

Town of
Prescott Valley
ARIZONA

BUDGET OVERVIEW

Fiscal Year
2018-2019



Prepared by
Management Services Department

2018-19 Annual Budget Acknowledgments

Town Council	
Harvey Skoog	Mayor
Richard Anderson	Vice Mayor
Martin Grossman	Council Member
Mary Mallory	Council Member
Lora Lee Nye	Council Member
Jodi Rooney	Council Member
Michael Whiting	Council Member
Management Services Team	
William Kauppi	Management Services Director
Katie Pehl	Finance Manager
Irina Ermakova	Senior Accountant
Lisa Simrak	Accountant
LaToya Muse	Administrative Supervisor
Executive Team	
Larry Tarkowski	Town Manager
Keith Carson	Magistrate
Norm Davis	Public Works Director
Bryan Jarrell	Police Chief
Ryan Judy	Deputy Town Manager
Ivan Legler	Town Attorney
Casey Van Haren	Library Director
Richard Parker	Community Development Director
Diane Russell	Town Clerk/Risk Management Director
Karen Smith	Human Resources Director
Neil Wadsworth	Utilities Director
Brian Witty	Parks & Recreation Director

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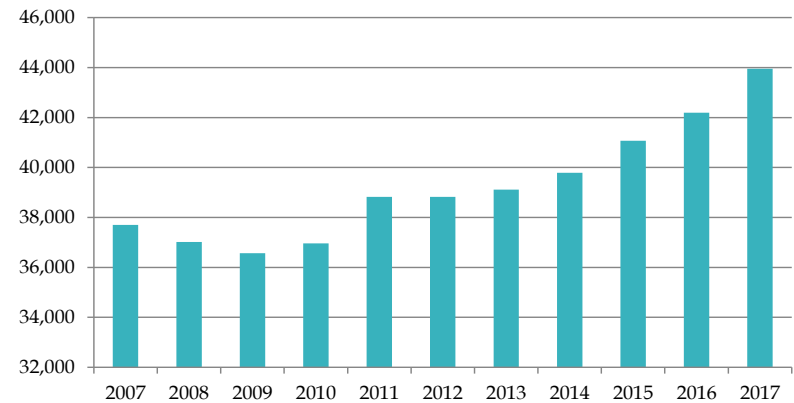
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For more information, please visit the Annual Budget, located in Financial Services section under 'Your Government' or 'Town Services' tab of the Town of Prescott Valley's website at <http://www.pvaz.net>. The Annual Budget also can be viewed at Town's transparency website <https://prescottvalleyaz.opengov.com>.

1. PROFILE OF PRESCOTT VALLEY

Prescott Valley was incorporated in 1978. It is a well established community nestled between the Mingus and Bradshaw Mountain Ranges in the high desert of central Arizona. Much has changed here in the past 30 years. The population has grown from approximately 1,500 residents when incorporated, to over 43,000. What has not changed is that we are fortunate to live and work in a community that preserves and treasures a safe, enjoyable and enriching quality of life. Our ongoing challenge and opportunity as the local government is to maintain the highest standards of service and plan for the generations to come.

POPULATION*



The overriding mission of the Town of Prescott Valley is to provide excellent service to the community. The budget that is submitted each year provides the financial foundation and has become a working framework for providing quality municipal services to the broad spectrum of needs within the community. The budget information outlines the detail of the existing resources and community needs. Additionally, the budget ensures that the Town continues to maintain and enhance its financial position and integrity. It also supports continuous customer service efforts to foster efficiency, cost effectiveness and excellence in the provision of services to the citizens of the Town of Prescott Valley.

* Information obtained from the Department of Economic Security, Town of Prescott Valley and 2010 U.S. Census

2. PRESCOTT VALLEY'S ECONOMIC & REVENUE OUTLOOK

Transaction privilege tax (i.e. sales tax) is one of the Town's single largest revenue sources. It represents about 26.4% of total revenues (including transfers in) and is largely dependent upon consumer confidence in the economy. These revenues, along with State-shared revenues, are enormously susceptible to national, regional and local trends in the retail and construction markets.

While state and local economies have stabilized over the past several years, and there are new businesses planned or under construction in the community, the recent closure of a major retailer has negatively impacted TPT collections. The Town is forecasting a decrease of approximately 2.0% in overall TPT revenue for FY 2018-19.

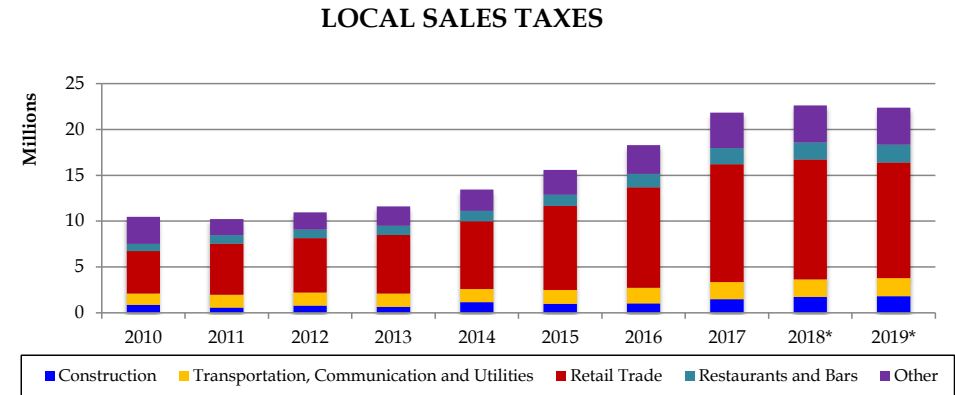
The current sales tax rate is 2.83%. The 2.00% portion of the tax is used to pay for general governmental operations and the repayment of excise (MPC) debt. The 0.50% portion is primarily allocated to street maintenance and public safety. The 0.33% portion of the tax is budgeted in the Streets Capital Projects Fund and can only be used to fund specific street improvement projects.

As of March 2018, the Town has experienced a 4.39% increase in sales tax revenues over the previous year. This is primarily attributed to increased sales in the areas of retail trade, hotels and restaurants and bars, and the 0.5% sales tax increase that went into effect January 1, 2016.

Approximately 65.6% of the total sales tax revenue comes from retail sales, with the remainder collected primarily from construction, wholesale trade and restaurants and bars.

Currently, construction sales tax revenues have increased 6.8% over the previous year. Historically, sales tax revenue attributed to construction was not one of the main contributors to our overall revenue sources, and as such, care must be taken to align this one-time revenue source with expenses, so that reliance is not placed on this category for ongoing operation and maintenance costs.

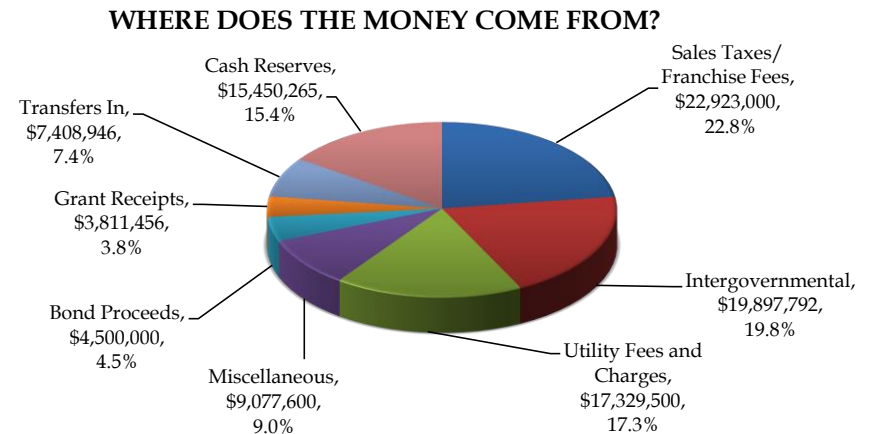
The following chart depicts the last eight years of actual sales tax collections as well as projected and proposed revenues for FY 2017-18 and FY 2018-19.



3. BUDGET OVERVIEW

Revenue

Total estimated revenues (excluding Draw on Fund Reserves) for FY 2018-19 is \$84,948,294, an increase of 5.5%.



Cash/fund reserves in the amount of \$15,450,265 will be used mostly to fund capital projects. In HURF, cash reserves will be used to supplement current revenues to pay for personnel services, operating and maintenance expenditures.

The following table depicts the summary of revenues by category, showing the current year budget and next year's proposed budget.

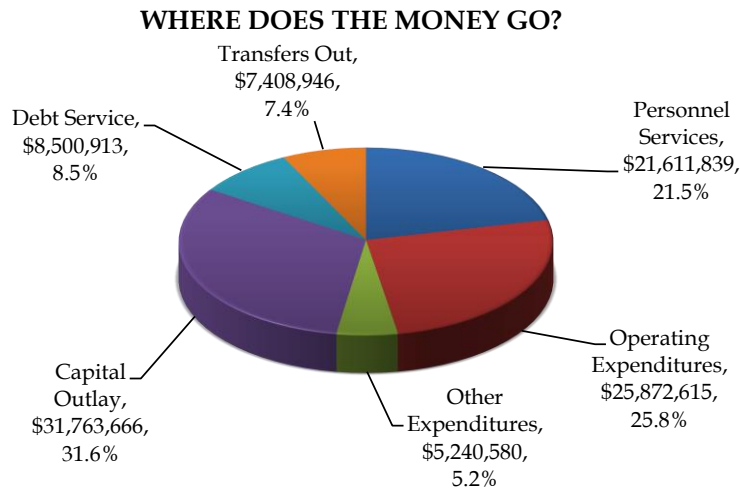
REVENUES BY CATEGORY			
REVENUES & OTHER FINANCING SOURCES	FY 17-18 BUDGET	FY 18-19 PROPOSED	INCREASE (DECREASE)
Sales Taxes/Franchise Fees	\$23,365,000	\$22,923,000	(\$442,000)
Licenses and Permits	1,107,900	1,395,500	287,600
Intergovernmental	18,123,333	19,897,792	1,774,459
Investment and Rental	565,600	631,100	65,500
Miscellaneous	4,612,000	4,156,000	(456,000)
Impact Fees	2,000,000	2,895,000	895,000
Grant Receipts	5,093,991	3,811,456	(1,282,535)
Utility Fees and Charges	15,610,500	17,329,500	1,719,000
Subtotal Revenues	70,478,324	73,039,348	2,561,024
Bond Proceeds	3,000,000	4,500,000	1,500,000
Transfers In	7,043,016	7,408,946	365,930
TOTAL REVENUES & OTHER SOURCES	\$80,521,340	\$84,948,294	\$4,426,954

INCREASE/(DECREASE) IN FUND

BALANCE RESERVES (\$13,444,532) (\$15,450,265)

Expenditures

The total annual budget for FY 2018-19 is \$100,398,559, an increase of 6.9%.



The annual budget is divided into six major components which include all appropriations (Governmental and Enterprise) for the Town.

The *Personnel Services* budget of \$21,611,839 consists of the salaries and fringe benefits for all of the Town's employees.

The *Operating Expenditures* budget finances the day-to-day provisions of Town services, grant-related activities and the operational costs of providing utility services. The total for FY 2018-19 is \$25,872,615.

The *Other Expenditures* budget consists of expenditures such as depreciation and contingency. The current budget is \$5,240,580.

The *Capital Outlay* budget funds the construction or improvements of Town facilities and infrastructure, and the purchase of various types of machinery and equipment. Capital infrastructure improvements are budgeted within the various Town accounts. The capital improvement project budget totals \$31,763,666.

The *Debt Service* budget is used to repay money borrowed by the Town, primarily for capital improvements, and amounts to \$8,500,913.

The *Transfers Out* budget of \$7,408,946 represents the amount of funds transferred from one fund to another.

EXPENDITURES BY CATEGORY			
EXPENDITURES & OTHER FINANCING USES	FY 17-18 BUDGET	FY 18-19 PROPOSED	INCREASE (DECREASE)
Personnel Services	\$20,671,336	\$21,611,839	\$940,503
Operating Expenditures	25,151,557	25,872,615	721,058
Other Expenditures	5,673,400	5,240,580	(432,820)
Capital Outlay	27,489,342	31,763,666	4,274,324
Debt Service	7,937,221	8,500,913	563,692
Subtotal Expenditures	86,922,856	92,989,613	6,066,757
Transfers Out	7,043,016	7,408,946	365,930
TOTAL EXPENDITURES & OTHER USES	\$93,965,872	\$100,398,559	\$6,432,687

4. GENERAL FUND

The General Fund is the main operating fund of the Town and is used to account for all financial activity not reflected in another fund.

General Fund Revenues

General Fund revenues and transfers in total are \$44,309,499 and represent an increase of \$4,175,481 (10.4%) above the adopted FY 2017-18 budget. The increase projected in intergovernmental revenues is primarily due to an increase in the distribution of the State revenues. The increase in Bond Proceeds revenues is due to the purchase of Yavapai College/NAU Building. The decrease in Miscellaneous revenues is due to a \$1,390,000 decrease in budgeted litigation proceeds over FY 2017-18.

REVENUES BY CATEGORY

REVENUES & OTHER FINANCING SOURCES	FY 17-18 BUDGET	FY 18-19 PROPOSED	INCREASE (DECREASE)
Local Taxes	\$19,542,000	\$19,784,000	\$242,000
Franchise Fees	330,000	350,000	20,000
Licenses & Permits	1,107,900	1,395,500	287,600
Intergovernmental	14,331,618	14,804,499	472,881
Charges for Services	384,300	323,300	(61,000)
Fines & Forfeitures	574,000	619,000	45,000
Investment & Rental Income	313,000	377,000	64,000
Miscellaneous Income	3,546,200	2,156,200	(1,390,000)
Subtotal Revenues	40,129,018	39,809,499	(319,519)
Bond Proceeds	0	4,500,000	4,500,000
Transfers In	5,000	0	(5,000)
TOTAL REVENUES & OTHER SOURCES	\$40,134,018	\$44,309,499	\$4,175,481

INCREASE/(DECREASE) IN FUND

BALANCE RESERVES	\$517,145	\$26,488
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General Fund Expenditures

The General Fund's total appropriations for FY 2018-19 are \$44,283,011, an increase of approximately 11.8% over the prior fiscal year. The increase is primarily attributed to the following:

- Increase in Personnel from merit increase, as well as addition of 2 full-time and 3 part-time staff positions offset by elimination of 2 full-time position,

- Increase in reimbursement/contribution to developers and increase in election contracts expenditures,
- Increase in Capital expenditures mostly due to budgeted purchase of Yavapai College/NAU Building

The following tables depict the summary of expenditures by category and by department, comparing the prior year's budget and current year's proposed budget.

EXPENDITURES BY CATEGORY

EXPENDITURES & OTHER FINANCING USES	FY 17-18 BUDGET	FY 18-19 PROPOSED	INCREASE (DECREASE)
Personnel Services	\$18,753,946	\$19,480,851	\$726,905
Operating Expenditures	10,706,825	11,782,134	1,075,309
Other Expenditures	788,400	280,580	(507,820)
Capital Outlay	5,231,707	8,801,224	3,569,517
Subtotal Expenditures	35,480,878	40,344,789	4,863,911
Transfers Out	4,135,995	3,938,222	(197,773)
TOTAL EXPENDITURES & OTHER USES	\$39,616,873	\$44,283,011	\$4,666,138

EXPENDITURES BY DEPARTMENT

EXPENDITURE SUMMARY BY DEPARTMENT	FY 17-18 BUDGET	FY 18-19 PROPOSED	INCREASE (DECREASE)
Town Council	\$134,652	\$128,705	(\$5,947)
Executive Management	978,366	969,379	(8,987)
Town Clerk/Risk Mngmt	358,295	531,140	172,845
Management Services	2,279,231	2,292,580	13,349
Community Development	1,530,029	1,683,968	153,939
Human Resources	417,042	445,726	28,684
Parks & Recreation	2,438,133	2,760,284	322,151
Legal	769,536	788,178	18,642
Library	2,017,893	1,927,906	(89,987)
Magistrate	605,840	670,626	64,786
Public Works	2,252,375	2,362,576	110,201
Police	12,002,083	12,828,809	826,726
Non-Departmental	13,833,398	16,893,134	3,059,736
TOTAL EXPENDITURES	\$39,616,873	\$44,283,011	\$4,666,138

5. DEBT SERVICE

Municipal Property Corporation (MPC) bonds require that the Town pledge its excise tax collections (sales taxes, State sales taxes, State income tax, etc). Many of the MPC bond issues are paid from other sources (Impact Fees, Resource Fees, etc.).

Certificates of Participation (COP) bonds are subject to appropriation and are paid by General Fund revenues and Impact Fees.

Private Placement (PP) bonds require that the Town pledge its excise tax collections. These bonds are paid by General Fund revenues and Impact Fees.

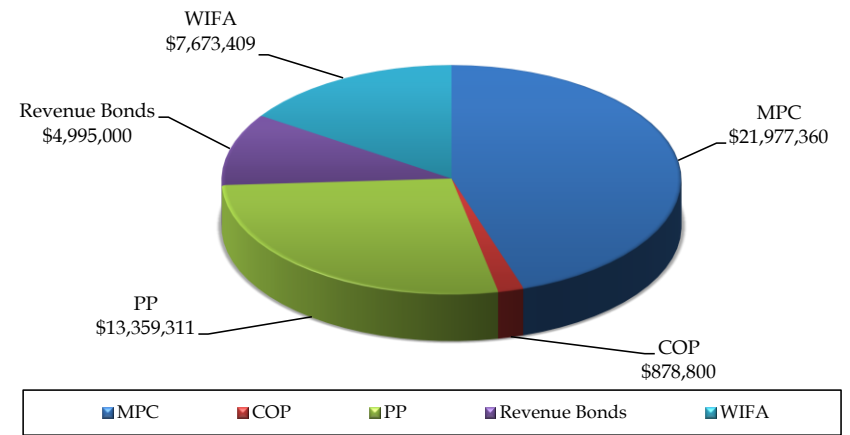
Revenue bonds and loans (Enterprise Fund) are paid from wastewater and water user charges. If necessary, the Town would be required to raise wastewater and/or water utility rates to maintain the appropriate net revenue to debt ratio.

The chart below represents principal and interest payments budgeted for fiscal year 2018-19.

TOTAL CURRENT YEAR DEBT SERVICE BY TYPE

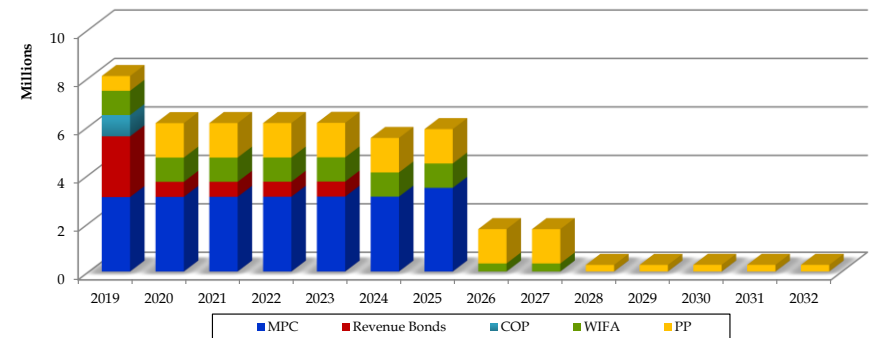
Type of Bond Issue	Term	Beginning Principal 07/01/2018	Bond Issuance	Principal Payments	Interest Payments	Ending Principal 06/30/2019
Governmental Funds						
MPC - 2011 Revenue Refunding	Jan-25	\$11,680,000	\$0	\$1,425,000	\$584,000	\$10,255,000
MPC - 2012B Revenue Refunding	Jan-25	6,910,000	0	850,000	215,538	6,060,000
PP - 2015 Revenue Refunding	Jan-27	8,390,000	0	135,000	199,682	8,255,000
PP - Police Building	Jan-32	3,270,000	0	200,000	75,210	3,070,000
PP - College Building*	Jan-33	0	4,500,000	220,000	75,000	4,280,000
COP - Library Building	Jan-19	845,000	0	845,000	33,800	0
Total Governmental Funds		31,095,000	4,500,000	3,675,000	1,183,230	31,920,000
Enterprise Funds						
Sewer Refunding Revenue Bonds	Jan-23	2,865,000	0	545,000	78,900	2,320,000
Water Refunding Revenue Bonds	Jan-19	1,795,000	0	1,795,000	89,750	0
WIFA Loan	Jul-24	4,144,244	0	533,231	132,150	3,611,013
WIFA Loan	Jul-26	2,630,160	0	257,718	77,840	2,372,442
Total Enterprise Funds		11,434,404	0	3,130,949	378,640	8,303,455
Total Debt Service		\$42,529,404	\$4,500,000	\$6,805,949	\$1,561,870	\$40,223,455

TOTAL DEBT SERVICE BY TYPE*



*Total Debt Obligations (as of 07/01/2018) include principal and interest.

TOTAL DEBT SERVICE BY YEAR



6. CAPITAL IMPROVEMENTS PLAN

The Capital Improvements Plan (CIP) is a planning process identifying the capital investment a local government intends to make over a period of time. Capital for a local government constitutes the facilities and materials needed to perform the jurisdiction's function, and to produce and deliver the services expected of it. Generally, capital facilities are a structure, building or site improvement, equipment or other major asset having a useful life of at least two years.

While a CIP does not cover routine maintenance, it does include renovation, major repair or reconstruction of damaged or deteriorating facilities. While capital facilities do not usually include furniture and equipment, a capital project may include the furniture and equipment clearly associated with a newly constructed or renovated facility.

The planning period for a CIP is five years. The expenditures proposed for the first year of the plan are incorporated into the annual budget.

One of the most important aspects of the CIP process is that it is an ongoing part of the Town's overall management process. New information and evolving priorities require continual review. Each time the review is carried out, it must be done comprehensively.

The five-year capital equipment and capital projects projection that is presented in the FY 2018-19 budget continues to build on the foundation provided by the CIP. The following list identifies some of the major capital projects (with cost over \$1,000,000) and their corresponding funding sources:

- Library Building (litigation proceeds) \$2,110,000
- Sunset Lane Improvements (Impact Fees and Yavapai County) \$2,400,000
- Police Building Expansion (Impact Fees) \$1,955,000
- Boys & Girls Club Expansion (Grant and Contributions) \$1,540,000
- Viewpoint/Spouse Intersection Improvements (0.33% Sales Tax) \$3,900,000
- StoneRidge Water Tank (Water and Water Capacity) \$3,000,000
- Summit Tank II for Jasper subdivision (Water Capacity) \$2,500,000

7. STAFFING

The FY 2018-19 budget includes staffing changes needed to provide sufficient resources to meet service level demands.

Personnel Services represents a significant portion of total expenditures. For FY 2018-19, salaries and benefits total \$21,611,839. This represents a net increase of 1.4 FTE positions from FY 2017-18.

The FY 2018-19 budget includes the following staffing changes:

- *Community Development* – Addition of Senior Building Inspector (1.0) and Senior Plans Examiner (1.0); elimination of Building Inspector (1.0);
- *Parks and Recreation* – Addition of part-time Athletic Site Supervisor (0.6); addition of 2 part-time Park Maintenance Workers (1.4); elimination of Ice Staff (0.7); reduction of seasonal employees hours (0.3);
- *Library* – Addition of part-time Administrative Support I (0.7); reduction of part-time Library Aide hours (0.3);
- *Public Works* – Reclassification of Engineering Technician (1.0) from General Fund to HURF;
- *Police* – Addition of Community Services Officer (1.0); elimination of Police Officer (1.0).

PERSONNEL BY DEPARTMENT/FUND

PERSONNEL SUMMARY	FY 15-16 ACTUAL	FY 16-17 ACTUAL	FY 17-18 BUDGET	FY 18-19 PROPOSED	INCREASE (DECREASE)
General Fund					
Town Council	7.0	7.0	7.0	7.0	0.0
Executive Management	9.0	9.0	9.0	9.0	0.0
Town Clerk/Risk Mgmt	3.0	3.0	3.7	3.7	0.0
Management Services	19.6	19.6	19.6	19.6	0.0
Community Development	18.0	18.0	19.0	20.0	1.0
Human Resources	3.6	3.6	4.0	4.0	0.0
Parks and Recreation	25.5	26.5	26.5	27.5	1.0
Legal	5.5	5.5	4.9	4.9	0.0
Library	21.9	21.9	21.9	22.3	0.4
Magistrate	8.0	8.0	8.0	8.0	0.0
Public Works	10.0	10.5	10.5	9.5	(1.0)
Police	85.9	97.5	99.0	99.0	0.0
HURF	16.0	16.0	16.0	16.8	0.8
Utilities Funds	5.0	5.5	5.5	5.5	0.0
TOTAL PERSONNEL	238.0	251.6	254.6	256.8	2.2

8. TOWN POLICIES

Budget Policies

The budget policies listed below create a general framework of budgetary goals and objectives. They provide standards against which current budgetary performance can be measured and proposals for future programs can be evaluated.

Budget Resources

- The Town uses a “zero-based” resource allocation approach. Each department has the opportunity to request their budgetary needs.
- One time revenues will not be used to support long-term operational expenditures.
- Addition of personnel will only be requested to meet program initiatives and policy directives after service needs have been thoroughly examined.
- A contingency amount not to exceed five percent of the combined General Fund and Highway Users Revenue Fund expenditure budgets will be maintained annually.
- When fiscal resources permit, the Town Council may, as part of the budget process, allocate funds to outside agency providers for business, social, recreational, economic development or promotional services.

Fund Reservations

- The Town will maintain a target “Unassigned” fund balance equal to a minimum of 25% of the General Fund revenues, excluding transfers. The intention of the unassigned fund balance is to provide additional stability to the General Fund, recognizing the cyclical nature of the economy and the volatility of the Town’s major revenue sources (i.e. State-shared revenues).
- In addition to the unassigned fund balance, the Town will maintain a Stabilization fund, or “rainy day fund” in the General Fund of no less than 10% of the General Fund revenues, excluding transfers. The Stabilization fund can only be used if approved by Council and only after the unassigned fund balance is depleted. If the Stabilization fund is used, the Town must restore the balance to the minimum limit over a period not to exceed five fiscal years.
- All other funds must never incur a negative fund balance.

9. STRATEGIC PLANNING PROCESS

The FY 2018-19 budget was prepared based on the adopted financial policies and the direction provided by Council at its annual Leadership Workshops. The strategic goals that have been adopted are as follows:

- Preserve and sustain the elements of our environment
- Expand and diversify water resources
- Support and encourage activities and events
- Maintain a safe community
- Improve infrastructure
- Maximize citizen involvement in achieving our vision
- Maximize and diversify revenue sources
- Ensure growth with General Plan 2025
- Increase and diversify our economic base
- Improve regional cooperation

10. BUDGET PROCESS & FINANCIAL PLANNING

The Town of Prescott Valley prepares an annual budget through a process involving teamwork and cooperation among many groups and individuals within the Town. Budget preparation allows departments the opportunity to reassess goals and objectives and the means for accomplishing them. Even though the budget may be heard by the Council in May and adopted in June, its preparation begins at least six months prior with projections of Town reserves, revenues, expenditure limit requirements and financial capacity. It is with this groundwork that departmental expenditure requests are made and subsequently reviewed.

Budget Roles & Responsibilities

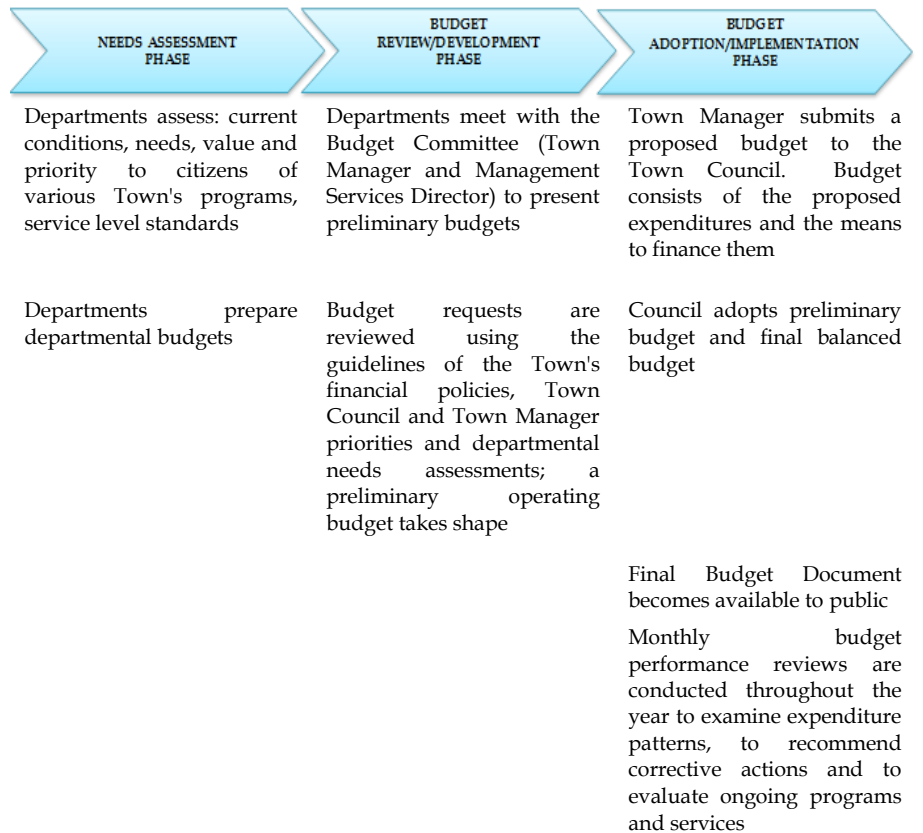
Every employee plays a role in budgeting, whether in its formation, preparation, implementation, administration or evaluation. Ultimately, of course, the Department Director, through the Town Manager, is accountable to Council for the performance of departmental personnel in meeting specific objectives within the approved budget.

The Division Managers and the Department Directors are responsible for reviewing, modifying and assembling their departmental data into a departmental request package. Department Directors should critically evaluate departmental objectives and prioritize requests. The preparation of

budget requests should coincide with the goals, objectives and management action plans set forth by Council.

With the assistance of the Town Manager, the Management Services Director will prepare the final tentative budget and present it to the Town Manager for approval. Once approved by the Town Manager, the Town Manager will present the tentative budget to Council for approval. Council is responsible for the review of the Town Manager’s tentative budget and approval of the final budget.

The adopted budget will be presented to the community by being published twice and presented in a public hearing. The adopted budget will then be submitted to the Arizona State Auditor General’s Office.



Transfers of Appropriations

At any time during the fiscal year, the Town Manager may approve for transfer, part or all of any unencumbered appropriation balance among operating line items within the same division/department. Budget transfers affecting Personnel Services, Capital Outlay or interdepartmental budget transfers will require the approval of Town Council. Upon completion of a Request for Council Action form, recommended by the Town Manager, Council may approve to transfer part or all of any unencumbered appropriation balance from one account or department, to another.

Summary of Key Events

The Town’s fiscal year is July 1 through June 30. The budget is developed and considered from February through June. Following is a typical generic calendar.

February – March

- Budget process kick-off meeting
- Revenue estimates
- Expenditures estimates
- Departmental budget request meetings
- Staffing requests and capital requests

April – May

- Goals and performance measures updated
- Review and revise revenue estimates
- Process budget materials
- Update, copy and prepare preliminary budget for distribution
- Tentative budget distributed to Council
- Town Council budget review
- Adoption of tentative budget

June – July

- First publication of tentative budget
- Second publication of tentative budget
- Public hearing and adoption of final budget
- Budget sent to Auditor General’s Office