NOTICE OF MEETING

SPECIAL MEETING

FOUNTAIN HILLS TOWN COUNCIL

Mayor Ginny Dickey

Vice Mayor Art Tolis
Councilmember Dennis Brown
Councilmember Sherry Leckrone
Councilmember Alan Magazine
Councilmember Mike Scharnow
Councilmember David Spelich

TIME: **6:00 P.M. – SPECIAL MEETING**

WHEN: **THURSDAY, APRIL 18, 2019**

WHERE: **FOUNTAIN HILLS TOWN HALL – COUNCIL CHAMBERS**
16705 E. AVENUE OF THE FOUNTAINS, FOUNTAIN HILLS, AZ

Councilmembers of the Town of Fountain Hills will attend either in person or by telephone conference call; a quorum of the Town's various commission, committee or board members may be in attendance at the Council meeting.

Notice is hereby given that pursuant to A.R.S. §1-602.A.9, subject to certain specified statutory exceptions, parents have a right to consent before the State or any of its political subdivisions makes a video or audio recording of a minor child. Meetings of the Town Council are audio and/or video recorded and, as a result, proceedings in which children are present may be subject to such recording. Parents, in order to exercise their rights may either file written consent with the Town Clerk to such recording, or take personal action to ensure that their child or children are not present when a recording may be made. If a child is present at the time a recording is made, the Town will assume that the rights afforded parents pursuant to A.R.S. §1-602.A.9 have been waived.

1. CALL TO ORDER – Mayor Ginny Dickey

2. ROLL CALL – Mayor Ginny Dickey

3. Discussion and direction to staff regarding the following proposed revenue options and user fees:

   A. Sales Tax Rate Adjustment
   B. Public Safety Fee
   C. Environmental Fee
   D. Public Safety, Streets and Infrastructure Fee
   E. Other Possible Revenues

4. ADJOURNMENT

DATED this 11th day of April, 2019.

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Elizabeth A. Burke, MMC, Town Clerk

TOWN OF FOUNTAIN HILLS
Revenue Options - Revisited

April 18, 2019

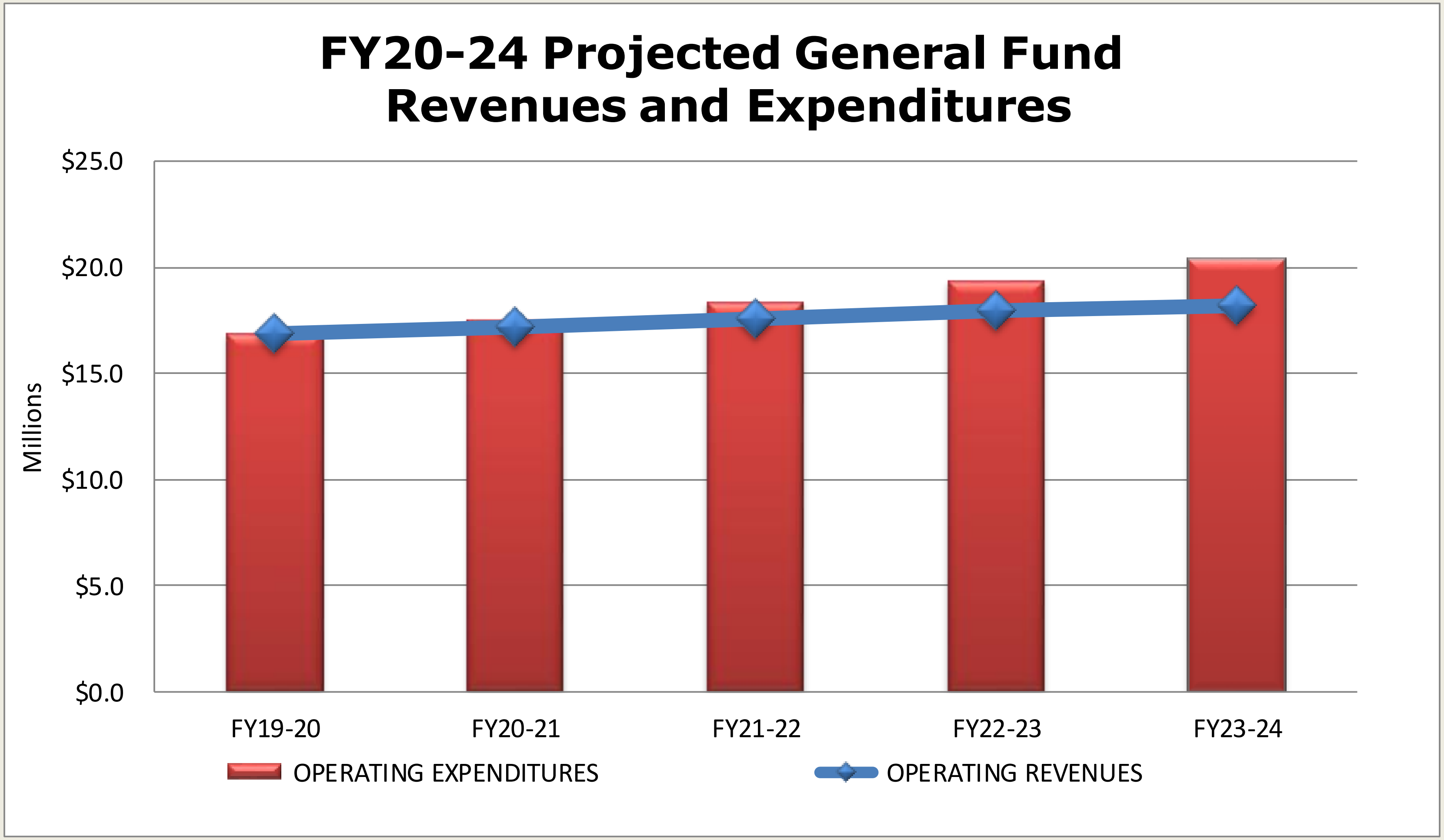
Financial Challenges

Summary of Financial Challenges

- Fountain Hills is projecting a $4.6 million cumulative revenue shortfall over the next 5 years – assuming the status quo
- In the past, the Town has made significant cuts in staffing and has contracted out numerous services (62% of General Fund expenditures are contracted out)
- Any future cuts will be drastic and will involve reductions in services that will negatively impact residents
- The structural issue is a revenue problem, not an expenditure problem
- Council had taken action to refer a ballot question to voters in May of 2018 regarding a primary property tax to address the revenue shortfall issue

Five Year Financial Forecast – assuming status quo

General Fund Projections



General Fund Projections - continued

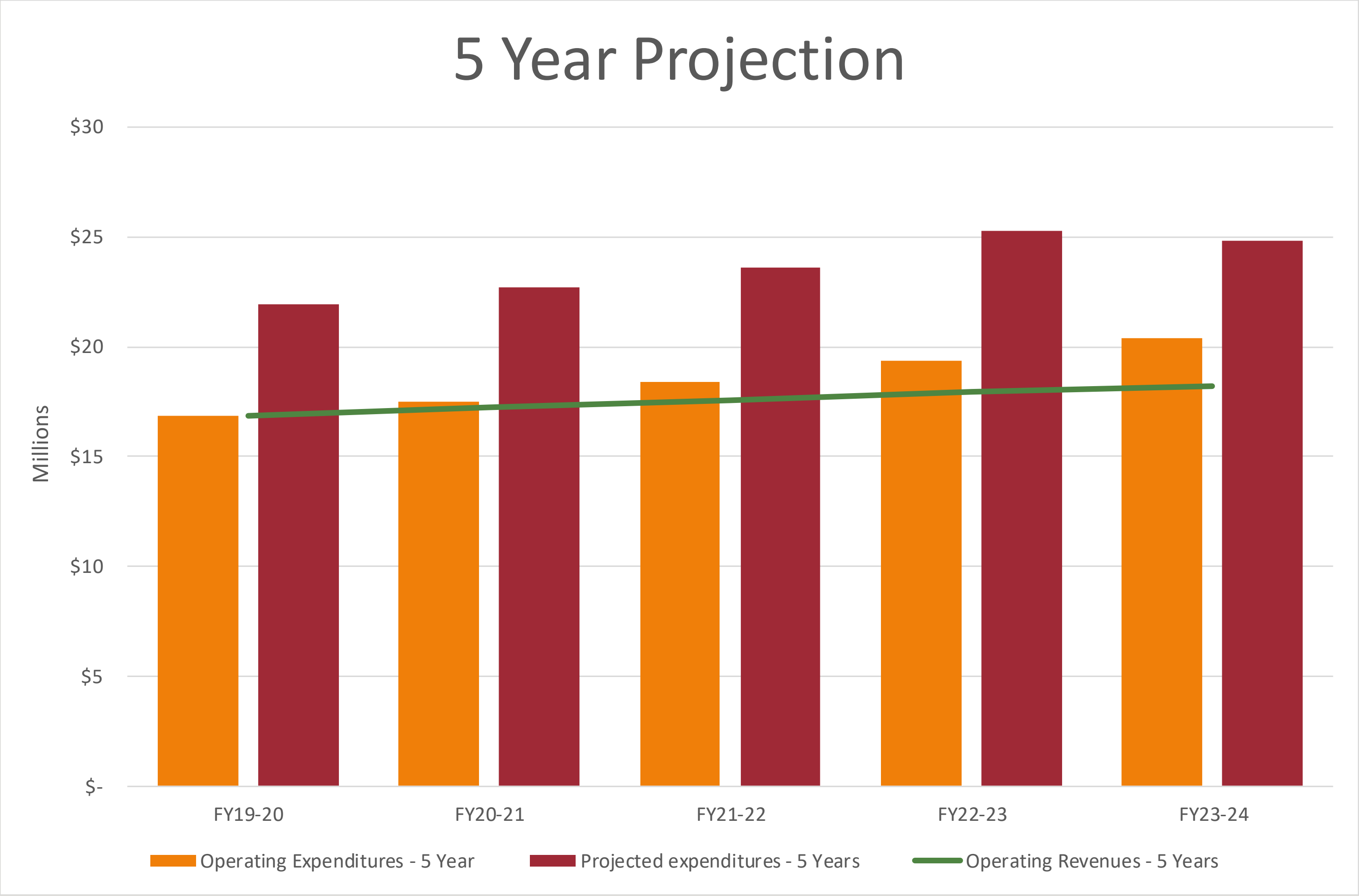
FISCAL YEAR (July to June)	STATE SHARED REVENUES	LOCAL REVENUES	TOTAL GF EXPEND.	SURPLUS/ (SHORTFALL)
2019-20	6,220,134	10,664,296	16,884,430	-
2020-21	6,251,977	10,972,228	17,517,485	(293,280)
2021-22	6,290,174	11,286,317	18,383,723	(807,232)
2022-23	6,329,033	11,636,713	19,365,602	(1,399,856)
2023-24	6,368,936	11,860,365	20,369,674	(2,140,373)
				(4,640,741)

Five Year Financial Forecast – including deferred items

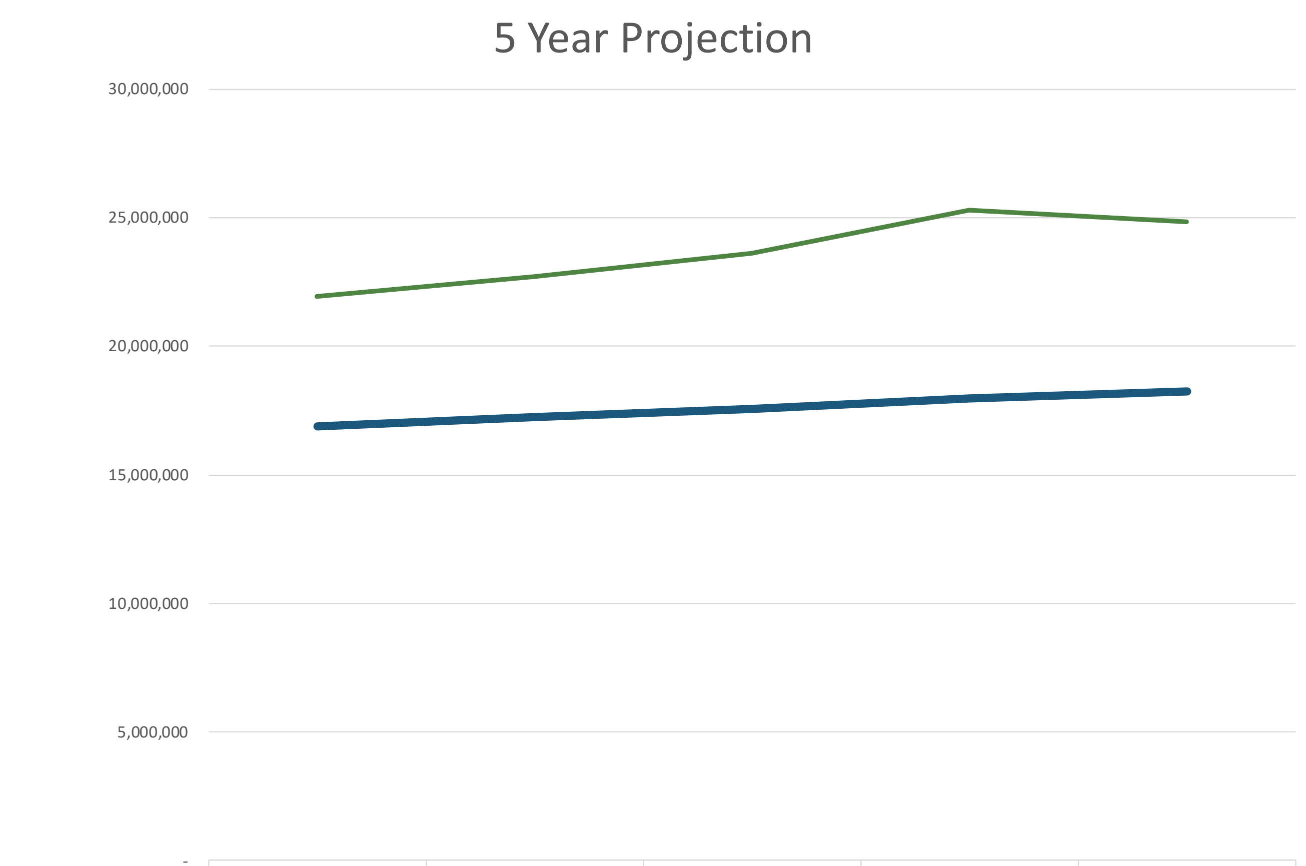
General Fund Projections – major deferred items – 5 year totals

- Additional Staffing - $5.2 million
- Contractual Services - $11.5 million
- Capital Expenditures - $8.7 million

General Fund Projections - continued



General Fund Projections - continued



	FY19-20	FY20-21	FY21-22	FY22-23	FY23-24
Total Revenues	16,884,430	17,224,205	17,576,491	17,965,746	18,229,301
Total Expenditures	$21,946,976	$22,690,451	$23,622,753	$25,278,781	$24,858,676

General Fund Projections - continued

FISCAL YEAR (July to June)	STATE SHARED REVENUES	LOCAL REVENUES	TOTAL GF EXPEND.	SURPLUS/ (SHORTFALL)
2019-20	6,220,134	10,664,296	21,946,976	(5,062,546)
2020-21	6,251,977	10,972,228	22,690,451	(5,466,246)
2021-22	6,290,174	11,286,317	23,622,753	(6,046,262)
2022-23	6,329,033	11,636,713	25,278,781	(7,313,035)
2023-24	6,368,936	11,860,365	24,858,676	(6,629,375)
				(30,517,464)

Comments

- Accepted practice for general obligation bonds is to only issue bonds as tax exempt. If tax exempt, bonds cannot be used for maintenance.
- All bonds require interest payments in addition to the cost of the projects, resulting in a higher cost to residents over time.

Possible Revenue Options to Address Financial Challenges

Sales Tax

- Increase sales tax rate (on some or all tax categories)
- Estimate that each one tenth of one percent (0.1%) increase in rates (all categories) would generate approximately $340,000 in additional revenue
  - Current rate for Town is 2.6%
  - Total State tax rate is 8.9%
- Unclear if Proposition 126 will have any impact on the Council's authority, now or in the future
- A 0.3% increase to 2.9% would generate $1,020,000
- A 0.4% increase to 3.0% would generate $1,360,000

Sales Tax - continued

- Actual FY17-18 sales tax revenue was $10,311,582
- $10,311,582 in revenue translates to $396,599,308 in gross sales
- To generate an additional $1,000,000 in sales tax revenue would require an additional $38,461,538 in gross sales

		Retail Rate		
TPT (Sales) Tax Rates - effective February 1, 2019				
City/Town Name	**Location E-East Valley W-West Valley**	**Retail Tax Rate**	**Total Rate**	**P-Primary S-Secondary**
Guadalupe	E	4.0%	10.3%	-
Gila Bend	W	3.5%	9.8%	P - S
Buckeye	W	3.0%	9.3%	P - S
Carefree	E	3.0%	9.3%	-
Cave Creek	E	3.0%	9.3%	-
El Mirage	W	3.0%	9.3%	P - S
Youngtown	W	3.0%	9.3%	-
Glendale	W	2.9%	9.2%	P - S
Litchfield Park	W	2.8%	9.1%	-
Fountain Hills	E	2.6%	8.9%	S
Avondale	W	2.5%	8.8%	P - S
Goodyear	W	2.5%	8.8%	P - S

		Retail Rate		
TPT (Sales) Tax Rates - effective February 1, 2019				
City/Town Name	**Location E-East Valley W-West Valley**	**Retail Tax Rate**	**Total Rate**	**P-Primary S-Secondary**
Paradise Valley	E	2.5%	8.8%	-
Tolleson	W	2.5%	8.8%	P - S
Apache Junction	E	2.4%	9.1%	-
Phoenix	E/W	2.3%	8.6%	P - S
Queen Creek	E	2.25%	8.55%	P
Surprise	W	2.2%	8.5%	P
Wickenburg	W	2.2%	8.5%	P
Peoria	W	1.8%	8.1%	P - S
Tempe	E	1.8%	8.1%	P - S
Mesa	E	1.75%	8.05%	S
Scottsdale	E	1.75%	8.05%	P - S
Chandler	E	1.5%	7.8%	P - S
Gilbert	E	1.5%	7.8%	S

Public Safety Fee

- Implement public safety fee to recover increasing costs of MCSO and Rural Metro

- Town businesses – 600 (not including 557 home-based businesses
- Town households – 11,699 (per Sites USA data)
- Town parcels – approximately 15,600

Public Safety Fee - continued

- A fee of $150 (per household, not parcel) would generate $1,844,850 in revenue assuming 100% collection; $1,660,365 at 90% collection

Increases in Contract Costs

	FY20-21	FY21-22	FY22-23	FY23-24	TOTAL
Fire	$ 120,639	$ 244,897	$ 372,883	$ 504,708	$ 1,243,128
Police	$ 478,592	$ 1,005,043	$ 1,584,140	$ 2,221,145	$ 5,288,920
	$ 599,231	$ 1,249,940	$ 1,957,023	$ 2,725,854	$ 6,532,048

Environmental Fee

- 15,192 invoices mailed - $3.00 per month per parcel
- Approximately 90% collection on the invoices equals 13,673 payments received or $492,228

- $854,145 Environmental Fund costs for FY19-20 (see next slide)

Stormwater/Environmental Fee Costs

Annual Program Administration	$24,415
New Employee (salary & benefits)	$60,000
Environmental Program Material	$2,000
Billing Company	$50,000
Maricopa County Dust Control Block Permit	$2,000
Golden Eagle & Fountain Park Reclaimed Water Discharge Permits	$715
ADEQ Storm Water Permit	$5,000
STORM (Storm Water Outreach for Municipalities) Annual Dues	$1,500
Water Use It Wisely Annual Dues	$2,000
Illegal Dumping Cleanup	$5,000
ADWR Dam Inspection & Maintenance	$20,400
Wash Maintenance	$210,000
Electronics Recycling Event	$1,000
On-Call Storm Debris Cleanup & Repairs	$30,000
Storn Damage and Repairs	$170,000
Internal Service Fund charges	$115
Drainage Parcel Inspection and Cleaning	$90,000
Storm Drain & Culvert Inspection & Cleaning	$90,000
Street Sweeping	$90,000
Total =	**$854,145**

Environmental Fee - continued

- $62.50 fee required to cover costs in FY19-20; current fee is $36.00
- If fee were doubled to $6.00 per month per parcel, assuming 90% collection rate, revenue would received would be $984,456 (FY19-20 estimated costs are $854,145)

Public Safety/Maintenance and Infrastructure Fee

- Implement a public safety/maintenance and infrastructure fee to provide for increasing public safety/maintenance and infrastructure costs
- Town businesses – 600 (not including 557 home-based businesses
- Town households – 11,699 (per Sites USA data)
- Town parcels – approximately 15,600

Public Safety/Maintenance and Infrastructure Fee - continued

- Residential - $350 per year for four years
- Commercial - $400 per year for four years

- Using households (not parcels) residential would generate $4,094,650 per year or $16,378,600 for the four years
- Commercial would generate $240,000 per year or $960,000 for the four years

Public Safety/Maintenance and Infrastructure Fee - continued

Category	FY19-20	FY20-21	FY21-22	FY22-23	Total
Households	$4,094,650	$4,094,650	$4,094,650	$4,094,650	$16,378,600
Businesses	240,000	240,000	240,000	240,000	960,000
TOTAL	**$4,334,650**	**$4,334,650**	**$4,334,650**	**$4,334,650**	**$17,338,600**

Collection rate for current $36 environmental fee is approximately 90%. Without an effective collection enforcement mechanism, collection rate probably will be less.

Other Possible Revenues

- Currently undertaking a comprehensive user fee study as well as a development impact fee study
- Sell cell towers on Town-owned property (one-time revenue) – the Town has been approached by two different firms
- Franchise Fees for EPCOR and Southwest Gas would generate about $200,000 annually (requires a ballot measure)
- Consider another primary property tax levy
- Hire a financial advisor to assess Town's finances and recommend strategies to address future shortfalls

Summary of Revenue Options

- Raise local sales tax rate
- Implement a public safety fee
- Raise environmental fee
- Implement a public safety/maintenance and infrastructure fee
- Sell Town property or leases for cell towers
- Adopt franchise fees for water and gas
- Approve another primary property tax election

Recommended Revenue Adjustments for FY 19-20

- Raise local sales tax rate to 3.0 percent from current 2.6 percent – will generate approximately $1,360,000 in additional revenue annually
- Implement a public safety fee of $150. Revenue generated is dependent upon collection of fee – could range from $1.6 million to $1.8 million per year
- Increase the environment fee from $36 to $72 which will generate an additional $492,228 and reduce General Fund contributions to Environmental Fund each year

Recommended Revenue Adjustments for FY 19-20 - continued

- Early next fiscal year, take Council action on user fee adjustments after the completion of the cost of service study
- Any new fees will not be included in the FY19-20 Final Budget amounts since the Tentative Budget will be adopted on May 7 which establishes the maximum budget amount.
- Collectability of any new fees is unknown, except for transaction privilege tax (sales tax)

Recommended Revenue Adjustments for FY 19-20 - continued

- Due to the timing of any fee implementation, monies will be collected from the fees. Excess revenues collected will be transferred to the Capital Improvement Fund at the end of FY19-20, thereby increasing the amount available for projects.
- Any adjustments to sales tax (TPT) rates will become effective September 1, 2019.

Next Steps

- Any action to implement new fees or raise existing fees requires, per statute, a 60 day notice/posting period before a public hearing and Council action
- Council needs to direct staff tonight to prepare for any possible fee changes
- June 18 Council meeting will be a public hearing before voting on any proposed fee changes