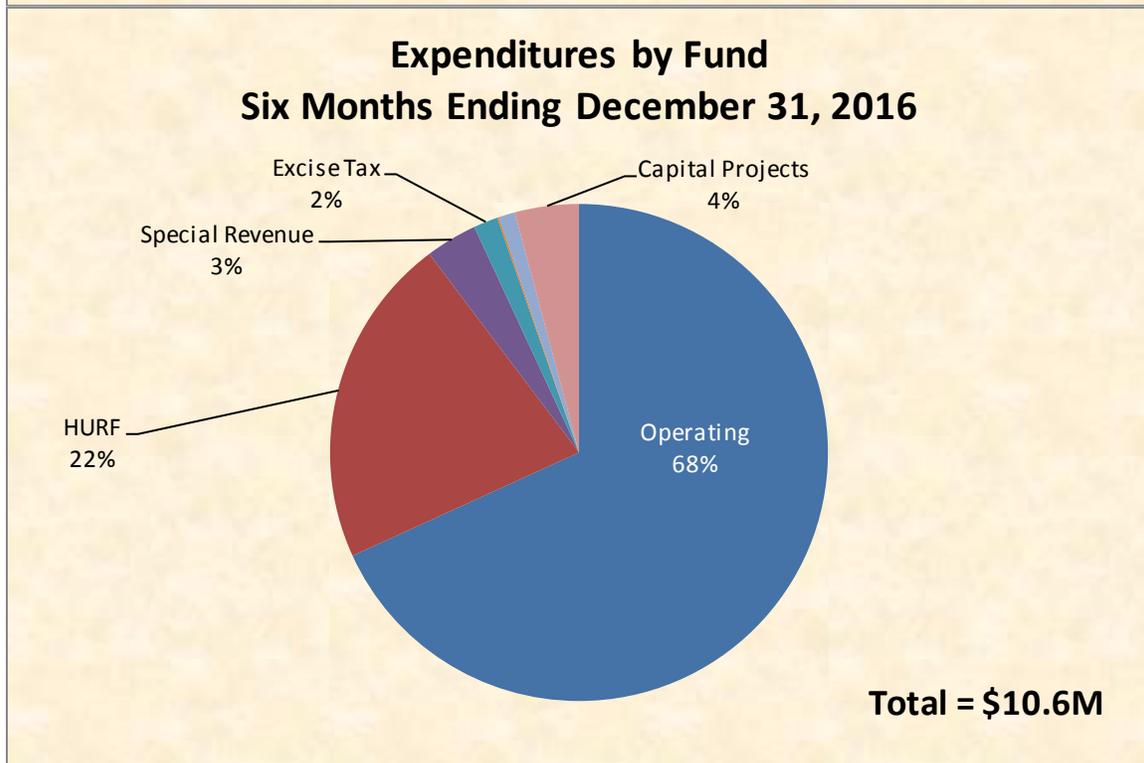
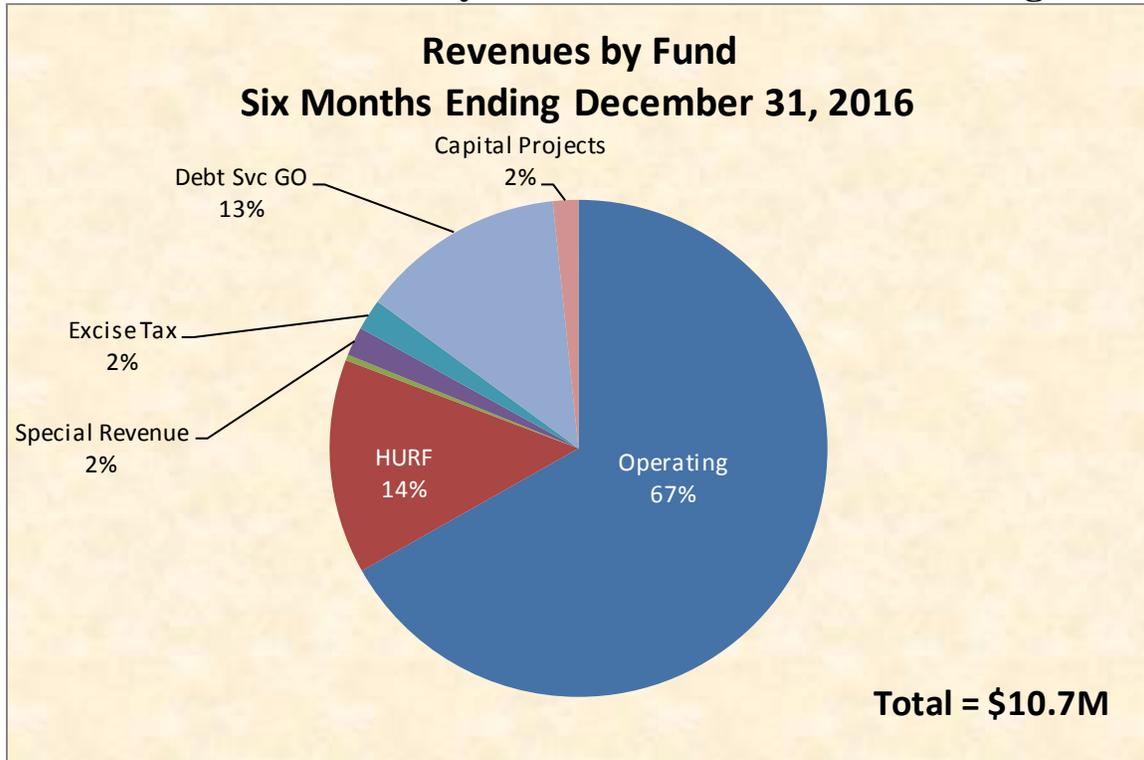


**TOWN OF FOUNTAIN HILLS**  
**QUARTERLY BUDGET REPORT**  
**SIX MONTHS ENDING DECEMBER 31, 2016**





## Where does the money come from and where does it go?

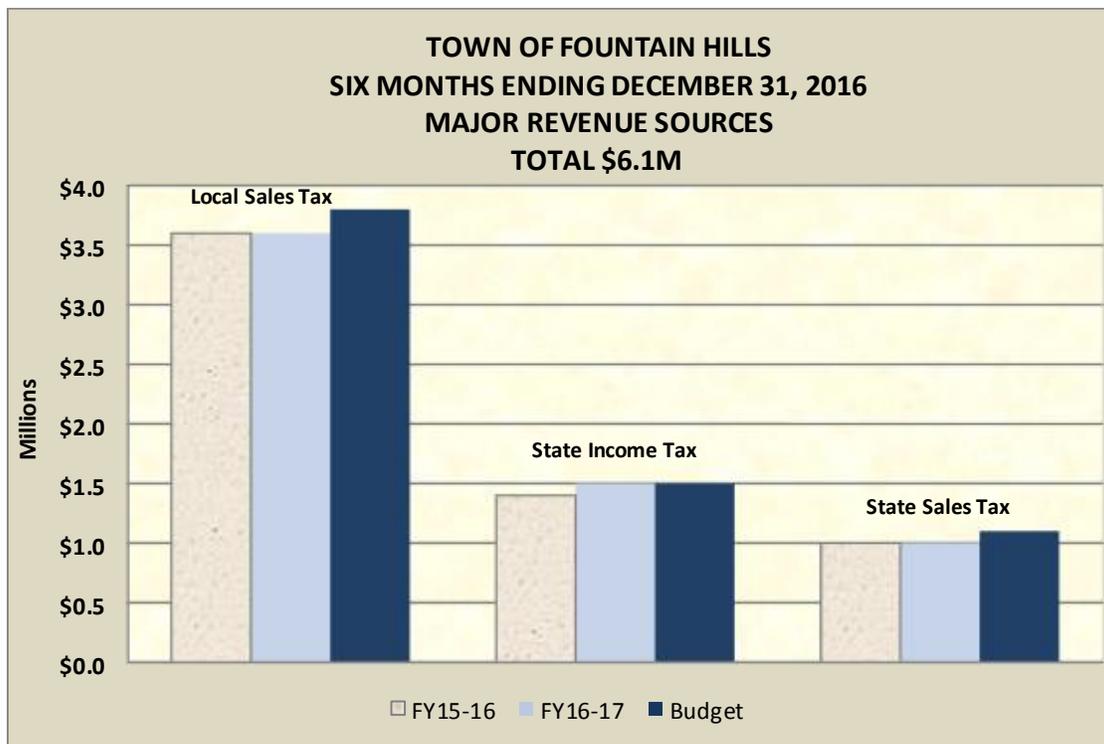




## **Operating Fund Revenues**

For the fiscal YTD period ending December 31, 2016, total Operating Fund revenues (General Fund, Public Art Fund, Internal Service Funds) were received at 92.5% of budgeted amounts and \$59,691 higher than the same time period last fiscal year (an increase of 0.8%). Categories where revenues are higher than the previous year are the local sales tax (up 1.9%), State sales tax (up 2.2%), State income tax (up 8.1%), leases & rents (up 2.8%) as well as charges for services (up 17.5%). Total Operating Fund revenues for this fiscal period are \$7,119,882.

<b>Current Year Revenues - Fiscal YTD Ending December 31 - All Funds</b>				
<b>FUND</b>	<b>YTD FY15-16</b>	<b>YTD FY16-17</b>	<b>YTD FY16-17 Budget</b>	<b>% YTD FY16-17 Budget</b>
Operating Funds	\$ 7,060,191	\$ 7,119,882	\$ 7,699,617	92.5%



The three major revenues in the chart above represent 86.2% of Operating Fund revenues, and as such, provide key indicators of the Town's overall economic condition and performance. Local sales tax collections have increased (1.9% over the same period last year). This total includes construction activity of which 50% is transferred to the Capital Projects Fund. State sales tax is 2.2% higher and State income taxes are 8.1% higher than last year. Overall, these major revenue sources are at 96.4% of the budget for this fiscal period.



**State Shared Revenues**

State Shared Revenues include a distribution of the State income and State sales taxes returned to the Town based on its population in relation to the total population of all incorporated cities and towns. The income tax funds are distributed from tax collections from two years prior to the fiscal year in which the Town receives the funds. Sales taxes are distributed to cities and towns three months after the actual sales activity occurs. These revenues are distributed monthly through a distribution from the State Treasurer’s Office. The revenues from these categories total \$2,510,999, which is \$131,752 or 5.5% higher than the same time period last year – the increase in revenue was anticipated based on projections by the Arizona League of Cities and Towns.

<b>Operating Funds Revenue Report - Fiscal YTD Ending December 31</b>				
	<b>YTD FY15-16</b>	<b>YTD FY16-17</b>	<b>YTD FY16-17 Budget</b>	<b>% YTD FY16-17 Budget</b>
State Sales Tax	1,025,411	1,048,129	1,125,362	93.1%
State Income Tax	1,353,836	1,462,870	1,462,727	100.0%

**Local Sales Tax (2.6%)**

The fiscal YTD revenue for this category totals \$4,200,705 (including all funds), which is 93.3% of projections. Compared to the same time period as last year, the total sales tax revenues (all funds) are 1.9% lower. It must be pointed out that the Department of Revenue has changed its reporting method on a monthly basis beginning in June 2016. Consequently, amounts prior to February 2015 are not comparable to current amounts.

Wholesale/Retail: A retail sales tax of 2.6% is collected for the sale of all tangible personal property including grocery, clothing, home and garden, autos and other related retail activity. This revenue source is sensitive to changes in the economy and can fluctuate from one fiscal year to another. The revenues for this category total \$2,139,800, which is 108.6% of projections; compared to last fiscal year, revenues increased by 0.6%.

Restaurants/Bars: Food and liquor sales are taxed at a rate of 2.6% in the Town. The revenues for this category total \$333,455, which is 87.0% of projections; compared to last fiscal year, revenues are up by 7.6% and higher than any other previous year.

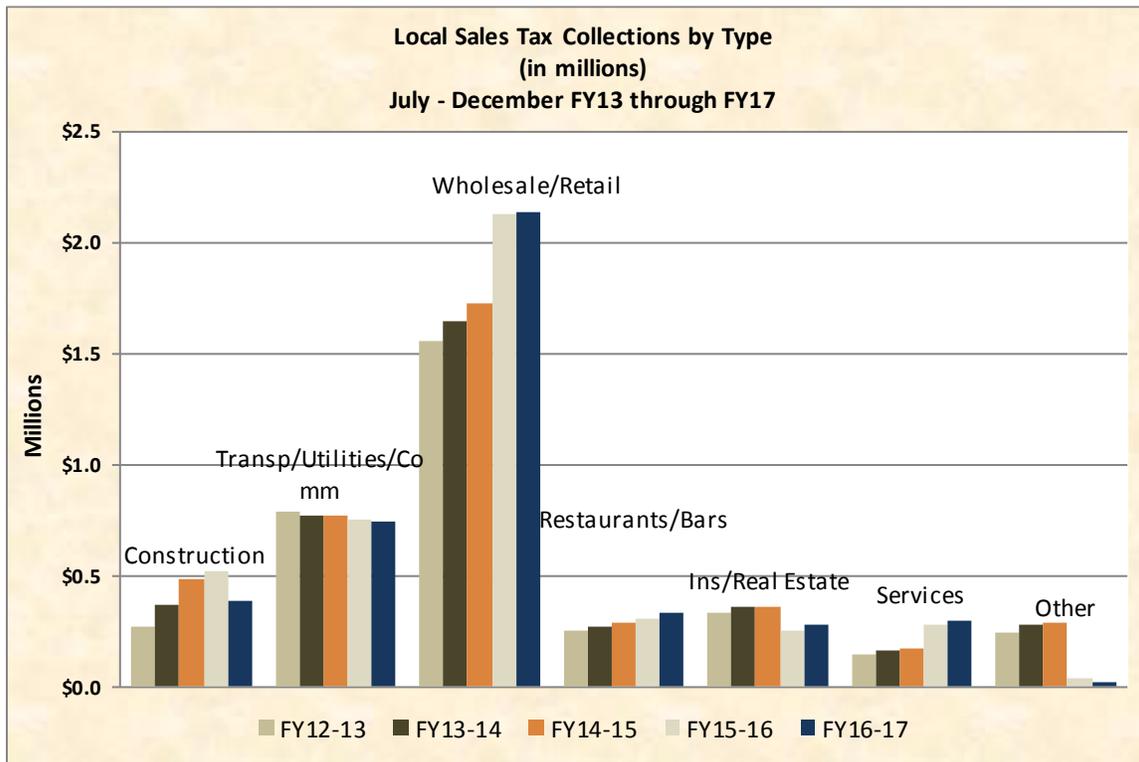
Communications/Utilities/Transportation: Utilities, such as EPCOR (Chaparral City Water), cellular telephone companies and Century Link, are taxed at a rate of 2.6% in the Town as well as cellular phone charges. The revenues for this category total \$744,755, which is 108.4% of what was anticipated; compared to last fiscal year, revenues are down by 1.1%.

Construction Contracting: This revenue is generated from the 2.6% tax on new home and business construction as well as improvements to real property. Like retail sales tax, this revenue source is



considered to be volatile as it is strongly impacted by changes in the economy. The largest sources of revenues in this category come from residential homebuilders. The revenues for this category total \$386,749, which is 89.3% of what was budgeted; compared to last fiscal year, revenues are down 25.7%. The Council has dedicated 50% of this revenue to the Capital Projects Fund for future appropriation.

Operating Funds Revenue Report - Fiscal YTD Ending December 31				
	YTD FY15-16	YTD FY16-17	YTD FY16-17 Budget	% YTD FY16-17 Budget
Local Sales Tax	\$ 3,556,567	\$ 3,622,826	\$ 3,775,529	96.0%



Local sales tax makes up 50.9% of Operating Fund revenues; for the period ending December 31, 2016, collections were \$4.2M for all funds (\$3.6M in the Operating Fund). Wholesale/retail and restaurant/bar activities represent 58.8% of total collections; telecommunications and utilities represent another 17.7%. Construction revenues collected this fiscal period total \$386,749, which is a 25.7% decrease from last fiscal year. Wholesale/retail sales tax collections increased 0.6% from the same period last year; restaurant/bar collections are up 7.9% from the same period last year.



### **Building Permit Revenue**

Revenues in this category include both commercial and residential permitting activity with the majority of revenues coming from residential activity. This fiscal period, revenues for this category total \$84,977 or 30.5% of the YTD budget. New housing permits issued for the fiscal period are 16 single family, 8 multi-family and 0 commercial.

	<b>YTD FY15-16</b>	<b>YTD FY16-17</b>	<b>YTD FY16-17 Budget</b>	<b>% YTD FY16-17 Budget</b>
Building Permit Fees	\$54,048	\$84,977	\$278,256	30.5%

### **Court Revenue**

This category summarizes several revenue funds collected by the court. The court generates various revenues through fines, sanctions and court orders. These fines include criminal, civil, Town code violations and diversion fees for defensive driving school attendees. Reimbursement fees for required background checks, incarceration costs, and Public Defender costs are also collected by the court and included in this category. This fiscal period, revenues for this category total \$97,487, which is \$7,938 (8.9%) more than last year's same fiscal period and 99.6% of the budgeted amount.

	<b>YTD FY15-16</b>	<b>YTD FY16-17</b>	<b>YTD FY16-17 Budget</b>	<b>% YTD FY16-17 Budget</b>
Court Fines & Fees	\$89,549	\$97,487	\$97,843	99.6%

### **License Revenue**

Revenues in this category include both business and animal licensing activity with the majority of revenues coming from business licenses. Current fiscal revenues for these two categories total \$73,310 or 101.9% of the fiscal period budget.

	<b>YTD FY15-16</b>	<b>YTD FY16-17</b>	<b>YTD FY16-17 Budget</b>	<b>% YTD FY16-17 Budget</b>
Business License Fees	\$58,551	\$56,299	\$51,750	108.8%
Animal License Fees	18,624	17,012	20,160	84.4%



## **Operating Fund Expenditures**

The Operating Fund accounts for most of the day to day operations of the Town, including Police, Fire and Emergency Medical Services, Development Services, Public Works, Community Services, Court, Council and Administration functions. At the end of this quarter, 93.9% of the fiscal YTD budget has been expended.

Expenditures by Category - Fiscal YTD Ending December 31				
	FY15-16 Actual	FY16-17 Actual	% YTD FY16-17 Budget	FY16-17 Budget
Wages and Benefits	\$ 1,575,527	\$ 1,539,745	91.5%	\$ 3,366,038
Supplies and Services	260,947	275,482	91.4%	602,982
Contractual Services	4,295,988	4,436,414	97.9%	9,066,022
Maintenance/Utilities	468,886	586,865	96.4%	1,217,702
Capital Expenditures	57,075	103,655	92.1%	225,000
Internal Transfers/Contingency	177,938	291,601	63.0%	926,329
<b>TOTAL</b>	<b>\$ 6,836,361</b>	<b>\$ 7,233,762</b>	<b>93.9%</b>	<b>\$ 15,404,073</b>

- Wages and Benefits represent one-fifth (21.3%) of the total Operating Fund budget and accounts for all staff with the exception of streets employees who are funded through a separate Highway User Revenue Fund (HURF), the Communications and Marketing Coordinator, and the Economic Development Director.
- Supplies and Services, including Utilities represents 3.8% of the total Operating Fund budget and includes items such as facility maintenance, utilities, office supplies, insurance, software, etc. These types of expenditures can be controlled to avoid expending more than revenues received.
- Contractual Services represent 61.3% of the Operating Fund budget and include contracts for law enforcement (Maricopa County Sheriff's Office) and fire and emergency medical services (Rural Metro). The Town utilizes contracts for specialized or one-time services that do not require the addition of full time staff.
- Maintenance/Utilities account for the charges associated with maintenance of facilities as well as utilities and represent 8.1% of the total expenditures.
- Capital Expenditures represent the purchase of assets, primarily vehicle purchases for the operating departments, which account for 1.4% of total expenditures.
- Internal Transfers/Contingency are charged to the Operating Fund budget by department and transferred to provide monies for future scheduled replacement of vehicles and equipment. Also includes transfers that are made at the end of the fiscal year from the Operating Fund (Community Center) to the Debt Service Fund for the annual bond repayment due in June as well as contingency and other minor expenditures.



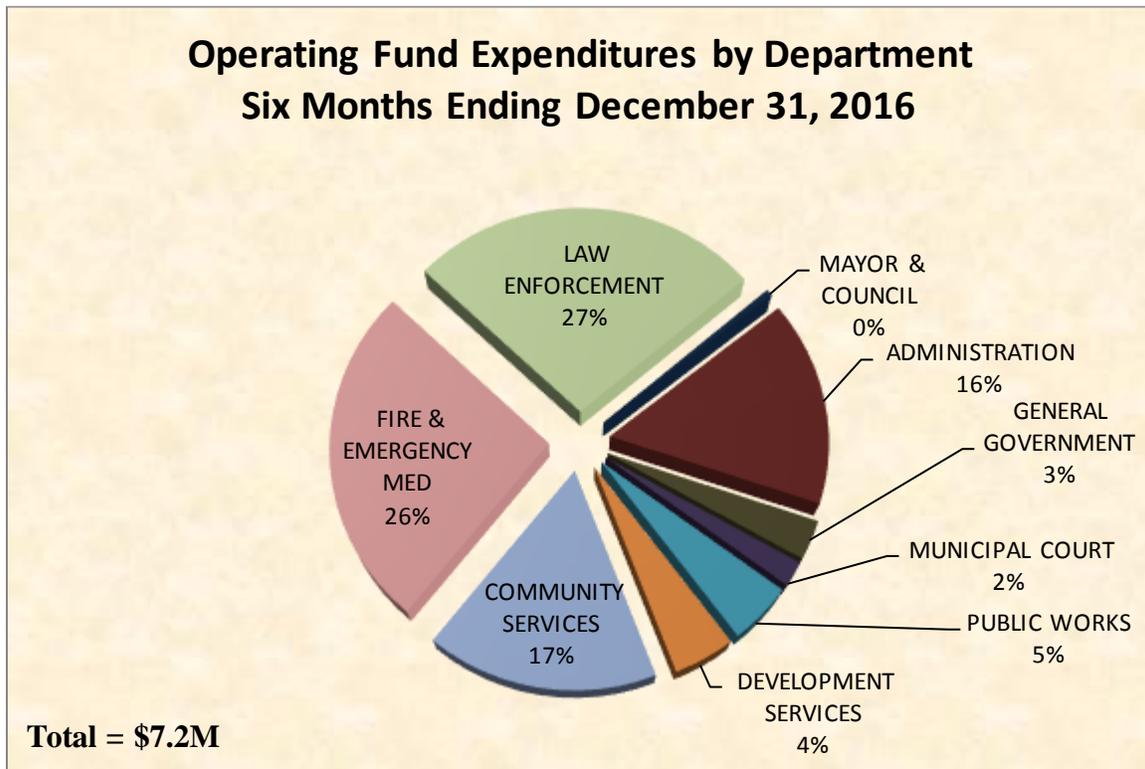
## Department Summary

Expenditures by Department - Fiscal YTD Ending December 31				
	FY15-16 Actual	FY16-17 Actual	% YTD FY16-17 Budget	FY16-17 Budget
Mayor & Council	\$ 34,184	\$ 36,874	101.7%	\$ 72,545
Administration	1,128,204	1,137,520	95.2%	2,390,280
General Government	-	218,341	52.7%	827,866
Municipal Court	143,891	137,710	85.7%	321,254
Public Works	736,904	336,282	81.0%	830,201
Development Services	-	322,094	69.5%	927,139
Community Services	1,174,155	1,206,989	100.8%	2,395,959
Fire & Emergency Medical Services	1,782,217	1,892,292	102.0%	3,708,717
Law Enforcement	1,836,806	1,945,662	99.0%	3,930,111
<b>TOTAL</b>	<b>\$ 6,836,361</b>	<b>\$ 7,233,764</b>	<b>93.9%</b>	<b>\$ 15,404,072</b>

- The Mayor & Council and Municipal Court budgets represent a total 0.5% of the Operating Fund expenditures.
- Administration includes the Town Clerk, Town Manager, Finance, Administrative Services, Volunteer Program, Economic Development, Information Technology and Customer Service and represents 15.7% of the Operating Fund budget. The Department is responsible for business recruitment and retention, Town Manager activities, all licensing activity (business, animal, liquor), customer service, audits, public meetings, Channel 11, Town website, elections, Town Attorney, Town Prosecutor, budget and financial reporting, etc.
- General Government is a new department and will include costs that are common to the Town as a whole (3.0%).
- Municipal Court represents all the costs of the operations of the court (1.9%).
- Public Works (4.6% of Operating Fund expenditures) was broken out from Development Services in the prior years. This department includes public works, open space maintenance, stormwater management, and facilities maintenance.
- Development Services (4.5% of Operating Fund expenditures) includes programs such as engineering, building safety, and traffic and capital projects. Divisions included in Development Services are Planning, Zoning, Code Enforcement, Building Safety, and Mapping & Graphics.
- Community Services (16.7% of Operating Fund expenditures) includes the Town's park system (Fountain Park, Golden Eagle Park, Four Peaks Neighborhood Park, and Desert Vista Neighborhood Park), recreation programs for youth, adults and seniors. The Community Center serves the community as a meeting or special event location as well as daytime activities for Seniors. This department includes the cost of the annual debt service payment that is transferred to the Debt Service Fund each year to cover the semi-annual payments in December and June.



- Fire & Emergency Medical Services represents 26.2% of the Operating Fund budget and includes the contract with Rural Metro for fire and emergency medical services; the budget also includes expenditures for maintenance of the fleet, which is Town owned, fire stations and equipment.
- Law Enforcement represents 26.9% of the Operating Fund budget and includes the contract with Maricopa County Sheriff's Office as well as costs for jail incarceration fees, which are costs for holding individuals at the jails and billed by Maricopa County. The Town also has a contract with Maricopa County for animal control and shelter services that is included within the Law Enforcement budget.



## **Other Funds:**

- Highway User Revenue Fund (Streets)
- Excise Tax (Downtown Strategy, Economic Development and Tourism)
- Special Revenue (Grants)
- Capital Projects (Capital Projects and Facilities Replacement)
- Development Fees





### **Highway User Revenue Fund (HURF) – Streets**

<b>HURF Revenues - Fiscal YTD Ending December 31</b>				
	<b>YTD FY15-16</b>	<b>YTD FY16-17</b>	<b>% YTD FY16-17 Budget</b>	<b>FY16-17 Budget</b>
Sales Tax	\$ -	\$ 327,446	94.5%	\$ 692,778
State Shared Revenues	1,122,862	1,146,486	96.6%	2,373,986
In Lieu Fees	5,640	11,948	9.1%	262,000
Miscellaneous & Other	6,527	3,370	26.6%	25,300
<b>Grand Total HURF</b>	<b>\$ 1,135,029</b>	<b>\$ 1,489,250</b>	<b>88.8%</b>	<b>\$ 3,354,064</b>

This fund supports most of the Town’s street and traffic operations and is managed by the Public Works Department. Fewer revenues were received than budgeted; however, expenditures also exceeded the anticipated resources. The fund is primarily supported by the State Highway User Revenue Fund (46.6%), Vehicle License Taxes (30.3%) and from a portion of the dedicated sales tax (22.0%). HURF revenues are distributed partially on a population formula and partially on the county of origin for gasoline sales. There is a State constitutional restriction that these funds be used solely for street and highway purposes. The Town bills contractors when they make cuts in the Town’s rights of way and has recovered \$11,948 for in lieu fees. Restitution fees are recovered from damage to Town property as a result of vehicle accidents and included in miscellaneous & other.

<b>HURF Expenditures by Program - Fiscal YTD Ending December 31</b>				
	<b>YTD FY15-16</b>	<b>YTD FY16-17</b>	<b>% YTD FY16-17 Budget</b>	<b>FY16-17 Budget</b>
Administration	\$ 107,766	\$ 145,453	87.7%	\$ 331,598
Adopt A Street	1,588	-	0.0%	1,010
Legal Services	13,939	-	0.0%	-
Open Space	142,250	145,789	85.9%	339,583
Pavement Maintenance	1,544,753	1,883,906	143.9%	2,618,080
Street Signs	37,214	28,821	82.6%	69,767
Traffic Signals	80,008	54,398	66.5%	163,483
Vehicle Maintenance	44,844	27,634	77.7%	71,175
<b>Grand Total HURF</b>	<b>\$ 1,972,362</b>	<b>\$ 2,286,001</b>	<b>127.2%</b>	<b>\$ 3,594,696</b>

- The Administration program for the Streets division includes activities that are not directly related to a program, for example, insurance, fuel, utilities, etc.
- Adopt A Street is the cost of administering and maintaining the Adopt A Street program.
- Legal Services represent the allocated portion of the Town attorney fees.



- Open Space program includes maintenance of the medians; the largest component of this category is the contract for landscaping and water usage.
- Pavement Maintenance program includes personnel costs related to road repair and maintenance, such as potholes and curb replacement.
- Street Signs program includes personnel and maintenance costs for the Town's street signs.
- Traffic Signals program includes personnel and electric costs for the Town's Traffic signals. Costs include hardware and programs for maintenance and synchronization of the signals.
- Vehicle Maintenance program includes personnel as well as costs to maintain the Town's fleet of vehicles and heavy equipment.



**Excise Tax - All Funds (Downtown Strategy, Economic Development, Tourism)**

<b>Excise Tax Revenues - All Funds - Fiscal YTD Ending December 31</b>				
	<b>YTD FY15-16</b>	<b>YTD FY16-17</b>	<b>% YTD FY16-17 Budget</b>	<b>FY16-17 Budget</b>
Revenues	\$ 173,387	\$ 215,786	100.7%	\$ 428,597
Grand Total Excise Tax Funds	\$ 173,387	\$ 215,786	100.7%	\$ 428,597

These funds are separate operating funds from the Town’s Operating Fund and they support the Town’s downtown strategy, economic development including business retention program, and tourism. Beginning in FY14-15, the Excise Tax Fund was separated into two separate functions supported by a portion of the local sales (excise) tax (.1% of the 2.6%). Downtown Strategy’s focus is for infrastructure improvements and development; Economic Development’s focus is dedicated to Town-wide economic development and the Economic Development Plan implementation. The Economic Development Fund also provides the funding for the Tourism Fund.

<b>Excise Tax Funds Expenditures by Category - Fiscal YTD Ending December 31</b>				
	<b>YTD FY15-16</b>	<b>YTD FY16-17</b>	<b>% YTD FY16-17 Budget</b>	<b>FY16-17 Budget</b>
Wages and Benefits	\$ 82,895	\$ 81,033	95.6%	\$ 169,451
Supplies and Services	17,378	13,580	109.6%	24,792
Contractual Services	103,255	70,098	73.2%	191,606
Maintenance/Utilities	5,573	918	16.2%	11,320
Internal Transfers	1,647	2,012	64.2%	6,265
Grand Total all Categories	\$ 210,748	\$ 167,641	83.1%	\$ 403,434

- Wages and Benefits, which represent 48.3% of the total Excise Tax operating budget, is the largest component of expenditures, just ahead of contractual services.
- Supplies and Services represents 8.1% of the total Excise Tax budget and includes items such as office supplies, insurance, software, etc. These types of expenditures can be controlled to avoid expending more than revenues received.
- Contractual Services represent 41.8% of the budget and includes contracts for downtown holiday lighting and planned professional services for marketing strategies.
- Maintenance/Utilities include costs for lighting and sign repairs.
- Internal Transfers reflect the expenditures in the Capital Projects Fund for minor costs.



## **Development Fees**

These fees are placed into restricted funds with revenues paid by developers at the time of new residential and commercial construction permits. The decrease in permit activity over the same time period as last year is related to the development fee study that implemented new fees as of August 1, 2014. The study was presented to the public at a Public Hearing in February 2014 and resulted in the elimination of several categories of fees and changes in the remaining categories.

During the six months of this fiscal year, there have been twenty-four (24) permit applications including development fees.

<b>Revenues by Category - Fiscal YTD Ending December 31 - Development Fees</b>				
	<b>FY15-16 Actual</b>	<b>FY16-17 Actual</b>	<b>% YTD FY16-17 Budget</b>	<b>FY16-17 Budget</b>
Law Enforcement	\$ -	\$ -	0.0%	\$ -
Fire/Emergency	25,880	8,591	29.4%	58,421
Parks/Rec	28,374	36,915	60.3%	122,414
Open Space	(297)	(5,795)	(193.2%)	6,000
<b>Grand Total All Funds</b>	<b>\$ 53,957</b>	<b>\$ 39,711</b>	<b>42.5%</b>	<b>\$ 186,835</b>

<b>Expenditures by Category - Fiscal YTD Ending December 31 - Development Fees</b>				
	<b>FY15-16 Actual</b>	<b>FY16-17 Actual</b>	<b>% YTD FY16-17 Budget</b>	<b>FY16-17 Budget</b>
Law Enforcement	\$ -	\$ -	0.0%	\$ 203,484
Fire/Emergency	-	-	0.0%	51,822
Parks/Rec	-	-	0.0%	144,987
Open Space	269	268	0.0%	1,672,204
<b>Grand Total All Funds</b>	<b>\$ 269</b>	<b>\$ 268</b>	<b>0.0%</b>	<b>\$ 2,072,497</b>



## **Capital Projects Fund**

Capital projects are funded with accumulated reserves that were surplus revenues in the Operating Fund in addition to 50% of sales tax revenues that are derived from construction activity. Some projects are funded with proceeds from grants or developers; the table below is a summary of revenues for the year-to-date period ending December 31, 2016.

<b>FY16-17 Capital Projects Fund Revenues - Fiscal YTD Ending December 31</b>			
	<b>YTD FY16-17 Actual</b>	<b>% FY16-17 Budget</b>	<b>FY16-17 Budget</b>
Construction Sales Tax	\$ 193,726	44.7%	\$ 433,023
Grants	-	0.0%	255,000
Misc.	-	0.0%	150,000
Interest Income	(18,837)	(314.0%)	6,000
<b>Grand Total Capital Projects</b>	<b>\$ 174,889</b>	<b>20.7%</b>	<b>\$ 844,023</b>

The table below summarizes the projects that were included in the current year budget including the original budgeted expenditure, the year to date expenditures and the percentage of fiscal year end expenditures. Some of the projects have not started yet and therefore have no expenditures.

<b>FY16-17 Expenditures by Category - Fiscal YTD Ending December 31 - Capital Projects</b>			
	<b>YTD FY16-17 Actual</b>	<b>% FY16-17 Budget</b>	<b>FY16-17 Budget</b>
D6030 DRAINAGE-ASHBROOK WASH C	\$ 126,400	18.1%	\$ 700,000
D6047 MISC DRAINAGE IMPROVEMEN	-	0.0%	50,000
E8502 DOWNTOWN VISION PLAN-PHA	-	0.0%	400,000
E8505 DOWNTOWN LIGHTING	18,570	9.3%	200,000
F4005 FIRE STATION 2 RELOCATIO	28,406	0.7%	3,800,000
F4030 CHILLER INSTALLATION	-	0.0%	300,000
P3022 FOUNTAIN LAKE WATER QUAL	2,000	1.0%	205,000
P3025 ADERO CANYON TRAILHEAD	73,465	3.2%	2,285,000
P3026 FOUNTAIN PARK ACCESS IMP	7,772	2.1%	375,000
P3027 FOUR PEAKS PARK-PHASES I	34,595	46.1%	75,000
S6003 UNPAVED ALLEY PAVING PRO	-	0.0%	255,000
S6053 FOUNTAIN HILLS BLVD SHOU	5,801	1.2%	500,000
S6057 MCDOWELL MOUNTAIN ROAD R	64,387	85.8%	75,000
CONTINGENCY	967	2.2%	43,885
<b>Grand Total Capital Projects</b>	<b>\$ 362,363</b>	<b>3.9%</b>	<b>\$ 9,263,885</b>



## **Fund Balances/Reserves**

The Town maintains several funds, some of which are restricted for specific purposes; the Operating Fund is the Town's main operating fund and has sufficient reserves that satisfy the Town's fund balance policy. Development fees are restricted for projects that are related to growth and the Economic Development/Downtown Strategy Funds are designated for downtown development.

### Fiscal Quarter-End Fund Balances (Unaudited) December 31, 2016

<b>Operating Funds</b>			
	Rainy Day Fund	\$ 2,711,008	
	General Fund	2,701,451	
	Public Art Fund	26,423	
	Internal Service Fund	2,714	
	Vehicle Replacement Fund	775,831	\$ <b>6,217,427</b>
	<b>Highway User Revenue Fund (HURF)</b>	771,421	<b>771,421</b>
<b>Special Revenue Funds</b>			
	Special Revenue Fund	-	
	Court Enhancement Fund	305,657	
	Environmental Fund	282,213	
	Cottonwoods Maintenance District Fund	16,119	<b>603,989</b>
<b>Excise Tax Funds</b>			
	Downtown Strategy Fund	952,199	
	Economic Development Fund	76,605	
	Tourism Fund	104,614	<b>1,133,418</b>
<b>Debt Service</b>			
	General Obligation Debt Service Fund	1,555,527	
	Eagle Mountain CFD Debt Service Fund	298,193	
	MPC Debt Service Fund	549,603	<b>2,403,323</b>
<b>Capital Projects</b>			
	Capital Projects Fund	7,491,414	
	Facilities Replacement Fund	1,031,328	<b>8,522,742</b>
<b>Development Fees</b>			
	Law Enforcement	203,484	
	Fire & Emergency	112,955	
	Parks & Recreation	294,249	
	Open Space	1,675,885	<b>2,286,573</b>
	<b>Grand Total</b>		<b>\$ <u>21,938,893</u></b>