

RESTRICTIONS ON USE OF REVENUE

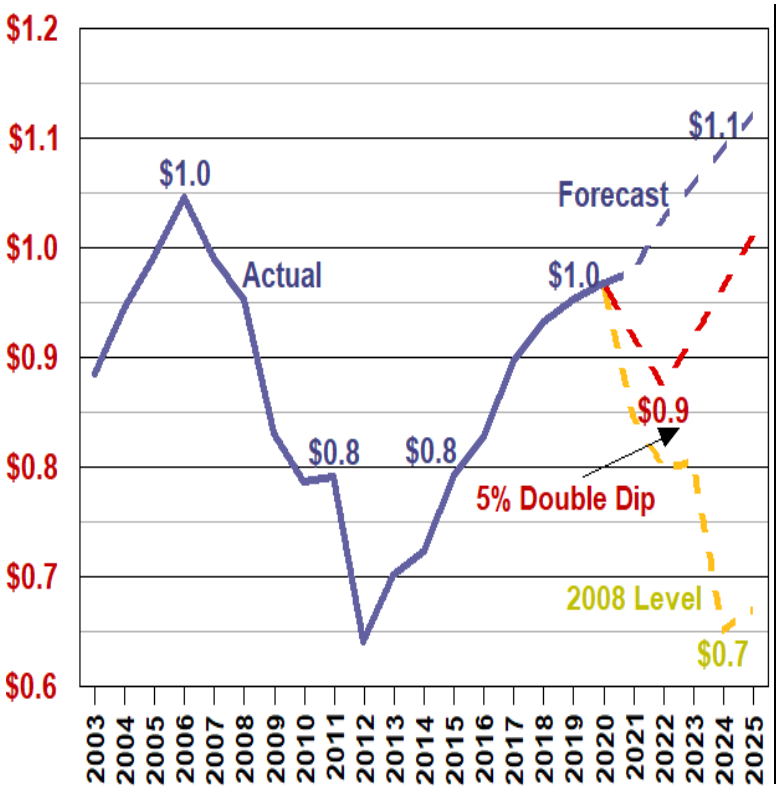
Legal or Legislative	Town Designation	General Use
Street construction, improvements and other related expenditures	Street construction, improvements and other related expenditures	No

Arizona Revised Statutes 28-6533

Legal restrictions on HURF revenue are to be used for street construction, improvements and other related expenditures.

The Town budgets HURF as part of the Town's "operating fund" and dedicates significant general fund resources along with HURF for street construction, improvements and other related expenditures.

HIGHWAY USER REVENUE



The purple line is the forecast for FY2020 that continues an upward trend. As economic conditions are favorable for motor fuels, HURF collections are expected to maintain this trend. The Town uses estimates provided by the Arizona League of Cities and Towns for its budget preparation.

The yellow line trends the economic downturn from late 2008-2011. Due to HURFs sensitivity to economic conditions, the Town's share of was significant impacted.

The red line calculates a two-year decline of 5%. The reason for this to occur could be a change in rates, revenue basis, legislative action or state allocation, income levels or a natural or other event that effects fuel consumption.

The graph (in millions) and charts show the three forecast scenarios for the next 5 years.

YELLOW LINE - STRESS TREND PATTERNED ON 2008-2011						
STATE SHARED HIGHWAY USER REVENUE FUND	Estimated 2019/20	Forecast 2020/21	Forecast 2021/22	Forecast 2022/23	Forecast 2023/24	Forecast 2024/25
Highway user revenue fund						
Financial forecast 2020	$ 968,900	$ 997,967	$ 1,027,906	$ 1,058,743	$ 1,090,505	$ 1,123,220
Stress: 2008-2011 model	**968,900**	**845,847**	**801,354**	**804,560**	**652,414**	**671,986**
Shortfall: less than forecast	$ -	$ (152,120)	$ (226,552)	$ (254,183)	$ (438,091)	$ (451,234)
Estimated 5-year accumulated shortfall		$ (1,522,180)				

The economic downturn of 2008-2011 was significant to HURF. This stress test shows that HURF is still vulnerable should this type of incident occur again.

RED LINE - 2 YEARS OF 5% REDUCTION, 5% ANNUAL GROWTH THEREAFTER						
STATE SHARED HIGHWAY USER REVENUE FUND	Estimated 2019/20	Forecast 2020/21	Forecast 2021/22	Forecast 2022/23	Forecast 2023/24	Forecast 2024/25
Highway user revenue fund						
Financial forecast 2020	$ 968,900	$ 997,967	$ 1,027,906	$ 1,058,743	$ 1,090,505	$ 1,123,220
Stress: 5% double dip	**968,900**	**920,455**	**874,432**	**918,154**	**964,062**	**1,012,265**
Shortfall: less than forecast	$ -	$ (77,512)	$ (153,474)	$ (140,589)	$ (126,443)	$ (110,955)
Estimated 5-year accumulated shortfall		$ (608,974)				

Even though 2 years of 5% reduction are followed with 3 years of 5% growth, such an occurrence of legislative action, state allocation, or an event that effects fuel consumption would be detrimental to the Town's revenue stream.

COURT FINES

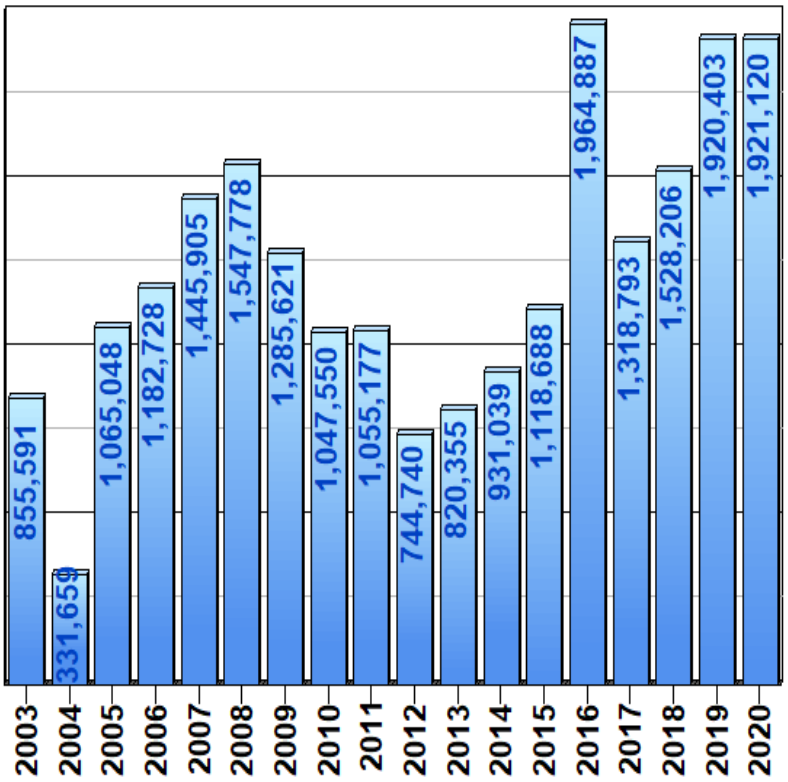
Courts fines is by far the most volatile and unpredictable of the Town's revenues. This revenue is collected by the Town's Municipal Court.

This revenue has ranged from $331 thousand in 2004 to $1.9 million in 2016.

Court fines are a recurring revenue and is available matched with Public safety costs, for budget reporting.

Photo radar is included in this account but impacts of that public safety program is not exclusive to revenue. Photo radar also reduces costs and is an integral component of the Town's public safety initiatives.

The graph shows the Court fines revenue from 2003-2020 (in millions).



RISK ASSESSMENT

Significance and Likelihood	Volatility			Legislative Action			State Allocation			Stagnant Population			Income Recession			Overall Risk Rating		
Significantly impact	**H**	M	L	H	**M**	L	H	M	**L**	H	M	**L**	H	**M**	L	H	**M**	L
Likelihood of occurrence	H	**M**	L	H	**M**	L	H	M	**L**	H	M	**L**	H	**M**	L	H	**M**	L

Assessment is from the "Paradise Valley Revenue Risk Assessment"

The risk assessment shows the nature of the collection of Court fines is highly volatile and has medium sensitivity to legislative actions and recession, with low risks to state allocation methods and the Town's stagnant population. Overall, this revenue has a risk rating of medium.

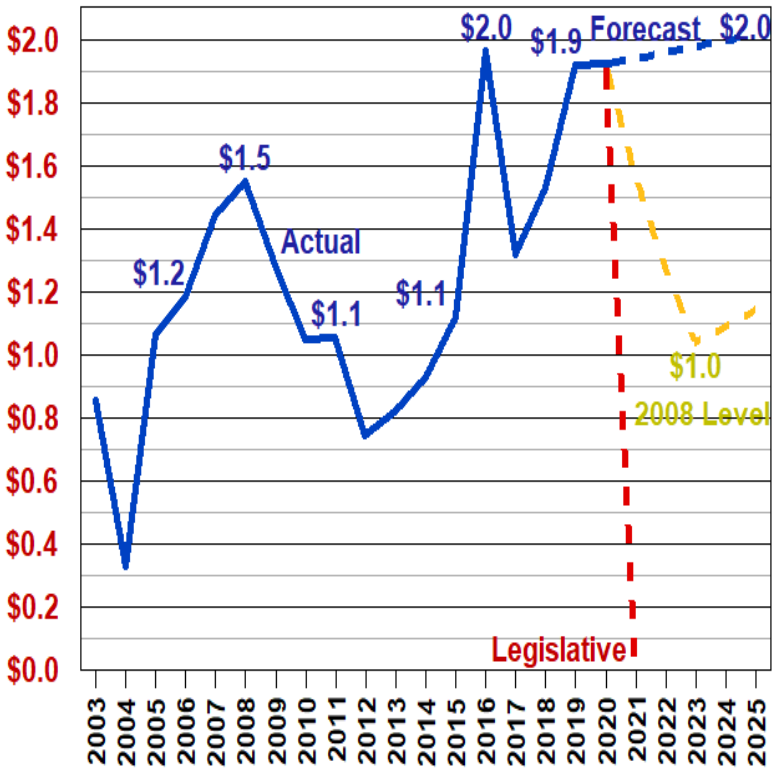
RESTRICTIONS ON USE OF REVENUE

Legal or Legislative	Town Designation	General Use
None	None	All revenue is for general use, but matched with Public Safety for analysis

There are no specific legislative or Town designations imposed on these Court fines.

For budget reporting purposes, Court fines are matched with Public safety expenditures.

COURT FINES



The blue line is the forecast for FY2020 that attempts to find a smoothing average for revenue expectations. The inherited volatility of this revenue is a reminder that there are better methods to balancing a municipal budget than with fines.

The yellow line trends the economic downturn from late 2008-2011. Court fines were dramatically impacted with the events of 2008-2011

The red line simulates a legislative action that bans the use of photo enforcement for Arizona municipalities. Since this document is focused on the revenue side only, the costs for additional patrol officers is not full captured in this scenario.

The graph (in millions) and charts show the three forecast scenarios for the next 5 years.

YELLOW LINE - STRESS TREND PATTERNED ON 2008-2011						
COURT FINES	Estimated 2019/20	Forecast 2020/21	Forecast 2021/22	Forecast 2022/23	Forecast 2023/24	Forecast 2024/25
Court fines:						
Financial forecast 2020	$ 1,921,120	$ 1,940,331	$ 1,959,734	$ 1,979,331	$ 1,999,124	$ 2,019,115
Stress: 2008-2011 model	**1,921,120**	**1,565,367**	**1,275,493**	**1,039,298**	**1,091,263**	**1,145,826**
Shortfall: less than forecast	$ -	$ (374,964)	$ (684,241)	$ (940,033)	$ (907,861)	$ (873,289)
Estimated 5-year accumulated shortfall		$ (3,780,388)				

The economic downturn of 2008-2011 was significant to the State's shared income tax revenue. This stress test shows that this revenue is still vulnerable should this type of incident occur again.

RED LINE - LEGISLATIVE CHANGES						
COURT FINES	Estimated 2019/20	Forecast 2020/21	Forecast 2021/22	Forecast 2022/23	Forecast 2023/24	Forecast 2024/25
Court fines:						
Financial forecast 2020	$ 1,921,120	$ 1,940,331	$ 1,959,734	$ 1,979,331	$ 1,999,124	$ 2,019,115
Stress: Legislative action	**1,921,120**	**-0-**	**-0-**	**-0-**	**-0-**	**-0-**
Shortfall: less than forecast	$ -	$ (1,940,331)	$ (1,959,734)	$ (1,979,331)	$ (1,999,124)	$ (2,019,115)
Estimated 5-year accumulated shortfall		$ (9,897,635)				

This is not being presented as a solid number as this revenue account contains more than photo radar related collections. The nominal amount not related would be reclassified to a non-major revenue account. Banning of photo radar would affect more than just revenue. There could be more patrol staffing costs and reduced processing costs (staffing and contractual). The total net is estimated near the amount in the forecast below but needs to be fine-tuned.

BUILDING PERMITS

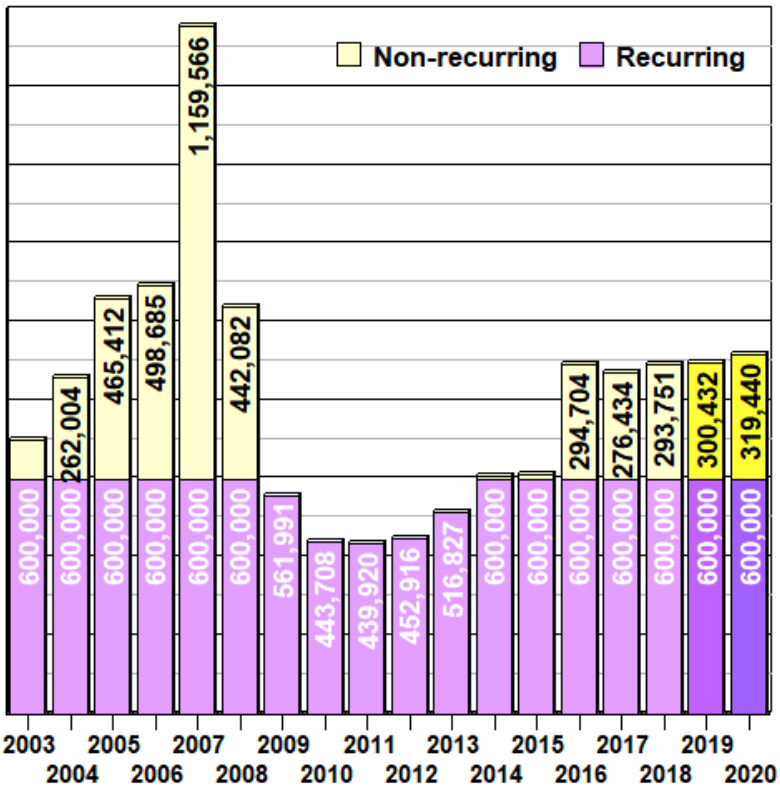
Total Building permit revenue tends to be rather volatile yet has a reliable base.

Building permit revenue over $600,000 is considered a non-recurring revenue, because once the specific construction project is completed, that activity is done.

Construction is volatile and cyclical in the Town. The majority of the Town's construction is for major projects, such as resort development and renovations.

As the Town's residential areas are being "built out", it is expected that a level of construction will be maintained with remodels and "scrape and build".

The graph shows the Town's Building permit revenue and its allocation for recurring and non-recurring purposes from 2003-2020 (**in millions**).



RISK ASSESSMENT																		
Significance and Likelihood	Volatility			Legislative Action			State Allocation			Stagnant Population			Income Recession			Overall Risk Rating		
Significantly impact	**H**	M	L	H	**M**	L	H	M	**L**	H	M	**L**	H	**M**	L	H	**M**	L
Likelihood of occurrence	H	**M**	L	H	**M**	L	H	M	**L**	H	M	**L**	H	**M**	L	H	**M**	L
Assessment is from the "Paradise Valley Revenue Risk Assessment"																		

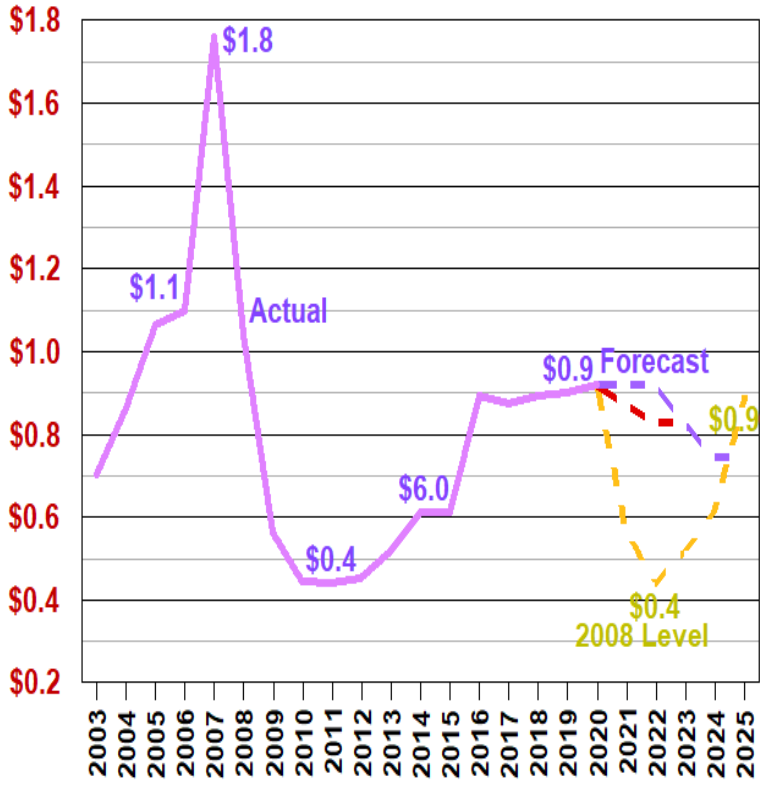
The risk assessment shows Building permit revenue being highly volatile, with low risk of being affected from a state allocation or stagnant population; but has a medium risk of legislative action and changes in income levels or recession. The overall risk rating is medium.

RESTRICTIONS ON USE OF REVENUE		
Legal or Legislative	Town Designation	General Use
None	None	Management budgets amounts in excess of $600,000 to non-recurring expenditures

There are no specific legislative or Town designations imposed on the use of Building permit revenue. All amounts in excess of $600,000 are matched to non-recurring expenditures each budget year.

Building permit revenues are for general use. Town management budgets the first $600,000 revenue to be available to provide funding for the recurring governmental operations of the town and available to supplement other programs where other funding may have a temporary short fall, such as the Capital Improvement Program.

BUILDING PERMITS



The purple line represents the financial forecast for FY2020 through FY2025. It projects that construction levels will remain at peak for the next few years. This will the level off as major projects are completed. This forecast does not specifically predict the completion in FY2024, but in out years.

The yellow line emulates the trend of Building permit revenue in the nation-wide economic downturn that began in late 2008 with construction resuming three years later.

The red line calculates a two-year decline of 5%. The reason for this to occur could be a change in valuations, legislative action or an event that effects local building.

The graph (in millions) and charts show the three forecast scenarios for Building permit revenue for the next five years.

YELLOW LINE - STRESS TREND PATTERNED ON 2008-2011						
BUILDING PERMITS	Estimated 2019/20	Forecast 2020/21	Forecast 2021/22	Forecast 2022/23	Forecast 2023/24	Forecast 2024/25
Building permits:						
Financial forecast 2020	$ 919,440	$ 919,440	$ 919,440	$ 827,496	$ 744,746	$ 744,746
Stress: 2008-2011 model	**919,440**	**561,991**	**439,920**	**516,827**	**613,269**	**894,704**
Shortfall: less than forecast	$ -	$ (357,449)	$ (479,520)	$ (310,669)	$ (131,477)	$ 149,958
Estimated 5-year accumulated shortfall		$ (1,129,157)				

The nation-wide economic downturn that began in late 2008, halted most major construction projects in the state. The Town was fortunate that projects within the Town were not canceled but delayed with construction resuming in 2012.

RED LINE - 2 YEARS OF 5% REDUCTION, THEN FOLLOW 2020 FORECAST						
BUILDING PERMITS	Estimated 2019/20	Forecast 2020/21	Forecast 2021/22	Forecast 2022/23	Forecast 2023/24	Forecast 2024/25
Building permits:						
Financial forecast 2020	$ 919,440	$ 919,440	$ 919,440	$ 827,496	$ 744,746	$ 744,746
Stress: 5% double dip	**919,440**	**873,468**	**829,795**	**827,496**	**744,746**	**744,746**
Shortfall: less than forecast	$ -	$ (45,972)	$ (89,645)	$ -	$ -	$ -
Estimated 5-year accumulated shortfall		$ (135,617)				

Even though two years of 5% reduction are followed with three years of 5% growth, such an occurrence of a change in valuations, legislative action or an event that affects local building would slow the Town's revenue stream.

OTHER INFORMATION & DATA

NUMBER OF PERMITS					
Fiscal Year*	New Homes	Pool	Remodel Additions	All Other	TOTAL
2010	23	53	193	230	499
2011	27	56	197	255	535
2012	32	57	187	242	518
2013	42	62	220	235	559
2014	45	71	250	272	638
2015	55	89	243	228	615
2016	76	82	329	288	775
2017	95	97	275	249	716
2018	86	108	222	295	711
* Fiscal Year is from July 1 to June 30					

DEMOLITIONS		
Fiscal Year*	Demo Permits	Demo Permits
2010	140	26
2011	140	19
2012	112	20
2013	133	27
2014	191	44
2015	152	46
2016	188	54
2017	167	52
2018	160	55

VALUE OF IMPROVEMENTS					
Fiscal Year*	New Homes	Pool	Remodel Additions	All Other	TOTAL
2010	$ 27,708,450	$ 2,373,780	$ 21,806,260	$ 2,579,261	$ 54,467,751
2011	29,454,059	2,631,482	23,371,649	4,017,715	59,474,905
2012	37,245,695	3,036,176	23,424,711	4,935,939	68,642,521
2013	44,143,205	1,841,357	24,889,414	3,273,309	74,147,285
2014	45,755,975	2,964,949	33,403,352	3,357,535	85,481,811
2015	56,791,525	3,150,190	26,458,908	2,152,087	88,552,710
2016	83,167,795	2,683,770	64,442,762	2,664,337	152,958,664
2017	99,930,445	3,693,057	28,601,311	3,480,919	135,705,732
2018	112,255,437	4,300,563	72,109,202	4,360,564	193,025,766
* Fiscal Year is from July 1 to June 30					

APPENDIX

{This page is intentionally left blank}

Paradise Valley Revenue Risk Assessment

Developed by ASU's Marvin Andrews Fellows
Alison Matthees, Rachel Hudgins, Taylor Reimann, and Aaron Robinson

Paradise Valley Revenue Model – Research and Analysis

Executive Summary

The Paradise Valley revenue model is based on: 1) Tourism (Special Use Permits and collection of bed tax) – accounts for 55% of the Town's operating revenue; 2) New construction sales tax and permit revenues – accounts for 13% of the Town's operating revenue; and 3) State-shared revenue. The Town of Paradise Valley does not have a primary or secondary property tax or any commercial or industrial zoning-based sales tax.

A number of potential threats to Paradise Valley's revenue streams exist (e.g. the town has no annexable territory and is near build-out). In June and July of 2018, ASU's Marvin Andrews Fellows identified and analyzed key risks to Paradise Valley's revenue. Utilizing the top risks identified, the Fellows assessed the current and forecasted risk to Paradise Valley revenue streams using qualitative and quantitative factors.

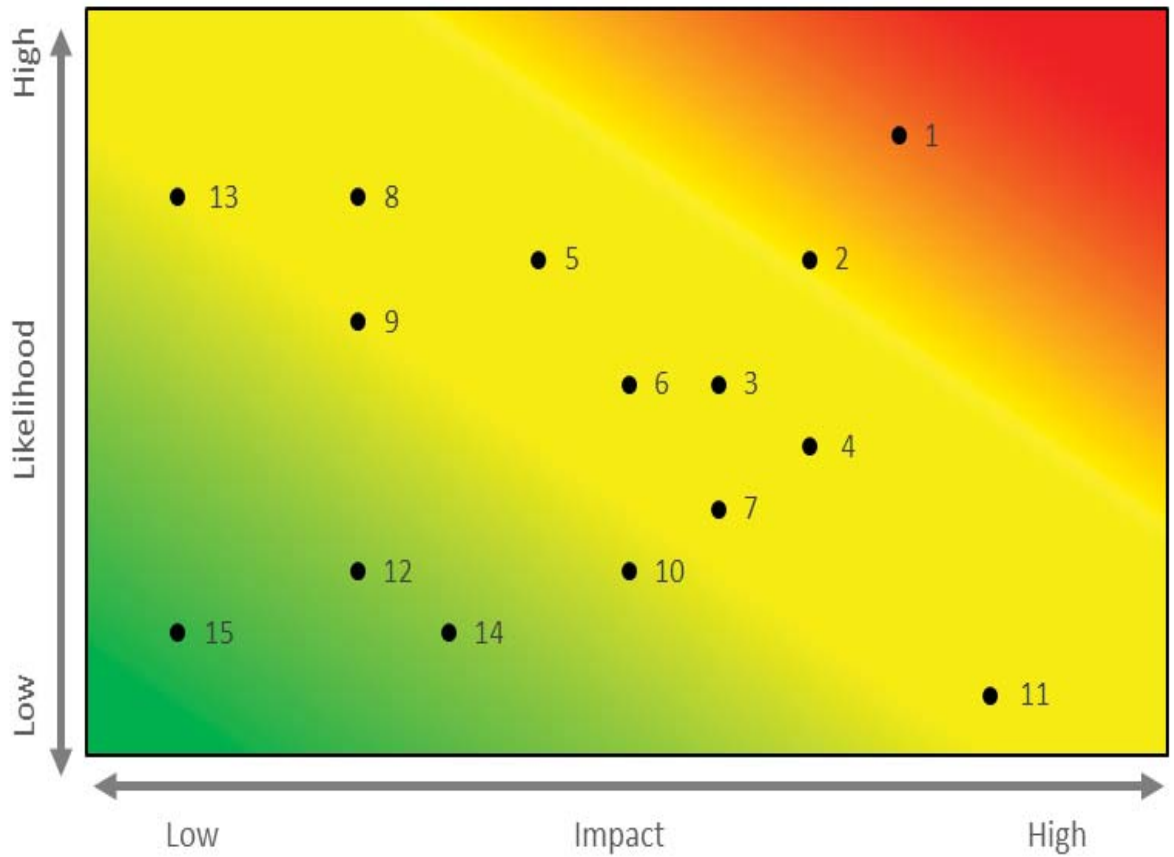
The intent of the project is for Paradise Valley to identify and evaluate risks to its revenue streams in order to assist council and city staff as they make policy and financial decisions for the town. Based on the analysis performed, the top risks facing Paradise Valley's revenue include: State Pre-emption / Legislative Action Risk, State-shared Revenue Modification / Reduction Risk, Population Change / Census Risk, and Income / Recession Risk. These risks, as well as the volatility and materiality of various revenue streams indicate that sales tax, particularly construction sales tax, as well as state shared revenue are at the highest risk for future changes in revenue.

Objectives	Scope
• Analyze sustainability of Paradise Valley revenue model via a risk analysis of revenue streams • Identify alternative ongoing revenue options (e.g. benchmarking with similar municipalities, researching alternatives)	• Benchmark with comparable municipalities to identify: – Similarly situated residential metropolitan suburbs – Common revenue streams utilized • Perform data analytics on Paradise Valley revenue trends / forecasts to identify high-risk areas

Paradise Valley Revenue Risk Heat Map

Purpose

The Revenue Risk Heat Map graphically displays potential risks to Paradise Valley's revenue streams based on their likelihood of occurring and quantitative impact if were to occur.



#	Risk Name
1	Stagnant Population
2	Revenue Sharing Redistribution
3	Recession
4	State Pre-emption
5	Home Sharing Popularity
6	Reduced Construction
7	Resident / Council Priorities Change
8	Occupancy Rates Decrease
9	Autonomous Vehicles
10	Revenue Collection Inefficiencies
11	Severe Weather / Climate Events
12	Demographic Changes
13	Red Light Camera
14	Partnership Agreements
15	Misappropriation / Fraud

Paradise Valley Revenue Risk Assessment

Purpose

The Revenue Risk Assessment qualitatively and quantitatively evaluates the vulnerability Paradise Valley's revenue streams.

		Quantitative*		Qualitative*				Revenue Risk Rating	
Statement of Activities	**Year Ended June 30, 2017**	Significance / Materiality	Volatility	State Pre-emption / Legislative Action Risk	State-shared Revenue Modification / Reduction	Population Change / Census Risk	Income / Recession Risk	**Calculated Risk Rating (H, M, L)**	**Overall Risk Rating (May be manually adjusted)**
General Revenue									
Sales Tax**	17,151,386	H	M	M	L	M	H	H	H
Construction	4,327,639	H	H	L	L	H	H	H	H
Hospitality	5,287,561	H	L	L	L	L	H	L	M
Communications and Utilities	957,578	M	L	M	L	M	M	L	L
Retail Trade	2,082,847	M	H	M	L	L	H	L	L
Manufacturing, Finance, Insurance and	441,528	L	H	M	L	L	L	L	L
Other	721,164	M	H	L	L	M	M	M	M
Bed Tax	3,701,739	H	M	M	L	L	H	M	M
Franchise Tax	1,056,547	M	M	L	L	L	M	L	L
State Revenue Sharing	1,703,256	M	M	H	H	H	L	H	H
State Sales Tax Revenue Sharing	1,277,675	M	L	M	M	M	H	M	M
Auto Lieu Tax Revenue Sharing	548,523	L	L	M	M	L	L	L	L
Investment Income	185,141	L	H	L	L	L	H	M	M
Program Revenue									
Fees, Fines and Charges for Service	4,719,896	H	H	M	L	L	M	M	M
Operating Grants and Contributions	1,144,233	M	M	L	L	L	M	L	L
Capital Grants and Contributions	208,085	L	H	L	L	L	L	L	L
Total Revenues	**27,994,742**								

A. Paradise Valley Revenue Risk Assessment Set-Up

Data Sources

- Paradise Valley Comprehensive Annual Financial Report (Statement of Activities) for Fiscal Years ending June 30th, 2015, 2016, and 2017

Risk Assessment Ranking Criteria

Each revenue stream is evaluated and ranked as High, Medium, or Low risk for the quantitative and qualitative criteria outlined below. Each individual criteria will be combined to generate a calculated score used as a preliminary indicator of risk associated with that revenue stream. This calculated risk rating is just a starting point; judgment may be applied to determine the final rating. Refer to tab B. Risk Assessment Calculations for the thresholds utilized to quantify the calculated risk rating.

Quantitative	
1. Significance / Materiality	Defined as the importance of the individual revenue source as a percentage of total revenue. The higher the materiality, the larger impact on the city's financial status. Significance and materiality is assessed as noted below and these risk assessment assumptions may be modified on the B. Risk Assessment Assumptions tab. - High: ≥ 5% of total revenue - Medium: > 1% and < 5% of total revenue - Low: ≤ 1% of total revenue
2. Volatility	Defined as the historic period over period change in the revenue source, indicating the ease with which it can be relied upon, monitored, and forecasted. The greater the degree of change year-over-year, the less predictabilit for the revenue source. Volatility is assessed as noted below and these risk assessment assumptions may be modified on the B. Risk Assessment Assumptions tab. - High: ≥ 35% fluctuation year over year - Medium: > 10% and < 35% fluctuation year over year - Low: ≤ 10% fluctuation year over year
Qualitative (Top four risks identified via heat map)	
1. State Pre-emption / Legislative Action Risk	Defined as the risk of state-level legislation negatively impacting revenue sources used by the city. Questions to consider around this risk include: - Could this revenue stream be impacted by state preemption? - Has the state historically changed legislation around this revenue area? - Are there any politically "hot topics" around this revenue stream? The more "yes" answers to the questions above, the higher the degree of state preemption or legislative action risk.
2. State-shared Revenue Modification / Reduction Risk	Defined as the risk of the state modifying intergovernmental revenue sharing calculations or distributions. Questions to consider around this risk include: - Is the distribution of this revenue source dictated by government outside of the city level? - Are modifications to the revenue formula around this area frequent? - Have technological, environmental, or social factors changed significantly around this area, indicating a future change might be forthcoming? The more "yes" answers to the questions above, the higher the degree of state preemption or legislative action risk.
3. Population Change / Census Risk	Defined as the risk of Valley-area population changes negatively impacting revenue sources used by the city. Questions to consider around this risk include: - Is the city population trending or forecasted to remain steady or decrease? - Are other cities in the same state-shared revenue pool) growing at a faster rate than the city? The more "yes" answers to the questions above, the higher the degree of state preemption or legislative action risk.
4. Income / Recession Risk	Defined as the risk of a financial recession or changing tastes negatively impacting currently stable revenue sources used by the city: - Have prior financial downturns had a significant negative impact on the city's revenue? - Is this revenue source sensitive to changes in retail, consumer preferences, or resident incomes? - Has recovery from prior financial downturns taken a significant amount of time? The more "yes" answers to the questions above, the higher the degree of state preemption or legislative action risk.

B. Risk Assessment Materiality and Volatility Calculations

Statement of Activities FY 2017 Actual

Revenue Materiality				**Total Revenue**	**$**	**27,994,742.00**
	High Threshold				**Range**	
	10%	>= 10% of Total Revenue:	High	**Greater Than**	**$**	**2,799,474**
	Low Threshold	> 2% and < 10% of Total Revenue:	Medium	**$ 559,895**	**$**	**2,799,474**
	2%	<= 2% of Total Revenue:	Low	**$ 559,895**		**Or Less**

Volatility (Historic and Forecasted)			
	High Threshold		
	35%	>= 35% fluctuation year over year:	High
	Low Threshold	> 10% and < 35% fluctuation year over year:	Medium
	10%	<= 10% fluctuation year over year:	Low

Calculated Risk Ranking of Weighted Average Risk Scores			
	High Threshold		
	2	>= 2 weighted average risk score:	High
	Low Threshold	> 1.5 and < 2 weighted average risk score:	Medium
	1.5	<= 1.5 weighted average risk score:	Low

C. Paradise Valley Revenue Risk Rankings

Summary

The following list of risks represents potential negative impacts on Paradise Valley's revenue streams. This range of risks should be considered in forecasting revenues and establishing revenue-related policies and procedures.

Applicable Definitions

Risk: Any item which could negatively impact one or more of the city's revenue streams.
Likelihood: Rated on a 0-5 scale, likelihood is the probability of the risk occurring.
Impact: Rated on a 0-5 scale, impact is the magnitude of the negative effect on the city's revenue if the risk does occur.

#	Risk Name	Risk Detail	Likelihood	Impact	Total
1	Stagnant Population	The city's population does not grow as fast as other area cities, accounting for a reduced percentage of state population and resulting in a smaller share of state-shared revenue.	5.0	4.5	23
2	Revenue Sharing Redistribution	State legislative action modifies revenue sharing formulas or calculations resulting in reduced revenue for the city.	4.0	4.0	16
3	Recession	A recession negatively impacts hotel occupancy, reducing a major revenue source.	3.0	3.5	11
4	State Pre-emption	State legislative action removes or significantly alters one of the city's revenue sources or a state-shared revenue sources / collection resulting in reduced revenue for the city.	2.5	4.0	10
5	Home Sharing Popularity	Rising interest in home sharing (e.g. Air BnB, HomeAway) leads to a decrease occupancy rates in resorts and decreased bed tax.	4.0	2.5	10
6	Reduced Construction	Construction in the city slows, negatively impacting the permitting and fees revenue collected from it.	3.0	3.0	9
7	Resident / Council Priorities Change	Local priorities shift, voters and community leaders pursue changes in revenue structure.	2.0	3.5	7
8	Occupancy Rates Decrease	Increased hotel rooms within city boundaries decrease the city's hotel occupancy rate.	4.5	1.5	7
9	Autonomous Vehicles	Self-driving cars / car sharing could reduce auto shared revenue.	3.5	1.5	5
10	Revenue Collection Inefficiencies	Inefficiencies in revenue collection, misalignment between set fees and billing practices.	1.5	3.0	5
11	Severe Weather / Climate Events	A natural event or climate change decreases the popularity of the city as a tourist destination.	0.5	5.0	3
12	Demographic Changes	Demographic changes in the city results in differing or increased demand for services, requiring additional revenue sources.	1.5	1.5	2
13	Red Light Camera	Legislation could change regarding red-light cameras, resulting in a modification in public safety revenue.	4.5	0.5	2
14	Partnership Agreements	Partnership agreements with service partners (water, sewer, etc.) may be modified or cancelled resulting in the need for increased revenue.	1.0	2.0	2
15	Misappropriation / Fraud	Employee misappropriation of funds, fraud, or collusion impacts city revenue.	1.0	0.5	1

MITIGATING ACTIONS

The chart below is from page 15 in the Summary Section identifies some possible mitigation actions that could be taken on the expenditure side, should revenues decline to the extent in the stress test. This chart is shown here as a quick reference guide.

YELLOW LINE: POSSIBLE ACTIONS - STRESS TEST: 2008-2011 MODEL						
Possible actions to mitigate impacts of 2008-2011 type stress	**Estimated 2019/20**	**Forecast 2020/21**	**Forecast 2021/22**	**Forecast 2022/23**	**Forecast 2023/24**	**Forecast 2024/25**
Defer capital improvement plan		$ 3,000,000	$ 3,500,000	$ 4,000,000	$ 3,500,000	$ 3,000,000
Reprogram street maintenance	-	152,120	226,552	254,183	438,091	451,234
Defer PSPRS unfunded liability	-	-	-	-	-	-
Reduce contractual services	-	130,000	130,000	130,000	75,000	-
Reduce contribution to tourism	-	410,753	509,519	606,056	414,519	55,677
Staffing reductions	-	-	-	-	-	-
Other expenditure offsets	-	-	-	-	-	-
Defer assignments for:						
Fleet	-	-	-	-	-	-
Facilities	-	-	-	-	-	-
Technology	-	-	-	-	-	-
Total before use of fund balance	$ -	$ 3,692,873	$ 4,366,071	$ 4,990,239	$ 4,427,610	$ 3,506,911
Use of (replenish) fund balance:						
PSPRS unfunded liability	612,287	5,233,108	-	-	-	-
PSPRS debt obligations	-	-	-	-	-	-
Operating expenditures	-	-	-	-	-	-
Capital improvement plan	-	1,061,294	2,039,212	1,125,872	305,015	(2,351,101)
CIP debt obligations	-	-	-	-	-	-
Use of (replenish) fund balance	**612,287**	**6,294,402**	**2,039,212**	**1,125,872**	**305,015**	**(2,351,101)**
Total actions to balance deficit	$ 612,287	$ 9,987,275	$ 6,405,283	$ 6,116,111	$ 4,732,625	$ 1,155,810
Total deficit from 2008-2011 stress	**$ 612,287**	**$ 9,987,275**	**$ 6,405,283**	**$ 6,116,111**	**$ 4,732,625**	**$ 1,155,810**