

Town of Fountain Hills
Public Notice
Fees for Fiscal Year 2019-20

Pursuant to A.R.S. §9-499.15: Notice is hereby given that on August 13, 2019, at 5:30 PM, the Town Council of Fountain Hills will hold a meeting in the Town Hall Council Chambers, 16705 E. Avenue of the Fountains, Fountain Hills, AZ 85268, to consider raising the Town's transaction privilege tax by 0.3% and establishing a Public Safety fee of \$185 annually.

**Town of Fountain Hills
Summary of Proposed New or Modified Fees**

Town Code and Fee Schedule Reference	Current Fee Description	Customer Impacted	Existing Fee	Proposed Fee	Justification/Cost Basis	Comparisons
Department/Division						
						Other City Fee Ranges:
General Government	Transaction Priviledge Tax (TPT)	Individuals and Businesses paying TPT	2.60%	2.90%	See attached report	1.5% - 4.0%
Administration	Public Safety fee	Owners of parcels within the Town	None	\$185	See attached report	

Town of Fountain Hills



A Report on Town Finances and the Need to Generate Additional Revenue

JUNE 6, 2019

BACKGROUND

The purpose of this report is to provide background relating to the need to generate additional revenue for the Town of Fountain Hills in order to provide the quality of life that residents have come to expect. Much of this quality of life is largely based on the core services delivered by the Town – Police, Fire and Emergency Medical, Streets, Parks, Recreation, and other important services and programs.

During the past three years, the Town Council has expressed concerns about the future of the Town's finances. In May of 2017, the Finance Director identified a cumulative budget deficit of \$64 million that will occur over the next ten years. This deficit is largely due to the fact that the Town's revenues have remained relatively flat, as the Town's expenditures have continued to grow. This issue is largely a revenue issue, rather than an expenditure issue, as the Town has significantly reduced staffing levels and contracted out a number of services over the years.

The Town has diligently pared down expenditures while preserving the core services and amenities that make Fountain Hills a desirable place to live. In a number of critical service areas, staff members have taken on additional workload and responsibilities to help keep costs down.

The primary funding issues facing the Town of Fountain Hills include:

- Increased costs for maintenance, repair and/or replacement of aging infrastructure (roads, buildings, parks, the Fountain, etc.)
- Dependence upon State-shared revenues to fund operating expenditures
- Dependence upon economically volatile local sales tax to fund operational expenditures and capital improvement projects
- Decreased proportionate share of State-shared revenues due to increased population of surrounding communities combined with negligible population growth in Fountain Hills
- Lack of a growing, sustainable, and diversified revenue base to fund ongoing operating costs
- Potential state legislation impacting revenues (e.g., sweeping of State-shared revenue or unfunded mandates)
- Retaining adequate staffing levels to maintain current service levels
- Public safety costs as an increasing proportion of total expenditures, resulting in less funding for other core services

RECOMMENDATION

Based on the fact that the Town of Fountain Hills will be facing a revenue shortfall in the very near future, it is recommended that the Town Council consider enacting measures to increase revenues. The first recommended source of revenue is to increase local sales tax rate by 0.3 percent from the current 2.6 percent to a total of 2.9 percent. Staff estimates that the three-tenths of one percent increase will generate approximately \$1,050,000 annually in new revenue. The Town Council discussed this as a possible revenue option at its meeting on April 18, 2019, and directed staff to proceed with the notification process.

The second recommended revenue option is to establish a public safety fee of \$185 per year, per parcel. This fee would be apportioned by \$150 going to the General Fund and \$35 going to the Environmental Fund. The implementation of this fee would increase revenue to the Town by \$2,886,000. Based on historical collection rates of the environmental fee, a total of \$2,597,400 is expected to be received per year. The Town Council discussed this as a possible revenue option at its meeting on April 18, 2019, and directed staff to proceed with the notification process.

While the proposed sales tax increase and public safety fee will address the revenue shortfall in the near future, primarily due to anticipated public safety cost increases, the Town of Fountain Hills will likely need to find additional revenue sources beyond the next five years.

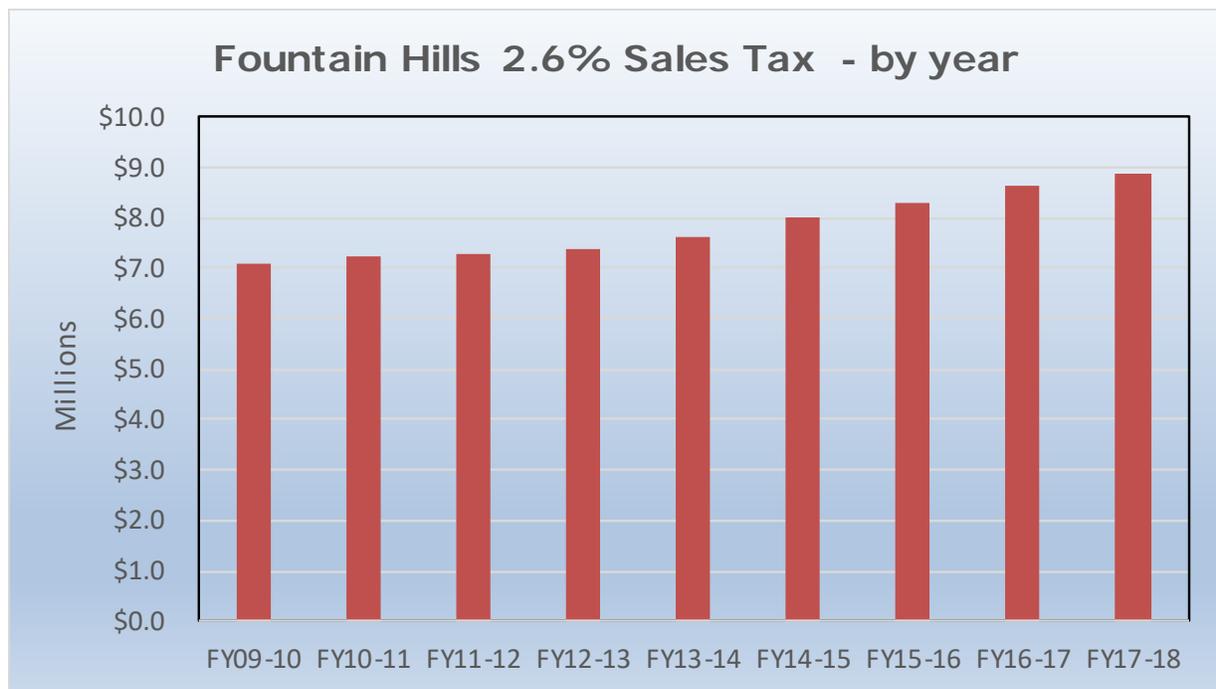
FIVE-YEAR REVENUE AND EXPENDITURE FORECAST

In order to provide the core services and amenities that the residents of Fountain Hills expect, new sources of revenue must be found in the near future.

The Town relies primarily on two main sources of revenue for operations: (1) State-shared revenues (sales, income and vehicle license taxes distributed proportionately by the State based on population); and (2) local sales tax. Combined, these two sources contribute 90% of the General Fund (37% and 53% respectively).

Even though last fiscal year the Town of Fountain Hills had a modest increase in State-shared revenues, the amount of revenue received was about the same amount received as ten years ago. This important source of revenue is projected to be flat and eventually decline over time as high-growth cities will receive larger allocations of State-shared revenue.

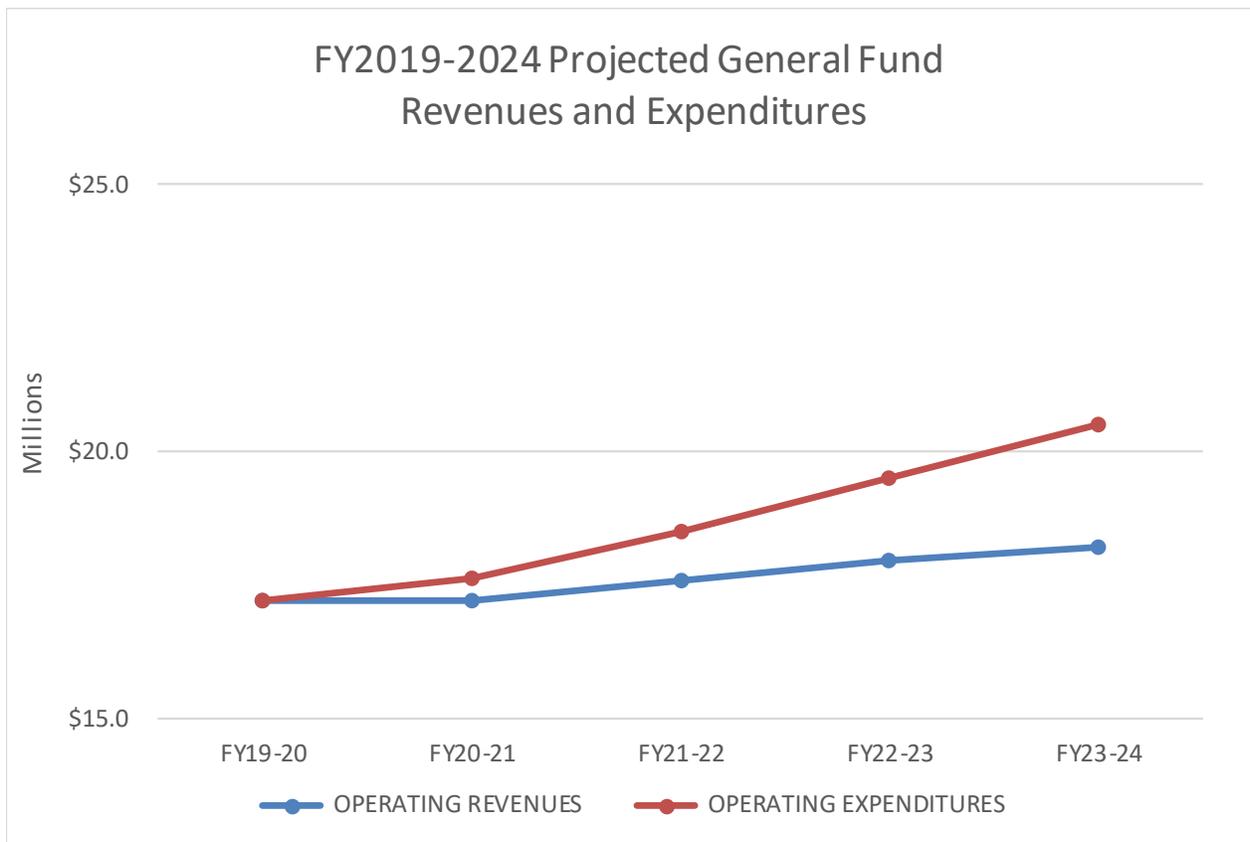
The chart below demonstrates that overall local sales tax collections now reflect a modest increase over prior years:



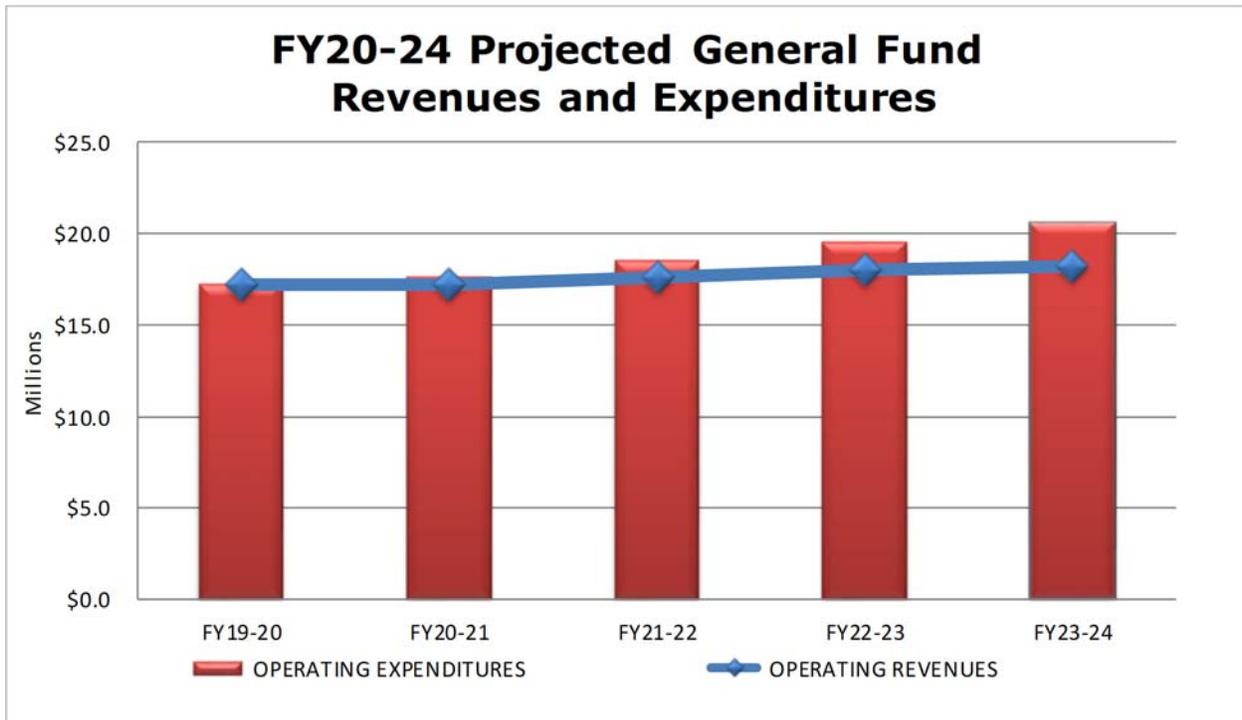
The following budget assumptions were taken into consideration in identifying the need for additional revenue to fund the operations of Fountain Hills:

- Adherence to State-imposed Expenditure Limitations Law which impacts the Town's ability to budget proposed capital projects
- Revenue projections are determined using both a trend analysis formula, as well as a flat percentage increase, but are estimates
- No increase in the distribution of State-shared revenues
- Existing levels of service are maintained
- An inflation factor of three percent has been added to existing budgets for Administration, Public Works, Development Services and Community Services departments in future years
- The law enforcement contract with Maricopa County Sheriff's Office has been budgeted at an increase of ten percent
- The fire services contract with Rural/Metro Corporation is projected at a three percent increase for FY18-19 and beyond.

The chart below depicts the current five-year forecast:



The following chart provides General Fund projections through FY23-24:



CORE SERVICE – PUBLIC SAFETY

One of the chief roles of government is to provide for the safety of its citizens. The citizens of Fountain Hills receive great value from the Town’s contracts for public safety with Maricopa County Sheriff’s Office and Rural/Metro. Town funds that are expended for public safety services provided under these contracts are undeniably high-quality and cost-efficient.

Public Safety expenditures continue to consume a growing proportion of the overall operating budget. In FY19-20, the overall public safety costs are up nearly \$700,000.

Two years ago, staff negotiated a new contract with Rural/Metro Fire to better anticipate the annual cost of fire and emergency services in FY17-18 and into the future. The Town Council approved a new multi-year agreement in 2018 with Rural/Metro Fire that caps future contractual increases to three percent annually.

The intergovernmental agreement for law enforcement services with the Maricopa County Sheriff’s Office (MCSO) is based on the actual cost of services from the prior fiscal year. For FY19-20, the agency increased the cost of law enforcement services by 14 percent. The Town of Fountain Hills is predicting that the Town’s law enforcement services budget will continue to escalate at an annual 10 percent increase due to increased costs tied to the Town’s proportionate share of MCSO’s underfunded

liabilities in the Arizona Public Safety Personnel Retirement System (PSPRS), the pension plan primarily for police and fire. Due to a variety of factors, nearly all of the municipalities and local governments that participate in PSPRS will be experiencing unprecedented contribution increases to the retirement system on behalf of their public safety employees in the foreseeable future.

However, the fact remains that public safety costs, while essential, represent an ever-increasing proportion of the Town's total expenditures. During the period from FY01-02 through FY19-20, Town total General Fund expenditures increased 35.8% while public safety costs increased 99.0% leaving reduced funding to pay for non-public safety core services. In FY19-20, public safety costs went up by approximately \$700,000, nearly \$600,000 alone for law enforcement services from Maricopa County Sheriff's Office. Public safety costs now represent about 51% of the General Fund's budget.

The chart below demonstrates the proportion of total Town expenditures relative to public safety costs. (Note: Town General Fund expenditures peaked in FY08-09.)

