

**TOWN OF FOUNTAIN HILLS  
MINUTES OF THE OF THE TOWN COUNCIL RETREAT  
FOUNTAIN HILLS TOWN COUNCIL  
FEBRUARY 9, 2017**

\* **CALL TO ORDER AND ROLL CALL**

Mayor Kavanagh called the meeting to order at 9:05 a.m. in the Town Hall Council Chambers.

- \* **ROLL CALL** - Present for roll call were the following members of the Town Council: Mayor Linda Kavanagh, Vice Mayor Nick DePorter, Councilmember Henry Leger, Councilmember Art Tolis, Councilmember Dennis Brown, Councilmember Cecil Yates, and Councilmember Magazine. Town Manager Grady E. Miller, Town Attorney Andrew McGuire and Town Clerk Bevelyn Bender were also present.

Staff members present were Recreation Supervisor Rachael Goodwin, Tourism Coordinator Grace Rodman-Guetter, Senior Services Supervisor Kelly Fonville, Facilities/Environmental Supervisor Raymond Rees, Supervisor of Parks Kevin Snipes, Information Technology Administrator Mike Ciccarone, Events and Operations Supervisor Community Center Mike Fenzel, Executive Assistant to Town Manager Nancy Walter, Volunteer Coordinator Heather Ware, Finance Director Craig Rudolph, Community Services Director Mark Mayer, Development Services Director Bob Rodgers, Public Works Director Paul Mood, Presiding Judge Bob Melton, Maricopa County Sherriff's Captain David Letourneau, Economic Development Director Scott Cooper, Fire Chief Dave Ott, Administrative Service Director Dave Trimble, Assistant Fire Chief Jason Payne, Accountant Beata Bogdan, Superintendent of Streets Justin Weldy, Senior Planner Marissa Moore and Court Administrator Victoria Reuss.

**AGENDA ITEM #1 – THE TOWN MANAGER PROVIDED AN OVERVIEW OF THE COUNCIL RETREAT.**

Mr. Miller explained the Retreat was a strategic workshop the Town held annually to discuss strategic issues on budgeting, the Town's financial forecast and financial needs for the next fiscal year. Mr. Miller noted that the financial options discussed were not inclusive and other options were welcomed from Council. He also suggested Council hold a Special Session in the near future to address additional options to the Town's revenue shortfall and solutions.

**AGENDA ITEM #2 – REVIEW OF THE TOWN'S CORE SERVICES.**

Mr. Miller presented information included in a PowerPoint presentation covering core services and the Town's organization chart (available on line or in the office of the Town Clerk).

**a. PUBLIC SAFETY**

Mr. Miller explained law enforcement services were provided by the Maricopa County Sherriff's Office (MCSO) and their contract with the Town would renew in June 2017, with five-one year contract renewals that officially end June 2022. MCSO had notified the Town that next year's contract would be reduced by 2-1/2% or approximately \$100K. Mr. Miller stated that those funds would be placed in the Contingency Fund in case of an increase in MCSO's contract in the future.

Emergency Fire/Rescue services were provided by Rural Metro and currently their contract renews June 2018.

Councilmember Yates asked Mr. Miller what caused the reduction in MCSO's contract and Mr. Miller answered that MCSO broke down their budget in three different areas patrol, sergeants and operating materials and supplies and added he would be meeting with MCSO on February 13<sup>th</sup> and request that information. Mr. Miller believed the Town received the same or more coverage and that MCSO's overall costs had declined.

Councilmember Magazine asked why there could be an increase if MCSO's contract was valid until 2022 and Finance Director Craig Rudolph added that MCSO's contract was a full cost recovery contract and their costs were passed

down to the Town. Mr. Miller brought up that MCSO were currently using body cameras, with success and had moved to a 4-10 work day, which was a factor in the contract amount.

Mr. Miller reported that Rural Metro's contract expires next year and due to the Town's financial situation he felt it was best to negotiate their contract early so the Town knew what their obligation would be for the following fiscal year. Mr. Miller mentioned that he and Town Attorney McGuire would be meeting with Ted Bean of Rural Metro in February to begin negotiations.

Vice Mayor DePorter asked staff to find out how interested Rural Metro was in continuing fire suppression, so the Town could plan if they discontinued service. Mr. Miller said he had already anticipated the impact, but every indication was Rural Metro would be in service for a long time, which was good for the Town and noted that overall Fountain Hills Rural Metro's contract amounted to only 5%-10% of their business, but he would confirm their commitment. Mr. Miller stated under Rural Metro's contract the cost increase to the budget was anticipated to be 3.5%.

#### **b. ADMINISTRATION**

Mr. Miller added that Administration consisted of the Mayor and Council office, Town Attorney, Finance, Administration Services, Purchasing and other staff members who supported the organization.

#### **c. PUBLIC WORKS**

Mr. Miller stated that Public Works provided services for the Town's streets, right-of-ways, pavement management and the Capital Improvement Program.

#### **d. COMMUNITY SERVICES**

Mr. Miller noted that Community Services included mainly the Parks and Recreation, Senior Services and Community Center.

#### **e. DEVELOPMENT SERVICES**

Mr. Miller expressed that Development Services provided Town services for Building Safety, Planning and Zoning, Code Enforcement and the GIS Tech/CAD operator.

### **AGENDA ITEM #3 – TOWN OPERATIONAL PRIORITIES – STRATEGIC PLAN.**

Mr. Miller referenced the operational priorities based on the Strategic Plan for fiscal year 2016-17 was as follows:

- Stabilize Town Finances
- Pavement Management Program
- Economic Development Plan
- Fountain Lake Water Quality
- Fire Station #2
- Facilities Reserve Fund
- State Land
- Traffic Studies

Mr. Miller stated that the 2017-18 Strategic Plan had not been adopted so the priorities were in draft form at this time and once completed and approved by Council, it would be updated.

## **AGENDA ITEM #4 – UPDATES ON ECONOMIC DEVELOPMENT AND TOURISM.**

### **a.) Economic Development Update**

Mr. Miller introduced Economic Development Director Scott Cooper who shared the information in the PowerPoint presentation (available on-line and in the office of the Town Clerk). Mr. Cooper stated this information was an update to his presentation in November. He noted the Town's direct partners were Arizona Commerce Authority (ACA) and Greater Phoenix Economic Council (GPEC) and that a total of 13 business leads were received with three that met the minimum requirements and were still active. Mr. Cooper presented information on the generated active leads, business attraction results, business retention and expansion and displayed a workforce snapshot from the Fountain Hills area.

Mayor Kavanagh asked if Brokers Alliance was continuing their effort to use a bus service to bring in workers and Mr. Cooper answered that nothing had been finalized at this time.

Mr. Cooper continued regarding entrepreneurial development and marketing, which include a brochure, a trade show booth, a quality of life video and a four to six page article exclusively on Fountain Hills published in the "Business in Focus" business and trade magazine, which is to be sent out to C-level executives across the United States and Canada with a readership of 363K in their spring edition.

Councilmember Tolis asked why the Shea Connelly Development was not on this list due to its importance within the community. Mr. Cooper answered that he did not take credit for this project nor did he assist them in locating in Fountain Hills, but he stressed that he recognized the importance of this development and has been assisting them. Councilmember Yates added that the N-Shea Group was receiving a lot of phone calls showing interest within the business community asking for information on their commercial rentals. Councilmember Tolis asked if Bart Shea would share the list of signed tenants so the Town could market the businesses and Councilmember Yates added that Mr. Cooper had already asked to be notified.

Councilmember Magazine asked for clarification about the comment Mr. Shea had expressed that units would be affordable and comparable to Scottsdale. Mr. Miller maintained that some units in Scottsdale were considered luxury and then there were non-luxury in price and he felt Fountain Hills would be considered in the non-luxury range. Councilmember Tolis understood the price range to be in line with the Westridge Development at \$800 to \$1,200 per month range.

Mayor Kavanagh noted that during her meetings with GPEC, MAG, other cities were sending their Economic Development representative out to visit other cities to promote their areas and recommended the Town consider adding funds to the Economic Development budget allowing Mr. Cooper to make additional contacts and speak about Fountain Hills. Mr. Cooper suggested the next step would be to look for a consultant outreach acting as an extension to Town staff.

Mr. Cooper continued to list that 50 new jobs and \$1M in capital investments were added to Fountain Hills under his direction and remarked this was a good start.

Councilmember Tolis recognized Wise Agent, owner Bryon Wise who continued to expand his business from his Saguaro Boulevard location into 50 states and has international ties focusing on the real estate industry. He also observed that Mr. Wise marketed Fountain Hills as a great community with an easy commute and Mr. Cooper noted he would reach out to Mr. Wise.

Councilmember Yates stated that with the increased in businesses coming into Arizona, it gave Fountain Hills many opportunities and noted that \$350M was leaving the area (retail leakage). Councilmember Yates also pointed out the various possible uses available for the 15 acres the Town owned on Shea Boulevard behind the Walgreens and facing Shea and added the area along the Beeline Highway that needed to be viewed as locations for business opportunities. Councilmember Magazine asked what would be a good strategy to begin reviewing these locations and Councilmember Yates answered that Town zoning needed to be addressed and then Mr. Cooper could move forward. Councilmember Magazine requested Mr. Miller and Mr. Cooper come back to Council with a strategy for these properties and Councilmember Yates suggested making it a goal.

Councilmember Leger expressed his concerns and pointed out that Target Plaza was at a 60% vacancy and the Kern offices on Shea were empty and he asked why there was such a high rate of vacancy in Town. Councilmember Yates answered it was functional obsolescence discussed through leases and ownership of the plaza stores that caused the vacancy adding that the rent was too high and the Town did not have the critical mass; he stated the need to create traffic opportunity. Mr. Cooper agreed this was always a challenge. Councilmember Tolis agreed with the lack of critical mass and felt rental tax was important to the Town and locating mid to luxury housing in these areas would be very desirable to help Target and not compete with our other businesses. Councilmember Tolis asked Council to give staff direction to create a plan. Mr. Miller agreed and staff would return with a plan. Vice Mayor DePorter suggested thinking regional plan such as a water park or slide. Councilmember Tolis believed there a new model was needed to generate higher tax revenue for the Town and Mr. Miller added at higher and best use for these areas with possible leasing of the Town property.

Councilmember Leger maintained that an “Infrastructure Feasibility Impact Study” would be in line and pointed out the current Town’s financial situation and stated that the action could not happen fast enough to recover from the lack of revenue needed for the Town. Mr. Cooper added this discussion was timely since he suggested a consultant outreach.

#### b) Tourism Update

Mr. Miller introduced Recreation Supervisor Rachael Goodwin who gave an informational update on Tourism as presented in a PowerPoint (available on line or in the office of the Town Clerk) covering the past year. Ms. Goodwin spoke to the increases in hotel room sales tax, the increase in the total views on Experiencefountainhills.org and noted the number of impressions made by Facebook users. Ms. Goodwin stated that staff had created a five year Strategic Plan and with Council’s approval had set goals as follows:

1. Communication and Outreach
2. Destination Marketing and Promotion
3. Research, Planning and Measurement
4. Industry Education, training and Recognition
5. Tourism Product Development
6. Strategic Alliances

Councilmember Magazine asked the cost for sponsoring the Waste Management Golf Event and the Cub Spring Training for advertising and questioned if the cost was a good expenditure. Ms. Goodwin reported the cost was \$6,500 for each event, and paid with grants from the Arizona Office of Tourism who required a plan and anticipated expenditures for marketing. She added that sponsorships provide signage, on-site visibility with Town logos and television coverage highlighting Fountain Hills. Councilmember Magazine decided it sounded like a good idea and wondered how the sponsorships feedback was measured. Ms. Goodwin answered that the only tracking available was through ads on the Town’s website. Councilmember Magazine asked if a type of postcard could be attached to the website to make available any requests for Town information and Ms. Goodwin answered this could be done with the sender requesting information. Mayor Kavanagh interjected that a locally Town sponsored tennis event at the Copperwynd promoted Fountain Hills and aired for two days worldwide.

Ms. Goodwin mentioned that she would be meeting with the digital marketing staff to put together a targeted demographic to reach out to Arizona visitors.

Ms. Goodwin discussed the current action steps in Goal #3 and its progress along with the completed initiatives. Ms. Goodwin reviewed Goal #4 noting the current action steps in progress and continuing along with the completed initiatives with a list of awards the Town had received with the marketing of Fountain Hills. She continued on to Goal #5 and explained the current action steps in progress while getting the word out about Fountain Hills.

Councilmember Yates brought up the possibility of adding trail blazing signs for advertising and directing people to Fountain Hills and to specific areas in Town by working with the Arizona Department of Transportation (ADOT) to place signs in locations on the highways to direct travelers into the Town and he felt it would be a good investment due to the high traffic numbers traveled in those areas. Councilmember Yates stressed that the current signs were faded and needed to be replaced and asked what Town department would this issue fall under. Mr. Miller stated he recently

had asked a company for proposals involving two entry monument signs and to identify the best locations and costs; however, the company has not yet responded. He noted that this item would be placed into the Capital Improvement projects. Councilmember Yates suggested assigning the project to a particular department as one of their goals. Mayor Kavanagh asked Town Manger Miller to follow-up with the company involved.

Councilmember Tolis suggested the Town contact the Fountain Hills Chamber of Commerce Board Members because it would be in the Chamber's interest to work with businesses and create a signage plan with Town Council's approval and take the work off Town staff. Councilmember Tolis stressed that lighting on the signs should be included and mentioned that solar signs and water features were an expression of our community and should be addressed. Councilmember Tolis suggested that the Fountain Hills School District be involved and recognized for marketing purposes.

Street Superintendent Justin Weldy presented information on the Town's recent purchase of signage explained the use of good solar lighting.

Mr. Miller stated that the Town's old signs had business names and stressed he would like to get away from those and be more specific to areas such as golf, shopping, Fountain Hills parks because businesses' come and go along with the fees involved. Mayor Kavanagh stated that the Chamber had initiated the specific business signage and pointed out that the signs needed to be replaced due to wear. Mr. Miller asked Mr. Weldy when would the Sunridge Canyon signs be installed and Mr. Weldy answered the signs were in the design stage and would be installed within three weeks.

Mayor Kavanagh agreed stating it would be in the Chamber's best interest to be involved with the signage because of the Chamber staff's involvement in directing visitors to the downtown and other service locations in Town. Ms. Goodwin stated that staff also had expressed ideas for signage and Mayor Kavanagh stated her appreciation for their input.

Ms. Goodwin continued with Goal #6, Strategic Alliances, and discussed the current action steps in progress and added that 75.9% of the marketing budget was for tourism.

Mayor Kavanagh acknowledged the great partnership the Town had with the Ft. McDowell Yavapai Nation and the Salt River Indian Community regarding their partnership, involvement and distribution of the tourism guide especially useful for the campers in their area.

Councilmember Tolis mentioned that the St Patrick's Day event was moved to a parking lot in Plat 208 and questioned if the Town could get involved this year and sponsor the event in Fountain Park since for many years this tradition brought visitors' to Fountain Hills. Mayor Kavanagh stated she had been in contact with Phyllis Kern, the promoter of the current event along with her chili cook-off event, since the previous event coordinator pulled out due to the lack of revenue available to support charities within Fountain Hills. Mayor Kavanagh explained that one advantage to the Plat 208 location was that the smaller stores would now be involved instead of everyone focusing on the park area only.

Councilmember Magazine agreed with Councilmember Tolis that the event should stay in the park and pointed out there would also be a three day art show held along the plaza at the same time leaving a better draw from the park for this event. Mr. Miller stated Councilmembers made good points, but there needed to be a lead time for paperwork allowing for Town's approval and then time to market and promote. Mr. Miller add that the Town was not aware of the previous sponsor's withdraw from the event until it was too late for the Town to take over the event. Councilmember Tolis indicated his preference for leaving the event in the park so as not to break away from this event's tradition.

Mayor Kavanagh agreed and praised Ms. Kern for her efforts to continue the event and stated that Ms. Kern would also like to hold the event in the park but due to the added expenses it would make that impossible even if the Town waived the park fees for this year. Ms. Goodwin added that fencing, lighting and restrooms and other services would be needed for an event of this size in the park and knew that Plat 208 was manageable for Ms. Kern to sponsor the event. Ms. Goodwin added that in her opinion the Town should take over the St. Patrick's Day event and keep the tradition going for the good of the Town.

Councilmember Tolis suggested that local volunteers such as the Four Peaks Rotary Club and other Town volunteers could step in and keep the regional draw coming into Town. Mr. Miller stated that if the Town sponsored the event there would be changes with sponsor's and local organizations handling the beer sales; he felt it would be very challenging to pull off the event this year on such short notice and assured everyone that the Town would continue turning the fountain green on St. Patrick's Day. Councilmember Leger added that the St. Patrick's Day event had always lost money and if the Town took it over there needed to be money placed in the budget for 2017-18, but for this year the timing was just not there. Councilmember Tolis stated his support for the Town taking over the event in the budget and its marketing and giving businesses a chance to be involved.

Mayor Kavanagh declared a break in the meeting at 10:40 a.m.

Mayor Kavanagh continued the meeting at 11:00 a.m.

## **AGENDA ITEM #5 – PRESENTATION OF THE PROPOSED FY2017/18 BUDGET, FISCAL AND FINANCIAL POLICIES**

Mr. Miller introduced Finance Director Craig Rudolph who presented the finance information in PowerPoint (available on-line and in the office of the Town Clerk).

Mr. Rudolph reviewed the current financial policies were adopted the Town Council through resolution and included:

### **a. REVIEW FISCAL/FINANCIAL POLICIES**

- Cash handling - recently adopted
- Capital Assets - the tracking of assets, inventory of items and categorizing
- Grant - applies to any grants coming to Council for their approval or smaller grants approved and accepted by the Town Manager.
- Procurement – a workable and practicable policy giving staff direction for the best decision making when purchasing items or services
- Investment - governs the Town's money investments
- Issuance and post-issuance compliance policy – Posting on-going financial disclosures with the Municipal Security Board to their website by the Town's primary contact Mr. Rudolph
- Travel – direction for staff to follow when traveling for Town business and outlining the Town's expectations

Mr. Rudolph listed the policies that were being considered to be revised in the future:

- Financial - change to allocation of construction sales tax currently 50% to General Fund and 50% to Capital Improvement Fund and noted that before this current allocation was approved the Town previously allocated 85% to Capital Improvement Fund and 15% General Fund
- Investment – updated in 2010 after the great recession and Mr. Rudolph stated a recommendation would be to relax the restrictions and allow additional investments
- Vehicle Replacement Program – for vehicles to be reported in the Town's budget book and approved by the Town Council

Councilmember Yates asked if there was a need or an advantage to switching the construction sales tax allocation from 50%-50% back to 85%-15% and Mr. Miller answered that it could not be changed at this time without a severe cut in individual budgets since the 50% was funding primary capital projects and other revenue funds would have to be stabilized before this would be initiated.

Mr. Rudolph reviewed the operating fund balances as of December 31, 2016 totaling \$6,219,052, accumulated and available for specified purposes.

- Rainy Day Fund - Council designated 20% of the previous five year General Fund revenues and the policy was stringent on its use
- General Fund
- Public Art Fund

- Internal Service Fund
- Vehicle Replacement Fund

Councilmember Magazine asked how these amounts compared to last year's numbers and how were the funds affected. Mr. Rudolphy answered that the numbers were down and Mr. Miller added that was due to transfer of \$1M to the Capital Fund and \$1M to Capital Replacement Fund. Mr. Rudolphy stated that the only fund affected would be the Capital Improvement Fund. Councilmember Magazine asked what the policy was on the General Fund and Mr. Rudolphy answered the General Fund was unrestricted and unreserved and cautioned Council from using this fund due to the effect on the Town's bond rating.

Town Manger Miller explained that policy regarding the Capital Fund surplus transfers into the General Fund, and Mr. Rudolphy added that the rating agency looked at anything below 20% operating expenses or \$10M in a three month period as a red flag and that drop could negatively affect the Town's bond rating. Mr. Miller explained that the Town did not have the opportunity to build up the Capital Fund unless the Town's financials were addressed.

Councilmember Magazine asked where the Vehicle Replacement Funding came from and Mr. Rudolphy answered the funding was allocated from those departments using vehicles and from their operating fund (1/7 of the replacement costs) to build the fund. Mr. Rudolphy pointed out that last year the fund was \$2M short and is currently short to replace all Town vehicles from the fund; if funds were needed, they would be transferred from the General Fund.

Mayor Kavanagh stated that the Town owned its vehicles and did not lease; Mr. Rudolphy added staff had discussed leasing briefly as an option and the benefits between owning and leasing vehicles; he added that if requested, staff could look further into options. Mr. Rudolphy remarked that a proposal was inserted into the budget to replace the Fire Department's ladder truck and staff discussed whether to lease purchase or a complete lease due to the initial cost of \$800K. Mr. Rudolphy explained that the Vehicle Replacement was lacking funds due to the short-time frame of the fund and the inability by previous Council's to allocate funding.

Councilmember Magazine suggested a review of the formula used to replace vehicles and maybe go beyond the time currently to replace. Councilmember Tolis asked if replacement was necessary due to technology issues and if not, why purchase a new fire truck. Mr. Rudolphy answered that fire trucks had a 15-year active service use and five-years in reserve service. Fire Chief Dave Ott stated there were technologies and maintenance issues in older fire trucks and at some point were no longer useful and added that Fire Chief Payne had review different options and specked out a truck in the amount of \$800K that would serve the purpose necessary along with a savings and could be used for the next 20-years. Chief Ott noted there were benefits to an eight year lease since the Town would received a new replacement after that period of time and stressed that staff was still weighing options. Mr. Miller stated staff would return to Council with their best recommendation.

#### **b. REVIEW EXISTING FUND BALANCES**

Mr. Rudolphy explained the Highway User Fund (HURF) and noted the Excise Tax Funds Downtown Strategy Fund would be wiped out due to potential projects with the Debit Service Fund used to pay outstanding bonds. Mr. Rudolphy stated that revenue previously collected through the Development Fee Funds needed to be expended by December 31, 2020; otherwise, Statue dictated the money must be returned to those who had paid the fees. Town Attorney McGuire added that it was best to spend the funds prior to the deadline and Mr. Rudolphy assured the Council that there were plans to spend the funds: Law Enforcement Funds were ear marked to Fire Station #2 and the Open Space Funds would be spent on the Adero Canyon Trailhead.

#### **c. REVIEW TOWN'S DEBT SERVICE**

Mr. Rudolphy listed the two Debit Service Bonds as:

- General Obligation (GO) Bonds - used to fund specific capital projects
- Municipal Property Corporation (MPC) Bonds – backed by the Town's Excise Tax (primarily sales tax)

Mr. Rudolphy discussed the Town's outstanding bonds as of June 30, 2017 and pointed out that the "GO" Bonds were for the construction of Saguario Boulevard and Refunding Bonds for the Community Center and would be paid off in 2020. He added that Eagle Mountain Community Facilities District Bond would be paid off in 2021.

**d. REVIEW FY 2016/17 ANNUAL BUDGET**

Mr. Rudolphy broke down the \$34,298,778 budget with the largest expense being Public Safety at \$7,638,828 and growing and Capital Funds totally \$9,695,420. Mr. Rudolphy also explained the current revenues ending December 31, 2016, and noted the Town was at 87% amount of the projected budget and 1.8% over collection in the prior year. Councilmember Tolis asked when the Town could see the Development Fees in the budget for the Park Place project and Town Attorney McGuire answered the fees would be paid when the building permit was issued. Development Services Director Bob Rodgers added that the Town's consultant on the project issued the building permit in this case. Councilmember Tolis asked what was the risk was of not receiving the fees and Mr. Rodgers answered they would pay the \$370K to the Town or no further permits would be issued. Mr. Miller pointed out that the figures shown on the handouts were accruals; year-to-date and the Park Place Development fees would be seen in a later report. Town Manager Miller asked when the Park Place sales tax would be received and Mr. Rudolphy answered the Town receives the sales tax on a monthly basis and amounts were accruing as the project moved towards completion.

Mayor Kavanagh asked if the total included Adero Canyon and Firerock fees and staff responded yes, and that the assessments were made unit-by-unit. Mr. Rudolphy explained the Town's budgeting process and stressed until recently staff were unable to allocate funds month-to-month, but used 1/12 of the total each month for the year and those funds were then placed in specific funds such as Fire, Parks and Recreation and Law Enforcement and spent only for those services and not for general use.

Mr. Rudolphy moved on the Expenditures and stated with the use of the financial program "MUNIS" the report listed 61.9% of the budget with 27.8% below expenditures from last year due to the timing of certain expenditures.

Mr. Rudolphy reviewed the Assumptions for the FY2017-18 proposed budget and noted the Town was expecting an increase in State Revenue with a decrease in State Income Tax. He noted his inflation factors were strictly a guess. Mayor Kavanagh stated that the residents understood these were merely predictions and based on past inflation numbers. Councilmember Leger added that these were assumptions or predictions and historically the Town's Finance Director had been very accurate. Mr. Rudolphy explained his fiscal year budget assumptions. Mr. Rudolphy stated that the MPC Bond debt payment subsidy lacked the funds for pay-off in fiscal year 2019-20 and would require a transfer from the General Fund of approximately \$270K and noted his projections did not assume for the development of the State Trust Land in the next five years.

Mr. Rudolphy addressed the variables and unknowns involving additional staffing and the availability of funds. Vice Mayor DePorter asked if the Town should plan for additional staff to be hired and Mr. Miller answered that currently revenue could not support the additional 10-15 staff members needed, but he was considering some of the departments' requests.

Mr. Rudolphy continued that State Legislators were deciding whether to make sales tax at the point of sale, which would negatively impact the Town and noted the expiration of the Rural Metro contract within a year and expressed that hopefully there would be an agreement on a contract, likewise the unknown outcome on the PSRS Settlement retirement funding and PRSRS outstanding liability and how indirectly this would affect the Town under MCSO's contract with a total of \$35,690,770 for the fiscal year 2017-18 from \$34,298,778 in fiscal year 2016-17.

**e. REVIEW PROPOSED FY 2017/18 ANNUAL BUDGET**

Mr. Rudolphy reviewed the numbers for the fiscal year 2017-18 by Core Service. Councilmember Yates pointed out considering his knowledge the Town was given a quality of service that was incredible in the amount of \$35M and for their size and acknowledged all the Town's volunteers who help support the Town. Mr. Rudolphy declared that Fountain Hills was 2<sup>nd</sup> lowest out of 10 of their size with Scottsdale being the lowest.

Mr. Rudolphy recapped the ED budget and the estimated balance in the Downtown Strategy Excise Tax Fund totally \$950K as of December 31, 2016, which also funds Tourism.

## **f. DISCUSSION OF A POSSIBLE ENVIRONMENTAL FEE INCREASE**

Mr. Rudolphy reviewed the Environmental Fee and the current collection fee totals and stressed that the Environmental Fund expenses for fiscal year 2017-18 would increase by \$100K and stressed that the current fee charged of \$36.00 would not cover the rising costs and the fee should be raised to \$41.75 to fully fund.

Councilmember Tolis asked what expenses were paid out of the Environmental Fees and Public Works Director Paul Mood explained the major fees paid for street sweeping, wash maintenance, culvert pipe cleaning, 200 drain inlet cleanings, dam maintenance, inspections, permits and household hazardous waste. Councilmember Tolis asked if the Fountain Hills Sanitary was involved in any of these services and Mr. Mood responded they were not.

Councilmember Magazine asked if the Town had the additional funding in the budget to maintain the fund and Mr. Rudolphy answered "no". Mr. Miller explained that last year the Town received some residential tax settlements and placed those funds in the Environmental Fund to cover funding of services and he also noted Council would be requested to consider an increase during the budget process.

Councilmember Brown pointed out the fee collected was not intended to cover the entire cost of these services. Councilmember Magazine stated he would be hard pressed to support an increase and believe \$36.00 was fair fee and questioned what items paid through this fund were necessary and what was not.

Mayor Kavanagh asked what part of the \$36.00 fee collected was left after expenses. Mr. Rudolphy answered that approximately \$400K was collected the first year and expenses for collecting total approximately \$50K netting \$350K. Mr. Miller stated that staff was researching ways to collect fees and maintain a high rate for collection and lowering cost of those collecting the fees.

Vice Mayor DePorter pointed out there was no consequences if a resident did not pay the fee and supported the Town using one of the Town's utilities to help with collections and requested staff to follow-up on these possible billing sources. Councilmember Leger agreed with Councilmember Brown that the fee was only to offset to the cost of services. Councilmember Magazine added that raising the fee now may not cover future rising costs.

Councilmember Magazine asked about the replacement of the park benches and Community Service Director Mark Mayer answered that staff did see the necessity to replacement the benches since they were original to the parks and explained their plan was to ask residents to rededicate benches to help recoup costs.

Councilmember Tolis asked if residents who were delinquent on the Environmental Fee were charged a late fee and Mr. Rudolphy answered that Council did not authorize a late fee. Mr. Miller added that staff had discussed penalties or even using a collection agency, but the fee was only \$36.00 and did not cover the costs of recovery. Mayor Kavanagh expressed she was not in favor of raising the fee and maintained the residents had predicted this would happen and felt the Town's problems were much greater. Vice Mayor DePorter also stated he would not support an increase in the Environmental fee.

Councilmember Tolis requested that Mr. Mood provide a budget line item chart with comparisons to last year Environmental Fees including an explanation on the need and work involved. Mr. Miller informed Council how the Environmental Fee was presented to residents along with a breakdown of uses for the funds.

Mr. Miller indicated that the new fiscal year budget would not include an Environmental Fee increase and that staff would attempt to find additional funding in the budget to cover the shortfall.

Mayor Kavanagh brought up that the Town may not be receiving all the rental tax they were entitled and those not reporting should be held accountable. Mr. Miller explained the State of Arizona had made it difficult for the Town to collect rental tax. Mr. Rudolphy added that the Department of Revenue (DOR) has the total collection authority and were not allowing the Town to attempt collection of rental tax (a tax lien), which the Town would previously use to collect rental tax. He added that the Town's Auditor had determined from DOR that only when an owner applied for a TPT license and be delinquent would the DOR place the rental property information in their collection unit to collect. Mr. Rudolphy added that if the owner did not apply for a license the DOR would not pursue the owner for fees and

those rentals were never fined. Councilmember Leger asked if the Town paid DOR a collection fee and Mr. Rudolphy answered they did and paid approximately \$50K last year when this process was initiated.

Vice Mayor DePorter suggested the Town attempt to work with the Town's utility services and request they notify Town staff of known rental properties and Mr. Miller said that DOR had phased out the Town's authority. Mr. Rudolphy added that all audits must be authorized and assigned by DOR.

#### **g. REVIEW CAPITAL RESERVES**

Mr. Rudolphy reviewed information presented one year ago to identify the on-going maintenance required to the Town's infrastructure and equipment from 2016 through 2045.

Mayor Kavanagh asked if camera installation was allocated in the budget and stressed the importance of cameras in the parks, covering the museum's art, which had been vandalized. Mayor Kavanagh explained that cameras could help recoup funds from vandals when caught in the act. Mr. Miller noted that \$20K was placed in Capital Improvement for camera placement around the Town Hall area. Councilmember Magazine suggested using fake cameras that looked real and were inexpensive.

Mr. Rudolphy mentioned that in 2019-20 the Fountain Park lake liner was scheduled for replacement in the range of \$3M to \$5M dollars since pipe replacement may be needed due to age.

Mr. Miller at 12:25 p.m. requested Council pause, collect lunch and then continue working.

Mr. Miller restarted the meeting at 12:35 p.m.

Mr. Rudolphy resumed the presentation regarding the projected General Fund expenditures and Operating Revenues for fiscal year 2018 through 2022 as presented in the PowerPoint, noting a deficit beginning in fiscal year 2018-19 of \$4.8M. Councilmember Yates pointed out that this information was showing current levels and not what was needed.

Councilmember Magazine asked why the deficit was reduced in 2017-18 and Mr. Rudolphy answered due to rule changes in 2016-17 his estimated budget forecast was not realistic and since there was an increase of \$1M in new sales tax revenue not shown in the budget. Councilmember Leger asked if staff could project revenues and expenditures for the complete budget since the Town knew what was needed. Mr. Miller answered that staff could do that with streets, capital improvements, staff and vehicle replacement and return to Council with the information. Councilmember Yates said it would be hard to speculate out five years with projections.

Mr. Rudolphy continued that local sales tax showed an upward trend and pointed out information received from The League of Cities and Towns charting "HURF" projections. Mr. Rudolphy also noted no additional funds were available to add Town staff and the budget would hold at 54.95 full-time equivalent employees.

### **AGENDA ITEM #6 – PRESENTATION OF THE FIVE-YEAR FINANCIAL FORECAST.**

#### **a. STRATEGIES AND OPTIONS TO ADDRESS FINANCIAL CHALLENGES**

Mr. Rudolphy summarized the financial challenges and explained that Fountain Hills would experience a \$3.9M instead of the noted \$4.3M in cumulative revenue shortfall in five years. He also stated the Town had a structural issue that needed to be addressed and he believed the Town could not continue funding their services with the lack of existing revenues collected.

Mayor Kavanagh questioned the Town's landscaping contract and asked if cheaper companies could be found. Mr. Miller explained that the Town had only received two bids that were comparable and with the necessary equipment and experience. Mayor Kavanagh suggested using a local company and Mr. Miller explained that due to the cost of equipment some companies could not fund this size contract. Community Services Director Mark Mayer explained that the current landscape contract was \$170K with some in-house work done by staff.

Mr. Rudolphy discussed possible expenditure reductions as an attempt to address the Town's financial challenges and listed possibilities as a sales tax increase, public safety fee, primary property tax, special district options and other possible revenue options.

Councilmember Yates presented Council with a list of the TPT east valley for comparison and noted Fountain Hills was on the high side at 2.6% sales tax. Councilmember Brown stated that Scottsdale also had a primary and secondary tax with a lower sales tax rate. Mr. Rudolphy pointed out that he had included information on this issue located in the back of their packet/agenda collected from the League of Cities and Towns and the Arizona Department of Revenue. Mr. Rudolphy also mentioned a possible Transportation Excise Tax with the possibility to address the street maintenance or general revenue shortfalls.

Mr. Rudolphy stated to replace the Rural Metro Contract in the amount of \$450K, the Town could collect an additional fee of \$100 to generate approximately \$1.2M in revenue and this fee could be initiated along with the Environmental fee, but higher.

Councilmember Tolis asked if the public safety fee was a tax and would the Town have the right to tax. Town Attorney McGuire answered it was not a tax, but a flat fee.

Mr. Rudolphy stated it would required a vote of the Town's residents to create a primary property tax as shown in his PowerPoint slide along with the tax impact to various property values and property tax amounts with a limitation and available funds collected totaling approximately \$12M in revenue and would be under statutory limits.

Councilmember Tolis noted that for the Town to start a Fire District the State Legislature would have to be involved but if the Town limited a fee for fire services only, could that be done without the State Legislature's approval. Town Attorney McGuire explained that a secondary property tax with rate applied to value of property like Paradise Valley assessing the cost of Fire Service related to size of the property was declined by the Legislature for their action due to size of the property that did not matter. He continued that when the Town initiated the Environmental Tax one size fit everyone and used in that case without Legislative action. He continued to explain that if size mattered a methodology would have to be created and taken through the Legislature. Councilmember Leger asked if a subscription fee could be used such as Rural Metro billed and Fire Chief Ott stated their fee was based on square footage and was dependent on a zoning formula for commercial and residential.

Councilmember Tolis felt a primary tax was a fair mechanism since many were second homes or investment properties and those people were not necessary paying sales tax or as much and he suggested a public service fee to fully fund Rural Metro where every homeowner would pay and would eliminate any Legislature action.

Town Attorney McGuire pointed out that it would be a Council based decision and any fees would require a "Statutory Rate Study" to justify fees. Mayor Kavanagh asked if the fees could be used for other needs and Town Attorney McGuire answered they could not and the fees would be required to fund the cost of service and tied to that service with a good purpose and noted that property taxes were a general use source without limitations and were different from a fee and the reason there was a required justification study. Town Attorney McGuire continued to explain the procedures necessary to form a District. Councilmember Yates suggested making it a goal to review all options. Town Attorney McGuire noted that his firm had formed 70% of all the districts in the valley and would be happy to explore the options.

Councilmember Tolis requested specific information on the top ten tax payers in Fountain Hills and Town Attorney McGuire answered that the sharing of this type of information was prohibited by Statue. Councilmember Tolis suggested the information could be found on the Town's website. Mr. Rudolphy disagreed and stressed that the release of taxpayer information was prohibited by Statue.

Vice Mayor DePorter expressed that the property tax was the Town's best option and the answer to so many financial issues they were experiencing. Councilmember Yates commented that with the revenue that would be collected on the larger projects coming up in Town that would bring in approximately \$3.2M, which may give Council time to do a study. Councilmember Leger agreed with both Councilmembers and acknowledged the information contained in the Town's "Hocking Report" was still relevant and that supporting a property tax was the only thing left on the list.

Councilmember Magazine stated that Council had an obligation to consider the “Vision Fountain Hills” conclusion for support of a property tax and suggested the group be involved in Council’s discussions.

Councilmember Leger noted the “Hocking Report” reinforced their vision. Councilmember Yates said there were other ways to ensure citizens that their taxes would be used for specific purposes and Mayor Kavanagh agreed. She added people wanted to know where the funds were going and possibly when a debt would be paid off. Councilmember Brown expressed that there were options for Council to consider, but a decision needed to be made within the next 12 months to keep services going.

Mayor Kavanagh asked if multiple items could be placed on one ballot with different options and Town Attorney McGuire answered it was possible, but the challenge would be if all options passed or if all options failed.

Councilmember Tolis brought up an option to create a Town Regional draw experience with renovations to the park and fountain that would bring people to Town and create additional sales tax revenues. He maintained that Council needed to be willing to make it happen. Councilmember Tolis believed the Town had the opportunity to make the park a golden draw by making the park and water available for numerous uses. Mayor Kavanagh supported Councilmember Tolis proposal and noted the Town’s “Swaback Plan” that outlined a great outlet. Town Manger Miller pointed out that a Special Session could be scheduled in April to discuss projections on expenditures and revenues needed to support ideas.

**NOTE:** Councilmember Magazine left the meeting at 1:40 p.m.

**AGENDA ITEM #7 – REVIEW OF THE CAPITAL PROJECTS REPORT.**

**a. CURRENT PROJECTS STATUS AND THEIR FUNDING STATUS**

Mr. Rudolphy introduced Director of Public Services Paul Mood who reviewed the status of Capital Projects for fiscal year 2016-17.

- Ashbrook Wash – completed
  - Miscellaneous Drainage Improvements – working on the Shea overlook drainage issues
- Downtown Vision Master Plan – Cancelled
- Downtown Lighting Improvements – initiated
  - Kimbly-Horn hired and presented four concept ranging from \$50K to \$450K
  - Future discussion during March 7<sup>th</sup> Town Council meeting
- Fire Station #2 – at 60% design and staff returning comments
  - Possible spending in multiple years
  - Double counted in budgets
- Chiller Installation – initiated
  - Adding third chiller to Town Hall building
  - Lacked installation when built
  - Would extend the life of the current two chillers by rotating
  - Contract will be presented to Town Council early March
- Tennis Courts Rehabilitation – completed
- Fountain Lake Water Quality Improvements – initiated
  - Town Council approved recently
  - Notice to proceed issued
  - Completion late March
- Adero Canyon Trailhead – initiated

- 100% completed with comments returned landscape architect
- Bidding scheduled for March
- Possible spending in multiple years
- Double counted in budgets
- Fountain Park Access Improvement – initiated
  - Kimley-Horn hired to design an access into the park of the Avenue
  - Would presented to Council in March
- Four Peaks Park Phase I – initiated
  - Removal of bus barn completed
  - Community Services working on site work and landscaping
- Unpaved Alley Paving – Phase IV – initiated
  - Some prior rights issues with Salt River Project delaying project
  - 60% design completed
  - Possible spending in multiple years
  - Double counted in budgets
- Fountain Hills Blvd. Shoulder Paving – initiated
  - At 60% design with ADOT reviewing
  - ADOT administering the construction with their grant
- McDowell Mountain Road Repairs – completed

Mr. Mood announced the total for these projects were \$9,882,106. Mr. Mood also addressed the Vehicle Replacement Fund and added that vehicle leasing could involve the fire ladder truck or fleet cars, but stressed this option would not be beneficial for the park or street trucks due to their use and devaluation.

**b. NEW CAPITAL IMPROVEMENT PROJECTS**

Mr. Mood and Mr. Mayer continued on to the fiscal year 2017-18 Capital Projects.

- Adero Canyon Trailhead – ongoing
- Fountain Park Access Improvements
  - Addressing ADA issues into the park and public access and the hillside
  - Kimley-Horn working with staff
- Fountain Park Drainage improvements
  - Southeast area in the park addressing the steepness of the grade
  - Water runs into the street or sewer system
  - Will repair with a rock area
- Plaza Fountainside Courtyard Area Improvements
  - Located back of plaza addressing grass issues and lack of growth
  - Convert to pavers and astro-turf
  - Requested additional study and will return to Council with a plan
- Unpaved Alley Paving – Phase IV
  - Carried over from 2016-17 if not completed
  - SRP issue with delay
- Fountain Hills Boulevard Widening
  - Design concept with cost estimate requested for possible bond consideration

- Fountain Hills Shoulder Paving
  - AZ Department of Transportation (ADOT) project from last fiscal
  - Would be addressing any encroachment issues
- Miscellaneous Drainage Improvements – when required
- Drainage – Civic Center Improvements
  - Drainage issues parking lot Library area and complex located on La Montana
  - Need storm drain
- Downtown Lighting Improvement
  - Discussion on March 7<sup>th</sup> with presentation by Kimley-Horn
  - Funding covers three of their options
- Fire Station #2 – ongoing
- Civic Center Improvements
  - Concrete around centennial Circle area – ongoing repair
- Chiller Installation – ongoing
  - Funding would cover controls
- Town Hall Improvements
  - Convert the area behind Council Chambers for proposed Economic Development and Conference Room
- Shea Boulevard Widening
  - Design concept report and address challenges to the project
  - Find out Fountain Hills funding obligation
  - Possible bond
- Contingency

Mr. Mood noted that these items would be discussed during the Town Council’s March 7<sup>th</sup> Special Session and addressed on March 14<sup>th</sup> Capital Improvement projects meeting. Mr. Miller acknowledged that the Four Peaks Rotary and the Fountain Hills Civic Center Association (FHCCA) each contributed \$20K towards the construction of the Plaza Courtyard area improvements. Councilmember Tolis requested to see the concept plan for this project and remarked that this would be an opportunity for sponsorship to provide a chess table and a “buck pavers” opportunity to help with the cost of this project. Mr. Rudolph addressed the current Capital Project and Capital Improvement funding requirements for fiscal year 2017-18 and their sources.

**AGENDA ITEM #8 – SUMMARY OF COUNCIL DISCUSSIONS.**

Mr. Miller asked if there were any further questions and then proceeded to recap the meeting.

1. Council requested a strategy for Town owned property on Shea Boulevard and consider the highest and best use for the property with consideration to request an impact study.
2. Follow-up with Town Manger’s contractor for design, placement and costs of Town entry signs and way-finder signs. Mr. Miller assigned this project to Development Services Director Bob Rodgers due to required sign reviews by his department followed by a suggested budget and finally coordination with public services for implementation. Mayor Kavanagh requested contact with the Fountain Hills Chamber of Commerce to discuss downtown signs and Town Manger Miller stated that staff would bring back their plan to Council.
3. Consensus that the St. Patrick’s Day event was a good Town draw with Fountain Park activities and should become a Town event beginning next year.

4. It was suggested by Councilmembers to hold two or three topic based workshops to discuss issues.
5. Research Environmental Fee options, late fees, penalties and local billing options.
6. Project expenditures and revenues for Council's consideration for enhancements and attempt to cover items previously deferred with funding during the April Town Council meeting.

**AGENDA ITEM #9 - ADJOURNMENT.**

The Mayor adjourned the Retreat without objection at 2:03 p.m.

**TOWN OF FOUNTAIN HILLS**

By \_\_\_\_\_  
Linda M. Kavanagh, Mayor

ATTEST AND  
PREPARED BY:

\_\_\_\_\_  
Bevelyn J. Bender, Town Clerk

**CERTIFICATION**

I hereby certify that the foregoing minutes are a true and correct copy of the minutes of the Annual Town Council Retreat, held by the Town Council of Fountain Hills in the Town Hall Council Chambers on the 9<sup>th</sup> day of February, 2017. I further certify that the meeting was duly called and that a quorum was present.

DATED this 2<sup>nd</sup> day of March, 2017.

\_\_\_\_\_  
Bevelyn J. Bender, Town Clerk