

Town of Carefree Budget Forecast FY 2024 to FY 2032

One View of the Town's Next Nine Years

Prepared by Peter Burns

Member, Carefree Economic Development Advisory Board

January 8, 2024

Updated February 8, 2024

Caveats

- Any long term forecast (say more than 2-3 years) will be wrong – this forecast is no different
- While some accommodation has been made for future economic events, no recession anticipated
- The forecast covers the Town's General Fund and Fire Fund combined, the Town has other Funds, the most notable of which is the Highway Users Revenue Fund which must be used for certain street and road projects
- No calculations were performed to verify whether or not the forecasted expenditures comply with the Town's Expenditure Limit

Contents

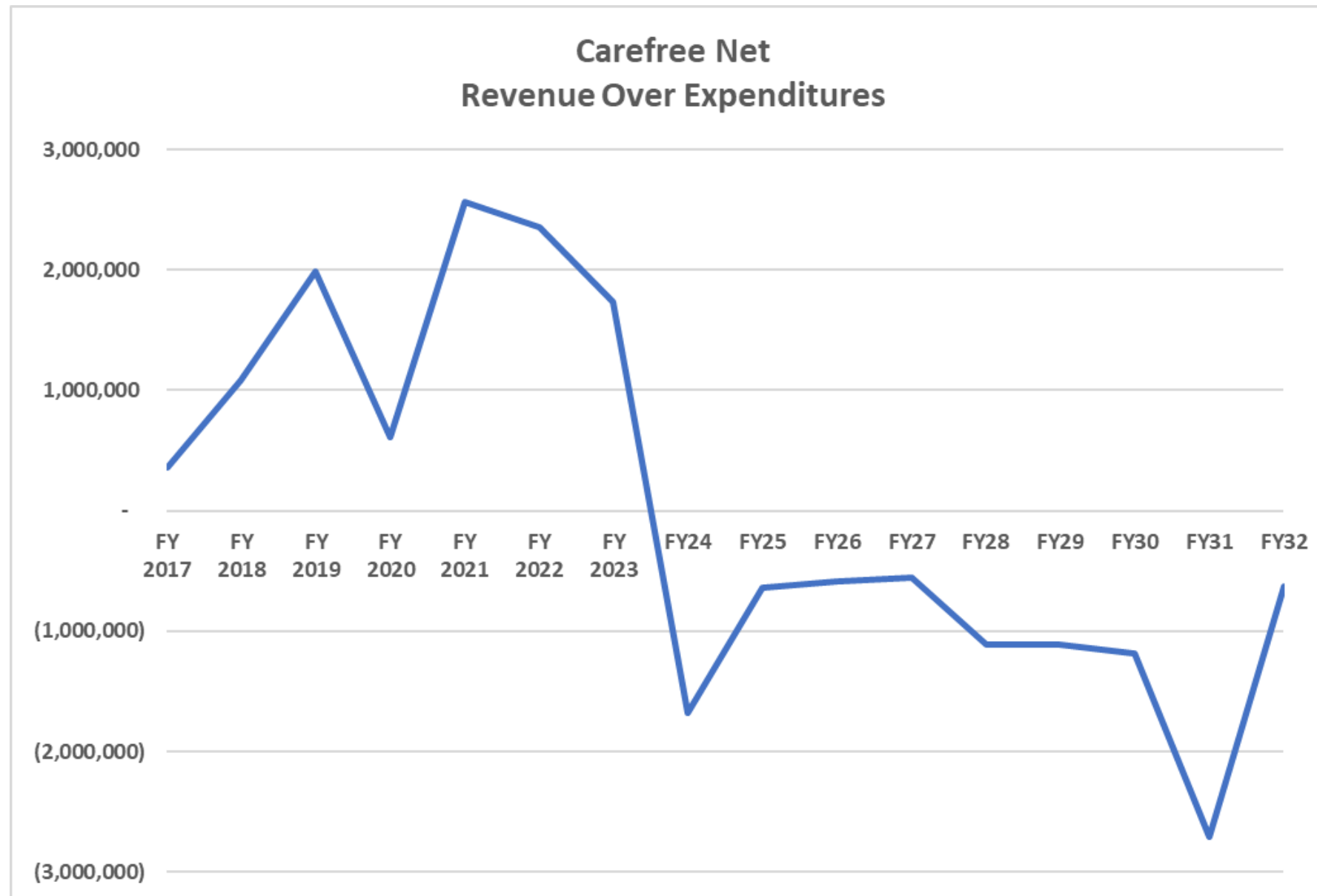
- Major Takeaways
- Revenues
- Expenditures
- Closing Thoughts

NOTE: This presentation is supplemented with detailed spreadsheets.

Major Takeaways

Major Takeaways

- After many years of the Town's Revenues exceeding Expenditures, the forecast shows a period where Expenditures will exceed Revenues



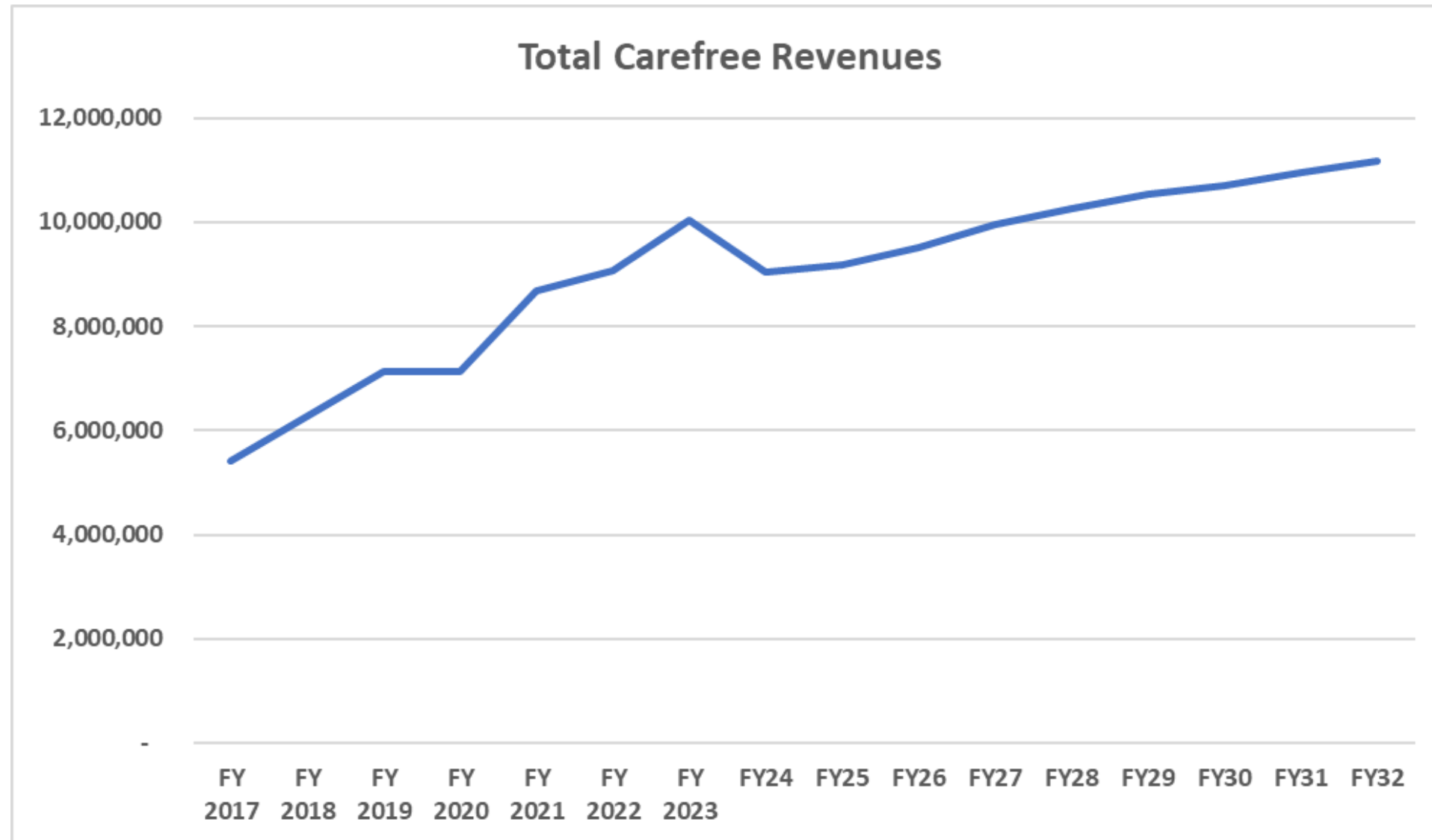
Major Takeaways

- The Carefree Cash Balance amounted to \$16.8 million at the end of FY23:
 - Under the **primary forecast**, the cash balance will decline to **\$4.6 million** at the end of FY32, the primary reason being an accelerated Capital Improvement Program compared to the prior 7 years
 - Under the **pessimistic forecast**, the cash balance will decline to **\$1.38 million** at the end of FY32, the primary reasons being the accelerated Capital Improvement Program and an assumed 25% decline in retail sales tax collections beginning in FY27
- The stated budgetary policy of the Town is to maintain a minimum Cash Balance of \$2.5 million and an ideal Cash Balance that approximates 50% of expenditures (forecasted to be \$11.8 million in FY32)

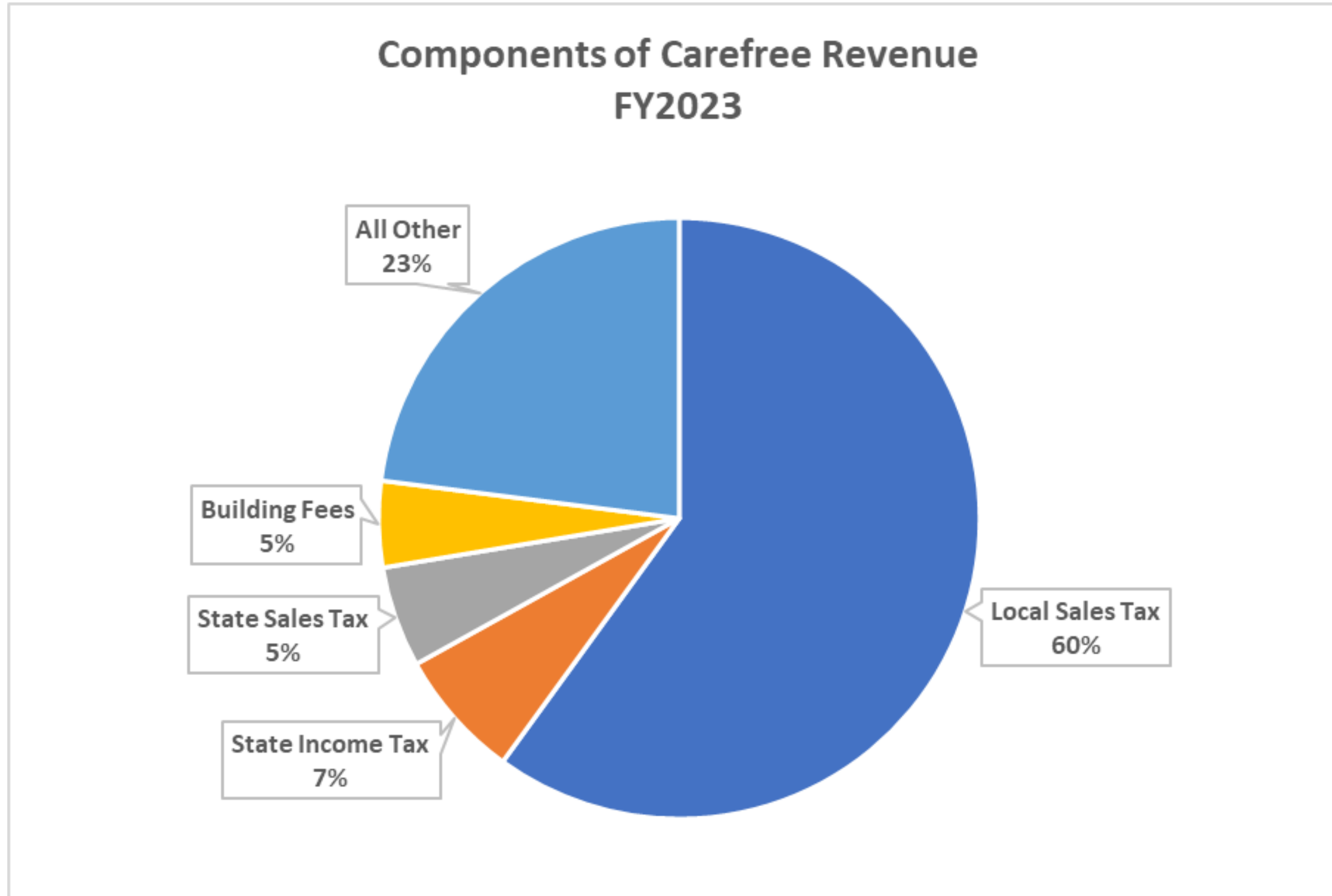
Revenues

Revenues

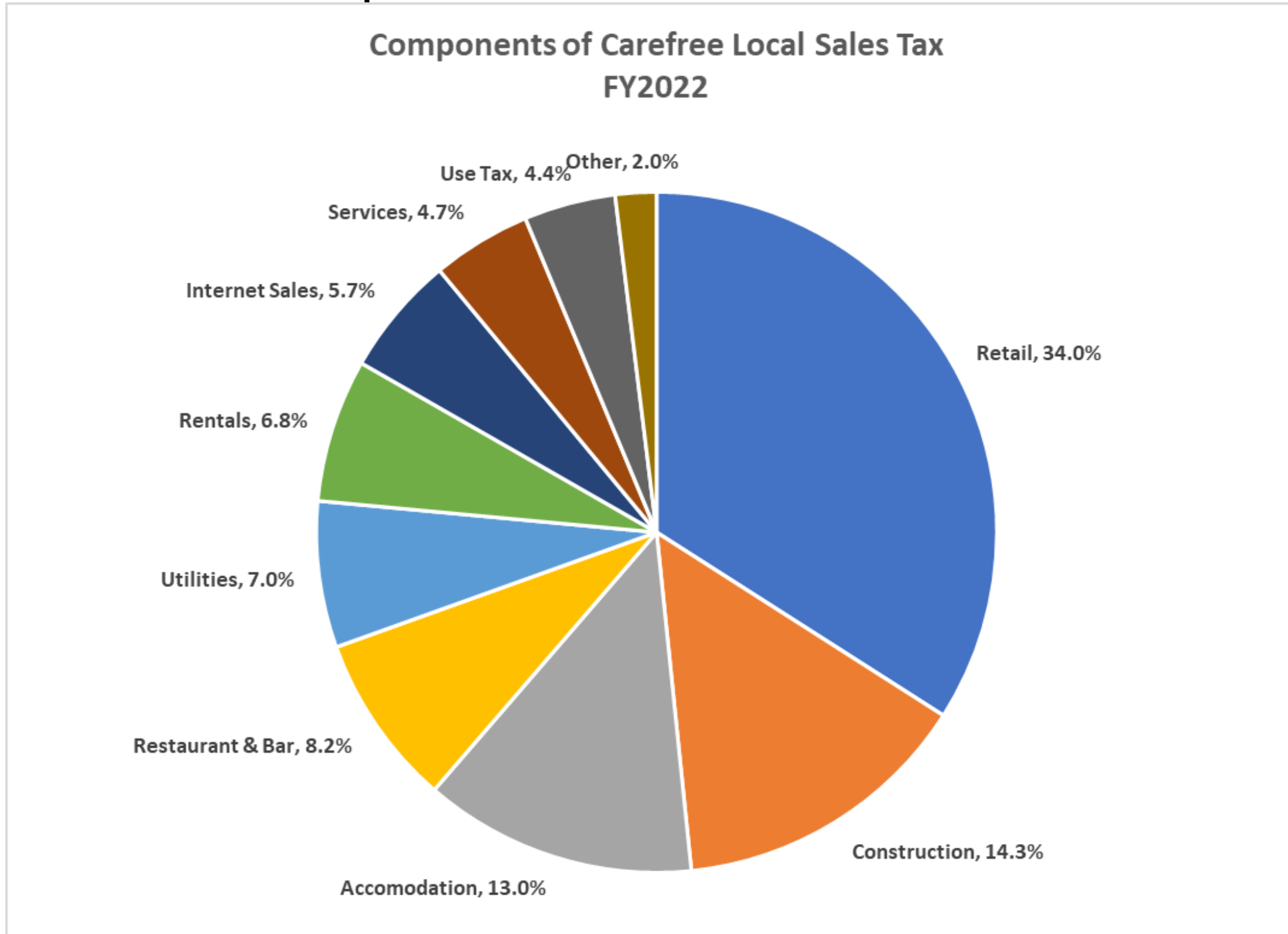
- Historically Carefree revenues have increased from \$5.4 million in FY17 to \$10.0 million in FY23
- The primary forecast indicates revenues will only increase to \$11.2 million by FY32



Major Components of Revenues

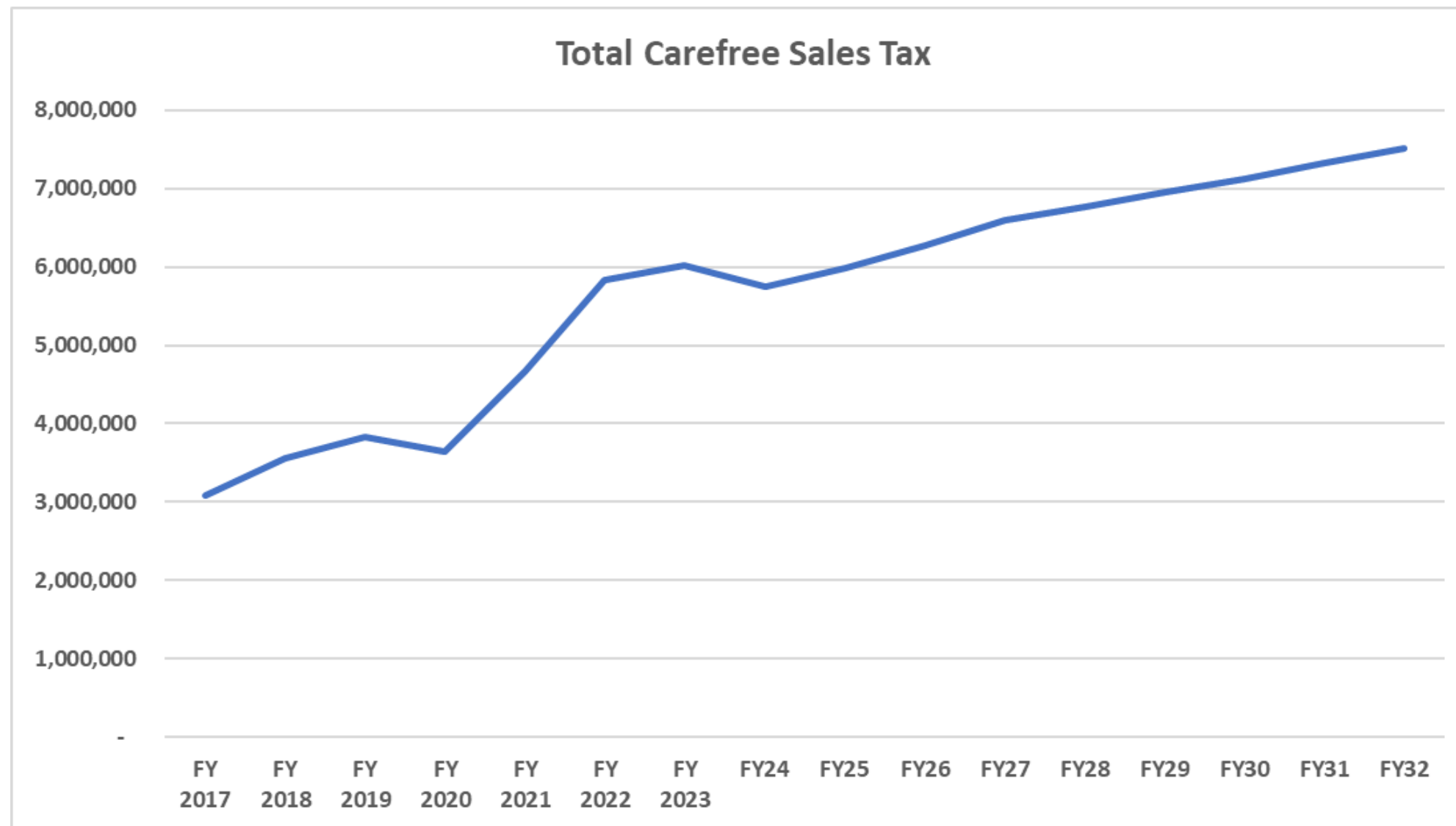


Revenues – Components of Local Sales Tax



Revenues – Local Sales Tax Collections

- Carefree enjoyed a significant increase in sales tax collections between FY20 and FY23, this growth is forecasted to moderate in the future



Forecast Assumptions for Revenues

- Local Sales Tax

- FY24 = FY23 Trial Balance * JLBC Growth (2.1%) less \$200K (each) for construction and rentals
- FY25 = FY24 estimate (before deduct for construction & rentals) * JLBC Growth (3.7%) less \$200K (each) for construction and rentals
- FY26 = FY25 estimate (before deduct for construction & rentals) * JLBC Growth (4.54%) less \$200K (each) for construction and rentals
- FY27 = FY26 estimate (before deduct for construction & rentals) * JLBC Growth (4.89%) less \$200K (each) for construction and rentals
- FY28 and beyond = previous estimate (before deduct for construction & rentals) * 2.5% less \$200K (each) for construction and rentals

Forecast Assumptions for Revenues

- Local Sales Tax

- What is JLBC?

- Joint Legislative Budget Committee, the organization that advises the Legislature on revenue and expenditure issues

- What Assumptions for Sales Tax?

October 2023 Forecast

	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>
Sales Tax				
JLBC Forecast	3.0%	3.9%	4.6%	4.9%
UA – Low	0.3%	3.0%	4.2%	4.8%
UA – Base	2.1%	4.4%	4.8%	4.9%
FAC	3.0%	3.5%	4.6%	5.0%
Average:	2.1%	3.7%	4.5%	4.9%

- Note: Components of State Sales Tax have a different mix than that of Carefree

Forecast Assumptions for Revenues

- Local Sales Tax
 - Why Adjust for Construction and Rentals?

Category	Amounts are Total Local Sales Tax (3%)					
	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022
Construction	456,972	901,739	770,744	554,870	425,748	892,430
Rentals	360,430	218,734	174,911	120,250	201,915	423,880

- Construction: Because of near buildout
- Rentals: Legislative prohibition on Cities and Towns taxing residential rentals

Forecast Assumptions for Revenues

- Local Sales Tax

- Under the pessimistic forecast local sales tax collections are reduced by 25% of FY22 retail collections (\$530,000) in FY27 and beyond. Why?

- To offer a “pessimistic” forecast that could account for:

- A recession

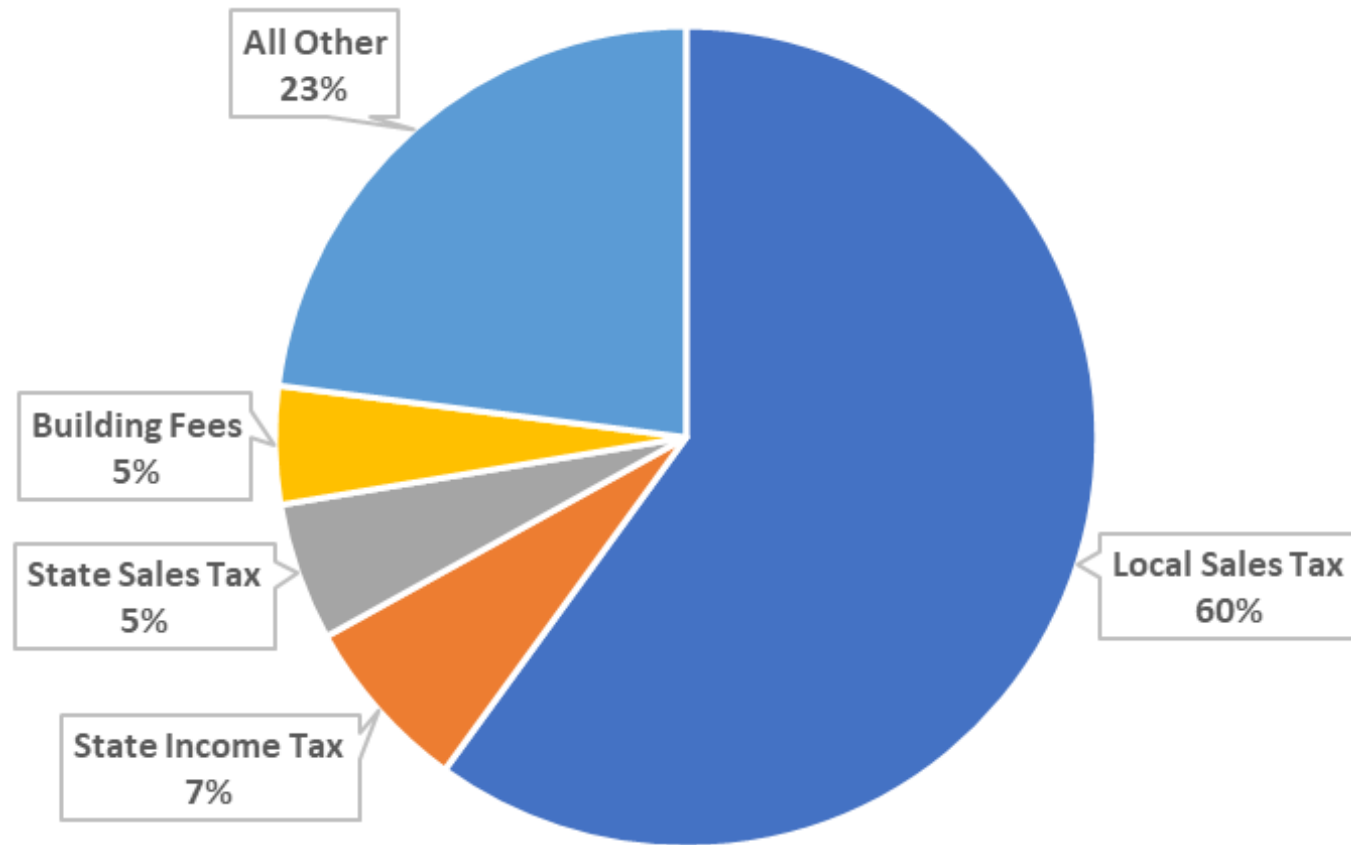
- One or more major retail sales tax collectors ceasing to do business in Carefree

- A change in purchasing patterns of Carefree residents and/or visitors

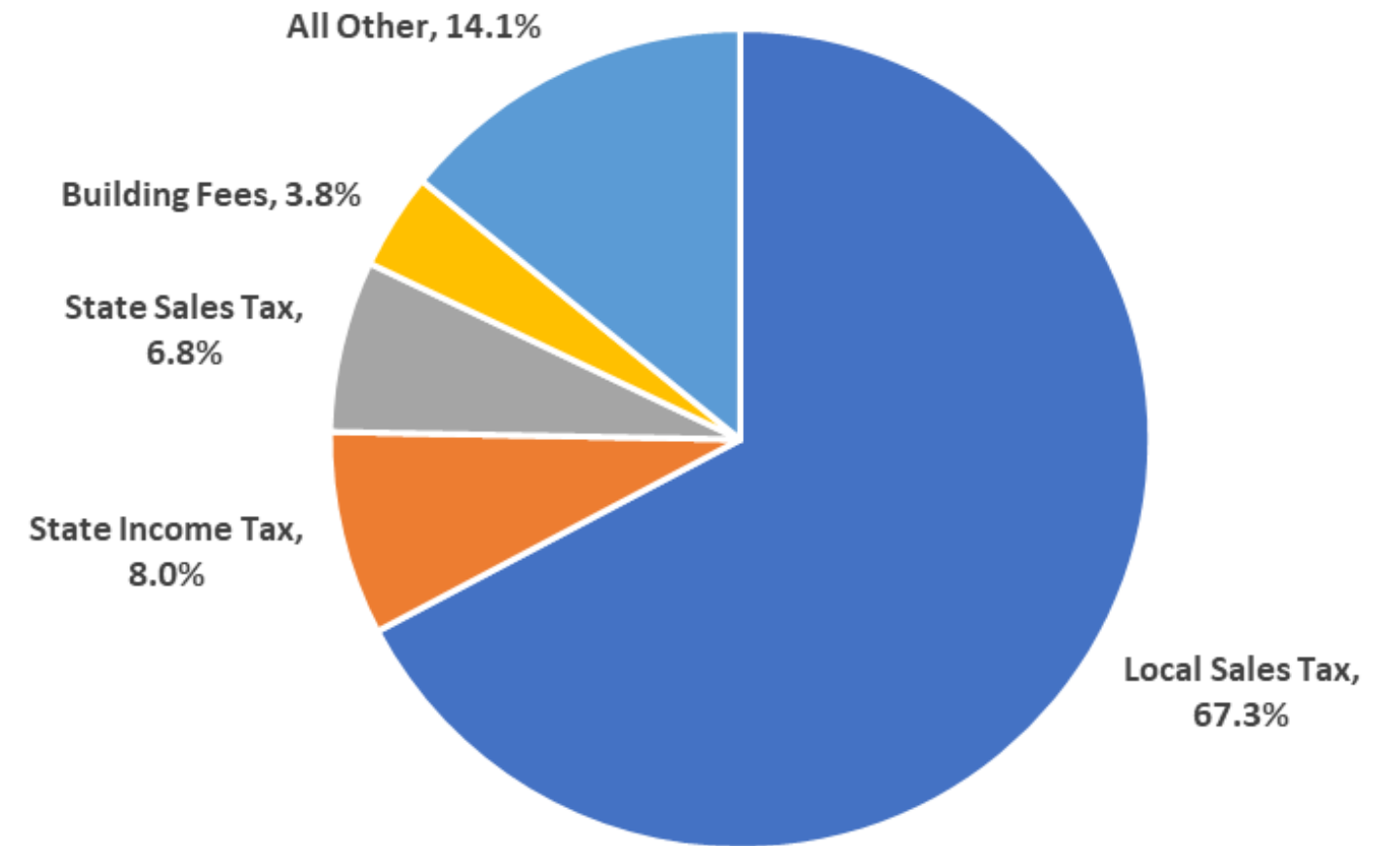
- The possibility of the Legislature prohibiting Arizona Cities and Towns from collecting sales tax on food sales

Revenues – How the Composition will Change

Components of Carefree Revenue
FY2023



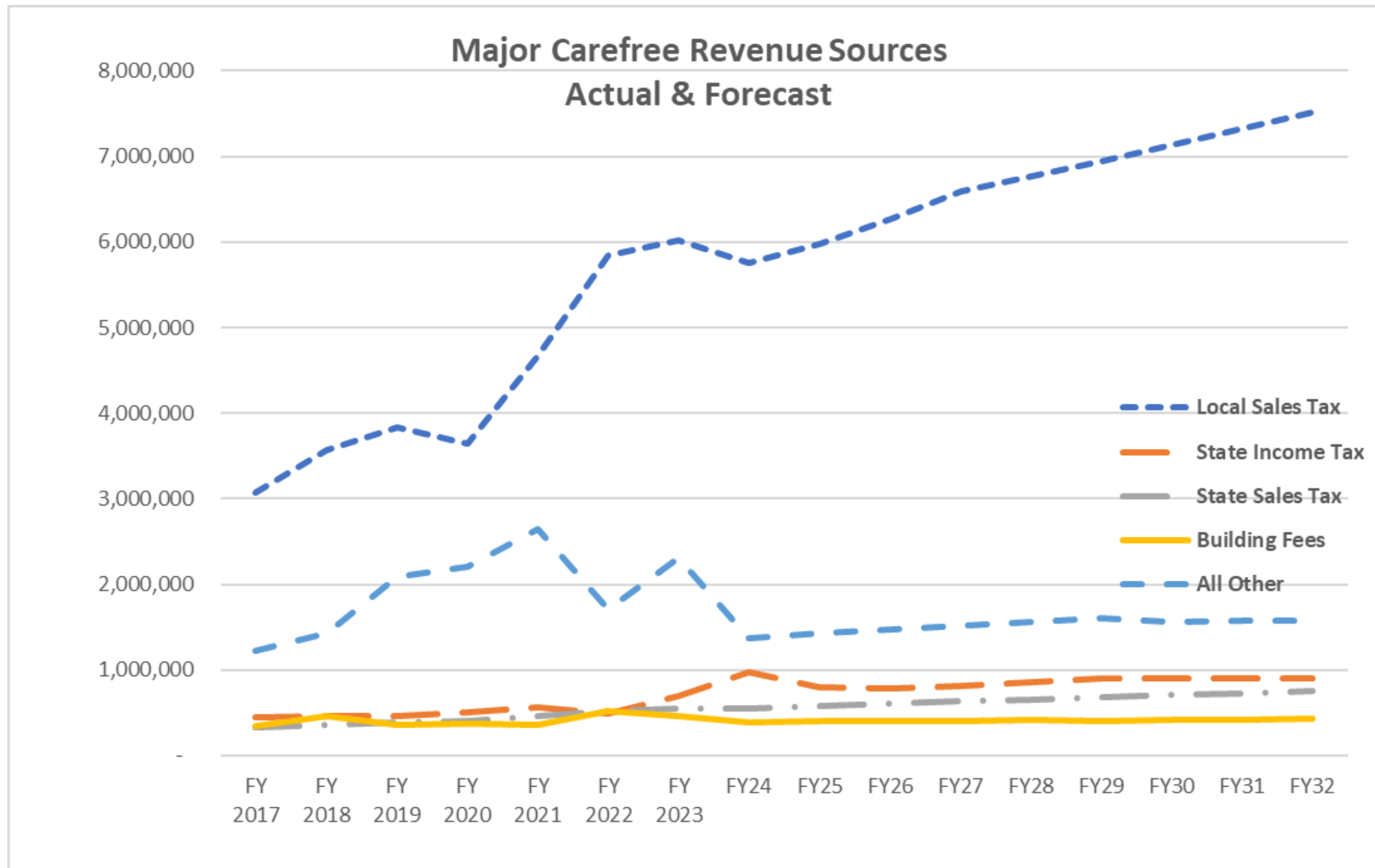
Components of Carefree Revenue
FY2032



Revenues – The ‘Other’ Category

General and Fire Fund Revenues	FY23 Trial Bal	PCT	FY 32 Forecast	PCT
Local Sales Tax	6,023,708	60%	7,512,726	67%
State Income Tax	699,050	7%	897,786	8%
State Sales Tax	544,720	5%	756,224	7%
Building Fees	465,727	5%	424,455	4%
Subtotal	7,733,205	77%	9,591,191	86%
LGIP Interest Income	416,725	4%	33,225	0%
Water Company Lease Pay Prinicipal	414,340	4%	300,000	3%
Utility Franchise Fees	297,970	3%	333,175	3%
Water Company Lease Pay Interest	244,764	2%	-	0%
Federal, County & State Grants	186,230	2%	11,862	0%
Court Service Fees	185,234	2%	263,646	2%
County Lieu Tax - Vehicle License	182,202	2%	250,736	2%
Fines	122,915	1%	175,546	2%
Cable TV Fees	84,057	1%	103,807	1%
Fire Ins Reimbursement	67,717	1%	14,000	0%
Special Event Marketing Revenue	47,113	0%	58,903	1%
Water Company Rent	33,000	0%	32,027	0%
Miscellaneous Income & Donations	25,502	0%	-	0%
Town Clerk - Permits & Solicitation Fees	200	0%	1,633	0%
Town Clerk Misc Sales	177	0%	222	0%
Subtotal	2,308,146	23%	1,578,781	14%
Total Revenues	10,041,351	100%	11,169,972	100%

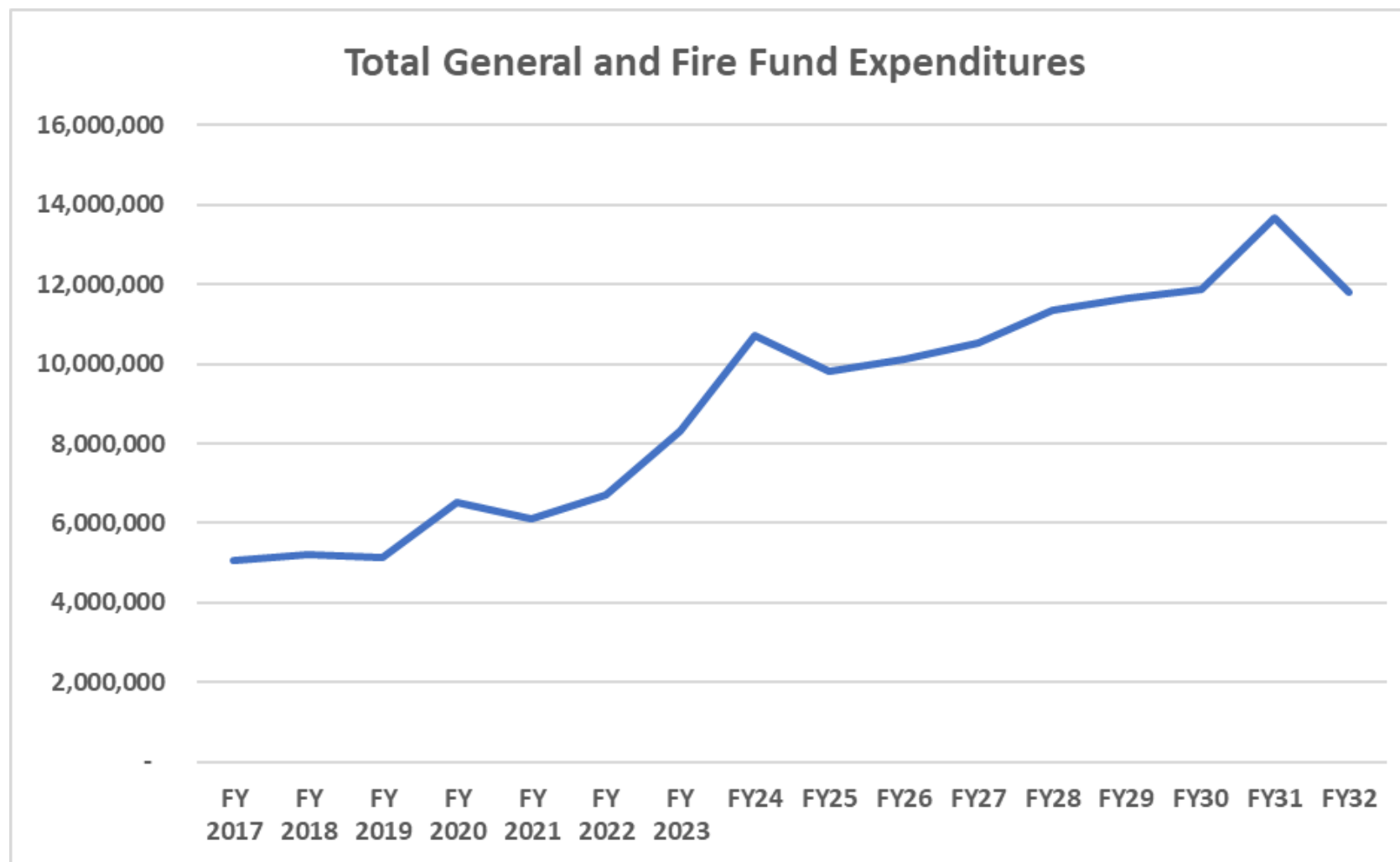
Revenues – How the Composition will Change



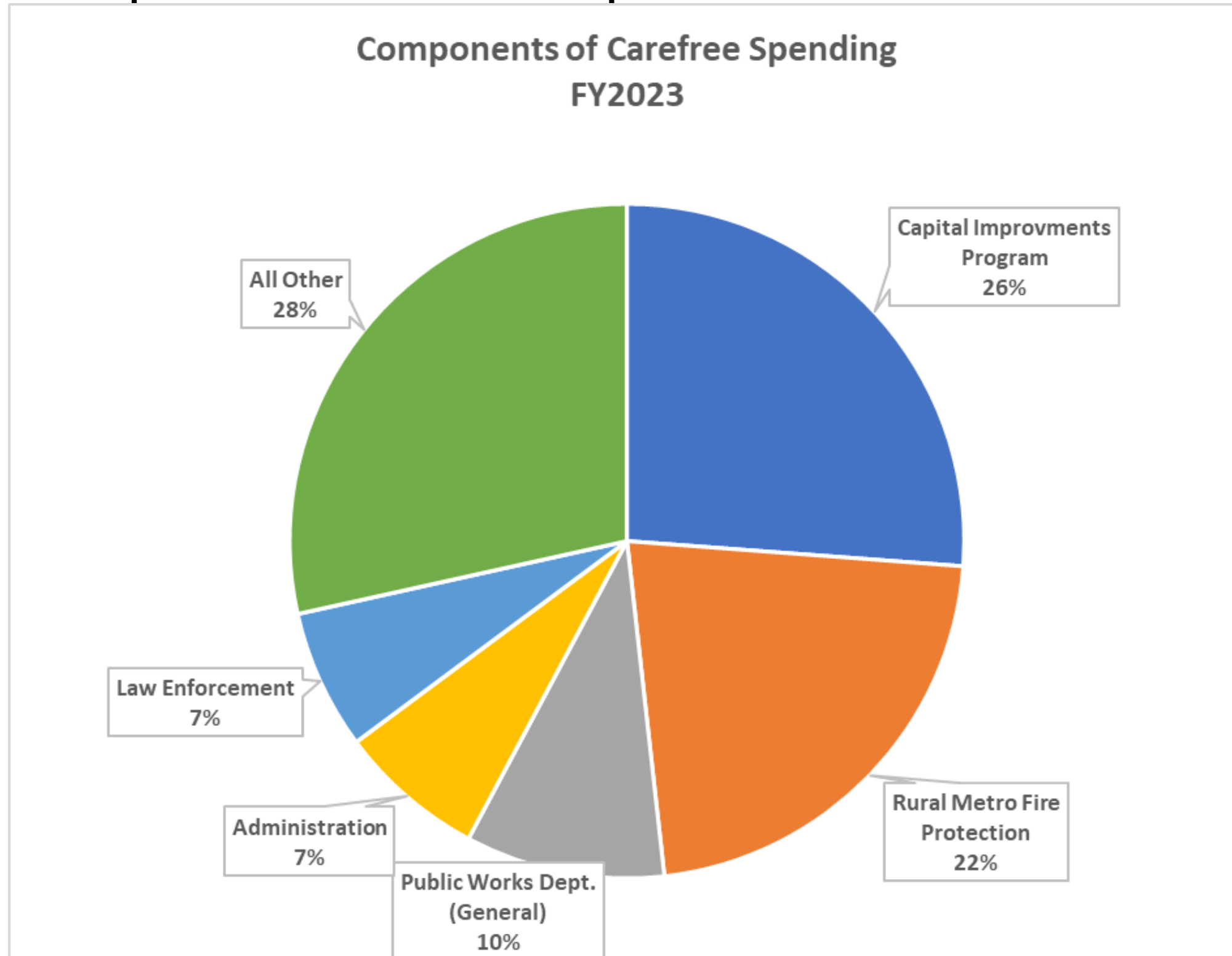
Expenditures

Expenditures

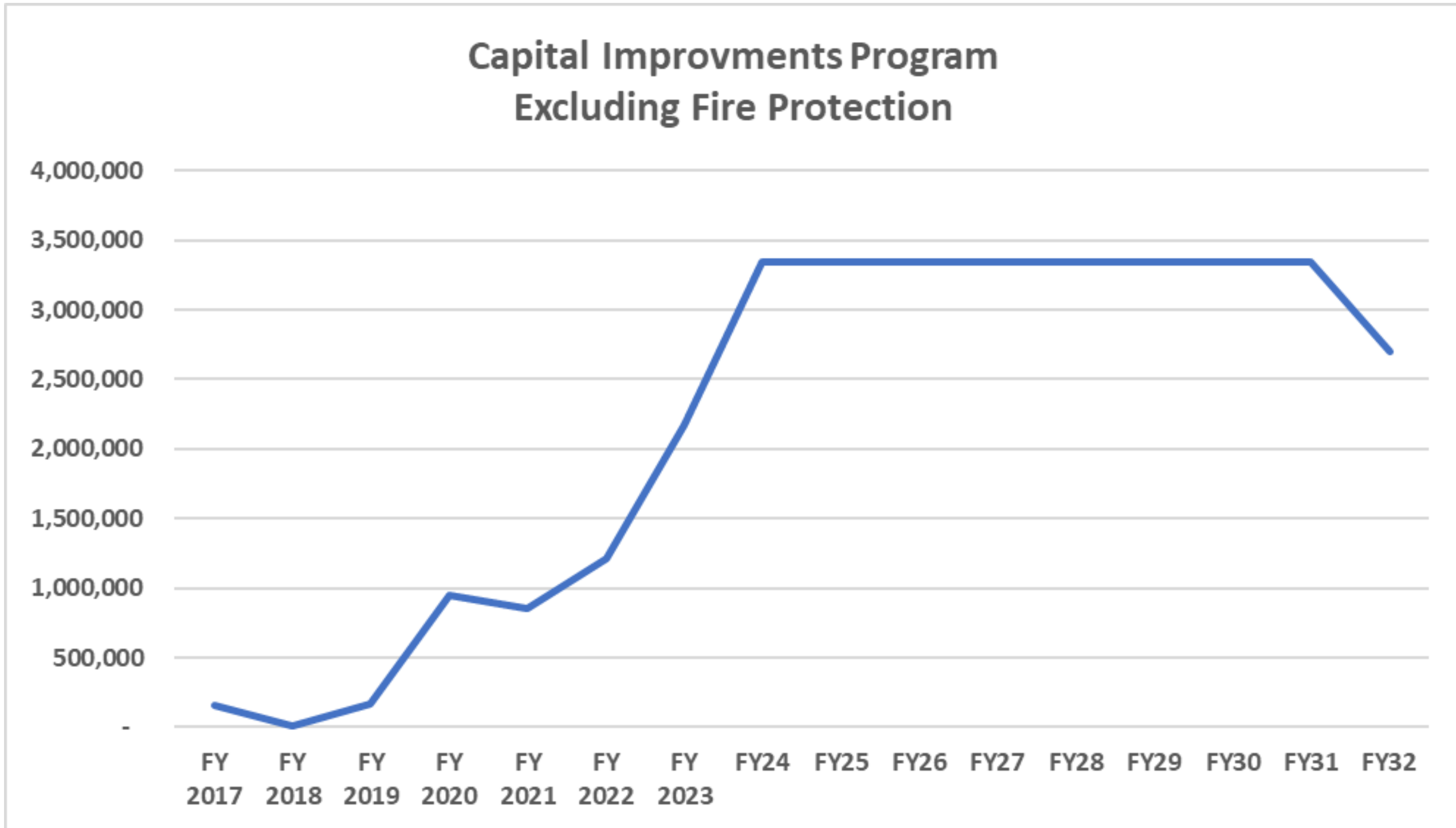
- Historically Carefree expenditures have increased from \$5.0 million in FY17 to \$8.3 million in FY23
- The forecast indicates expenditures will reach a peak in FY31 at \$13.6 million and decline to \$11.8 million in FY32



Major Components of Expenditures



Expenditures – Capital Improvement Program



Expenditures – Fire Protection Capital

- In addition to the Capital Improvement Program, capital expenditures are planned for fire protection

	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31
CIP-FIRE PROTECTION	1,173,500	20,500	50,000	175,000	25,000	60,000	30,000	1,505,000

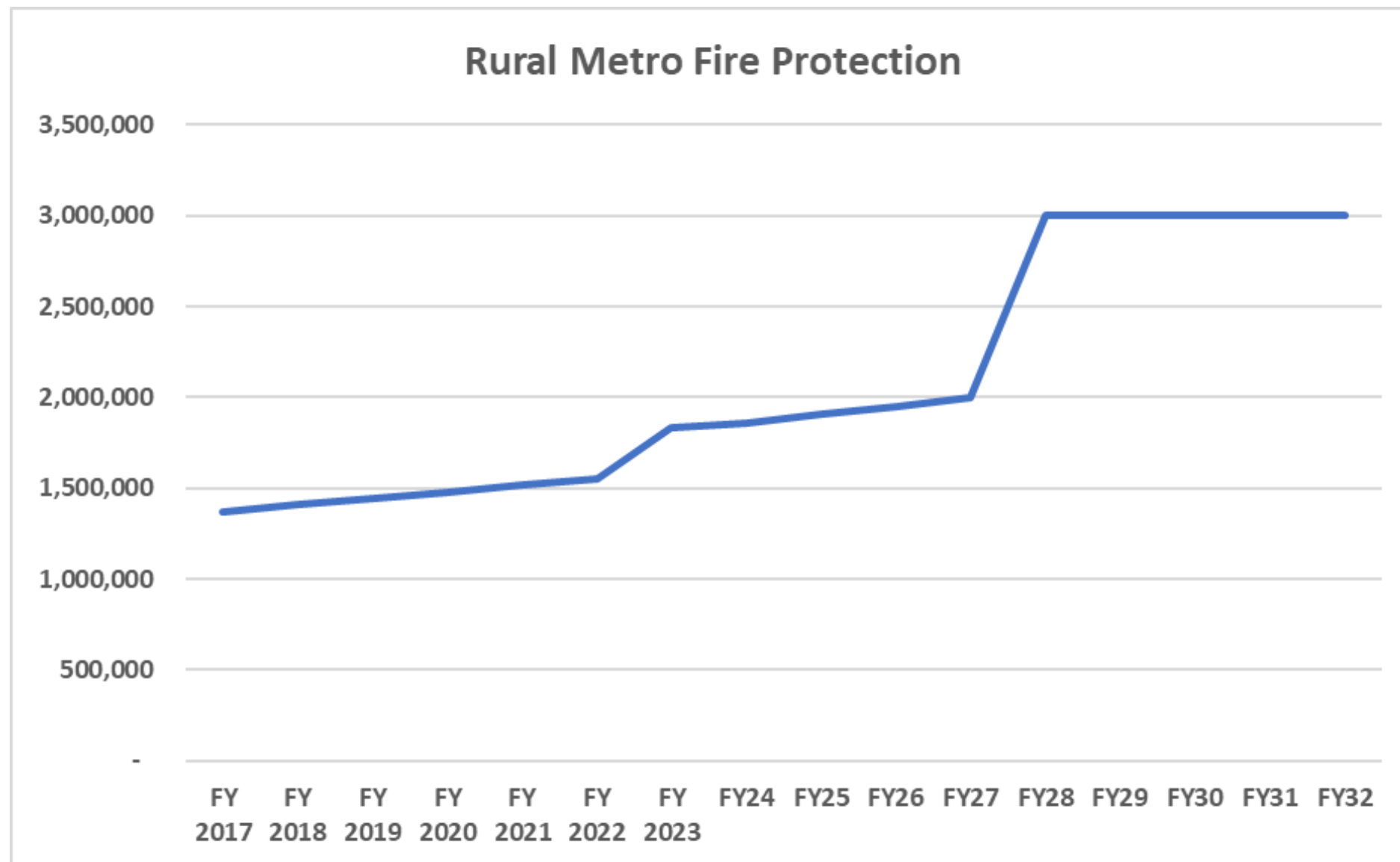
Expenditures – Omitted Capital

- There are some potential capital expenditures that were excluded from the forecast:

Items Omitted from PB Forecast of Capital	23/24	24/25	25/26	26/27	27/28	28/29	29/30	30/31
Mechanical Equipment Replacement	95,000	30,000	30,000	250,000	200,000	150,000	300,000	250,000
Traffic Signage Replacements	5,000	25,000	45,000	50,000	50,000	50,000	50,000	50,000
Traffic Calming Program Funding	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000
Regional Street Project (MAG TIP) - Pima (Stagecoach to CCR)		250,000	3,800,000	4,170,000				
Tom Darlington/Cave Creek Road Intersection					200,000	2,000,000		
Total Omitted	115,000	320,000	3,890,000	4,485,000	465,000	2,215,000	365,000	315,000

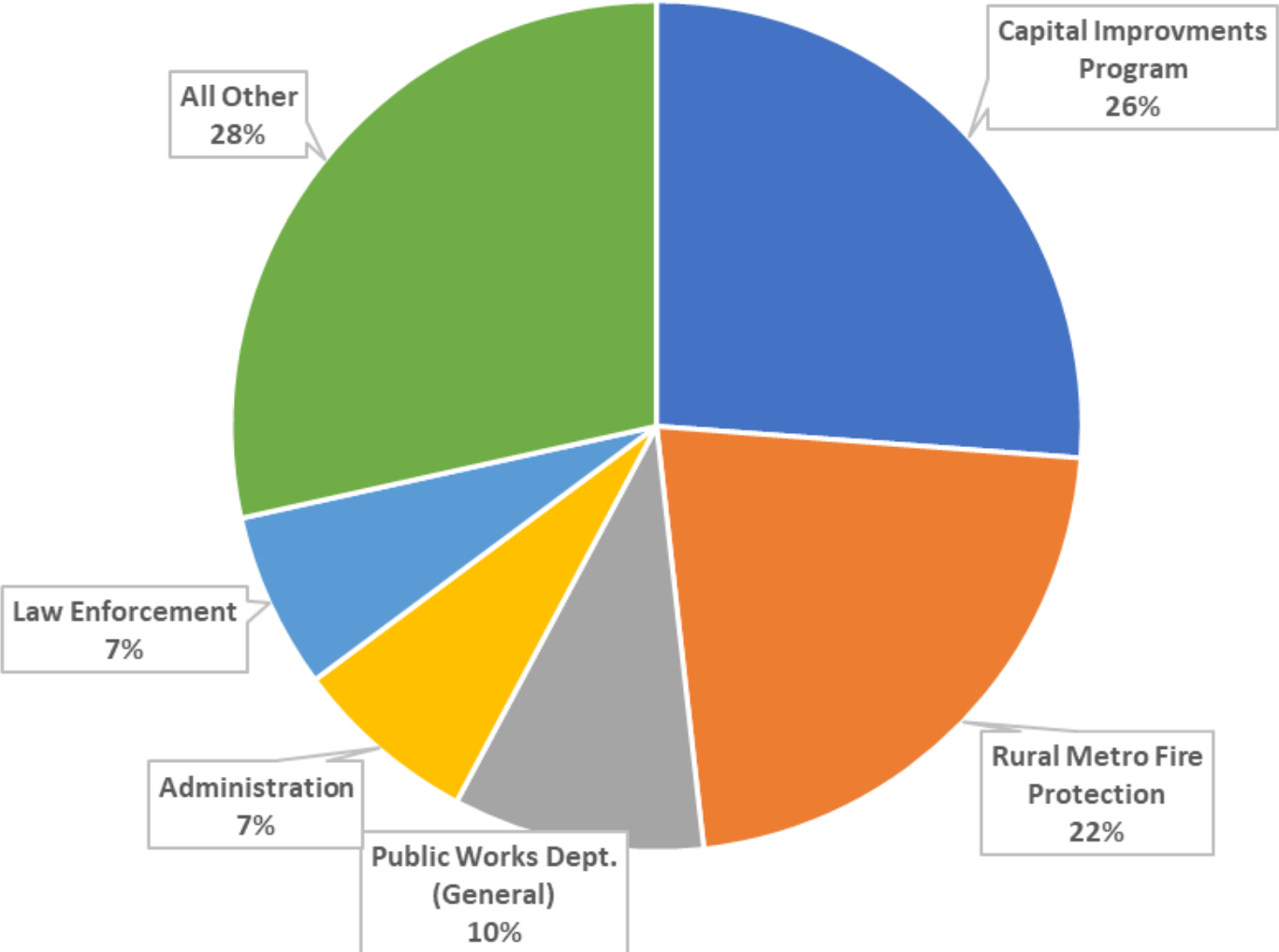
Expenditures – Fire Protection

- The current contract with Rural Metro for fire protection ends in FY27. What will happen after that is uncertain. The forecast assumes that the cost of fire protection will increase from \$2 million in FY27 to \$3 million in FY 28 and beyond.

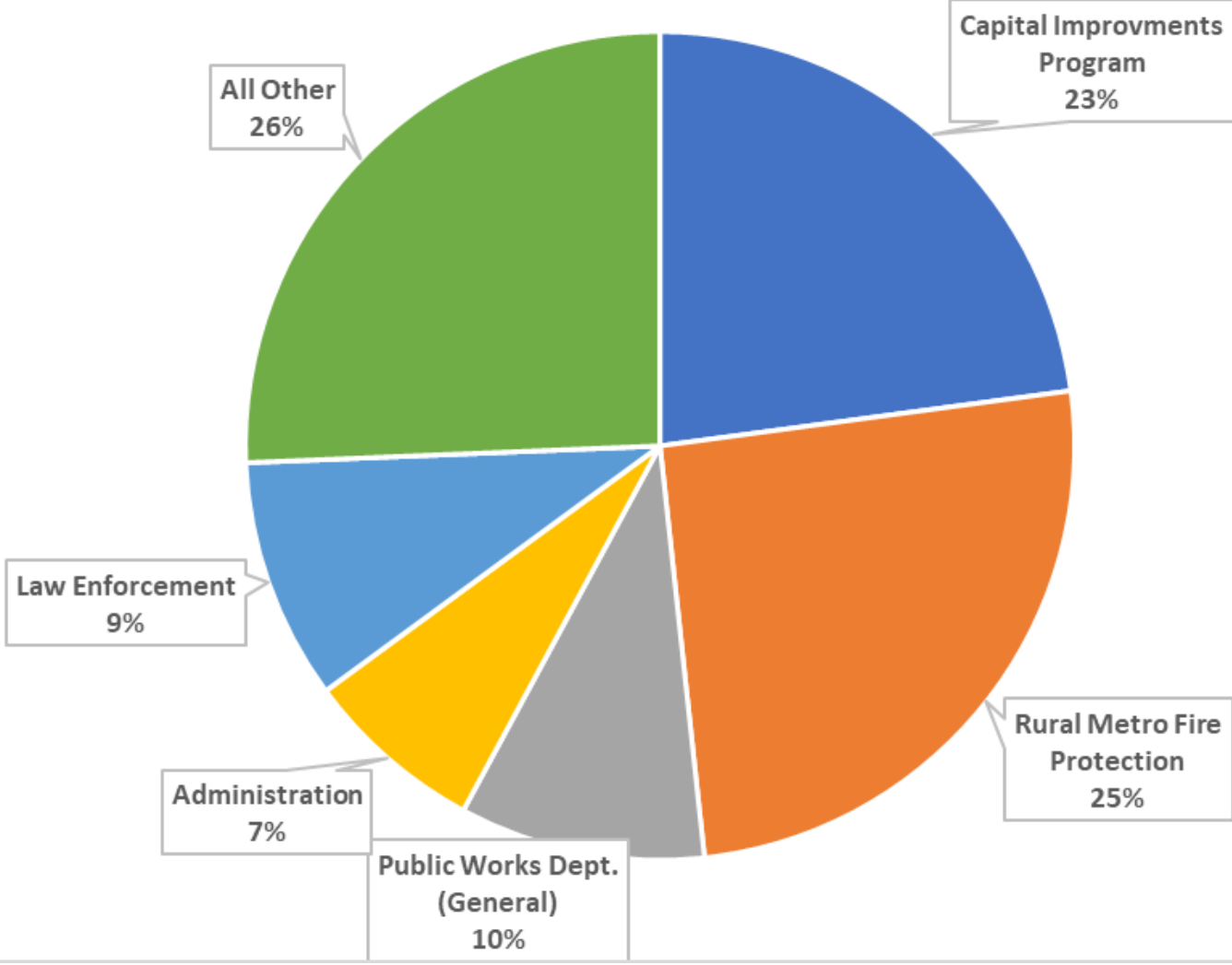


Expenditures – How the Composition will Change

Components of Carefree Spending
FY2023



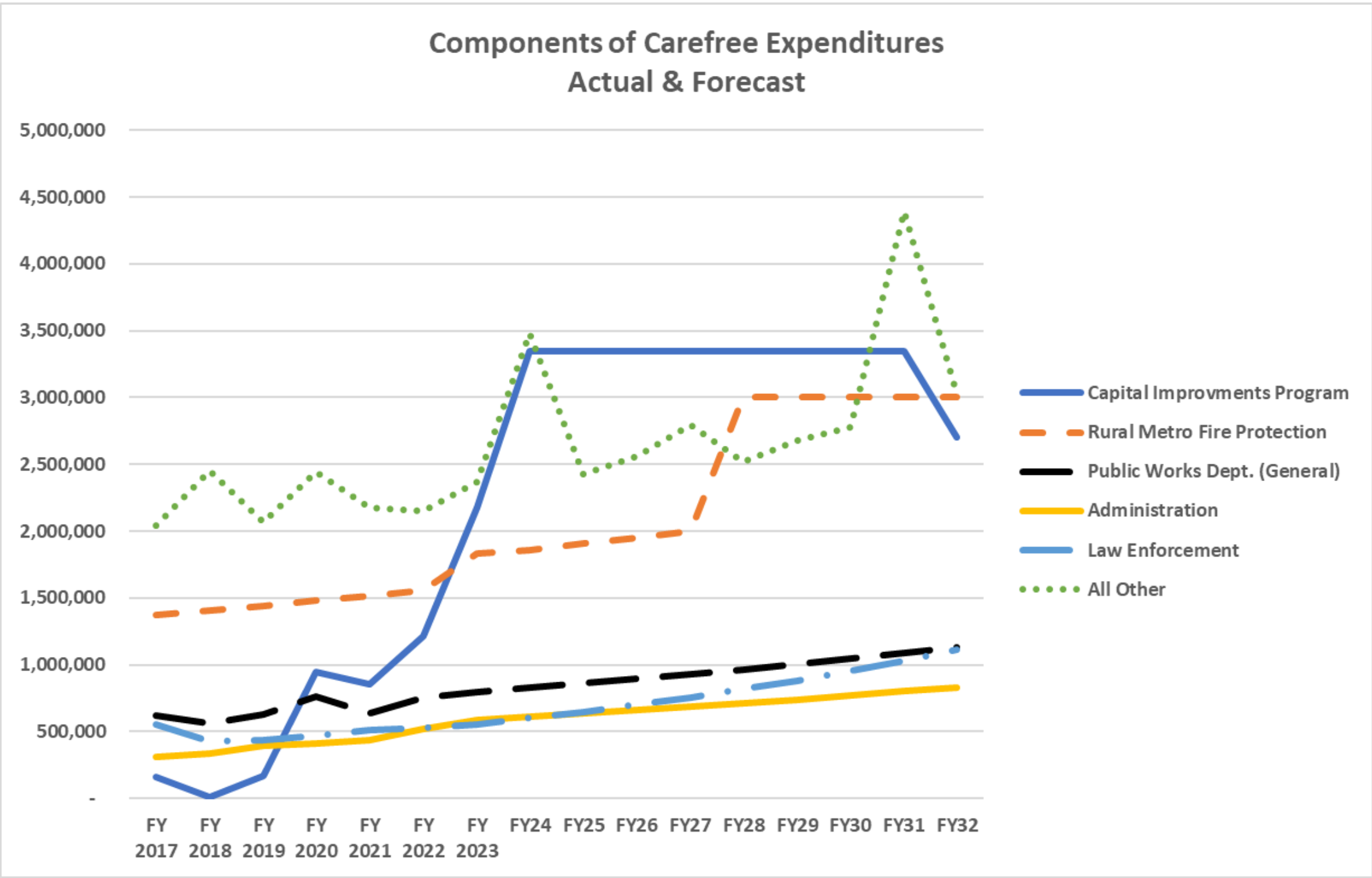
Components of Carefree Spending
FY2032



Expenditures – The ‘Other’ Category

General and Fire Fund Expenditures	FY23 Trial Bal	PCT	FY 32 Forecast	PCT
Capital Improvments Program	2,175,775	26%	2,700,000	23%
Rural Metro Fire Protection	1,831,500	22%	3,000,000	25%
Public Works Dept. (General)	794,721	10%	1,131,136	10%
Administration	585,170	7%	832,879	7%
Law Enforcement	556,360	7%	1,112,166	9%
Subtotal	5,943,526	72%	8,776,181	74%
Town Clerk	379,524	5%	540,181	5%
Planning and Development	329,945	4%	469,615	4%
Building and Safety	255,445	3%	431,569	4%
Debt Service - WIFA Loan	244,070	3%	-	0%
Court	234,757	3%	364,185	3%
Marketing/Econ Dev	212,004	3%	301,748	3%
Ongoing Costs (less Rural Metro)	208,946	3%	54,743	0%
Engineering Services	196,024	2%	279,003	2%
Risk Management - Insurance	92,613	1%	218,377	2%
Legal	67,798	1%	135,529	1%
Code Enforcement	61,383	1%	87,367	1%
33 Easy Street	40,736	0%	48,683	0%
Mayor & Council	24,172	0%	34,404	0%
Contingencies	13,940	0%	47,159	0%
One-Time Fire Expenditures (Equipment)	3,968	0%	5,000	0%
Claims and Losses	-	0%	10,000	0%
Subtotal	2,365,325	28%	3,027,562	26%
Total General and Fire Fund Expenditures	8,308,851	100%	11,803,744	100%

Expenditures – How the Composition will Change



Closing Thoughts

Closing Thoughts - General

- Given the assumptions used in the forecast, no immediate panic over Town finances is warranted – caution and careful monitoring should be the watch words
- There may be disagreement over the assumptions used in the forecast, that's fine – the forecast is merely one view of the future. It is certain that the forecast as presented will not happen – who would have included the economic effects of a worldwide pandemic when making a nine-year forecast in 2014?

Closing Thoughts - Revenues

- The Town's fiscal structure is highly dependent on the local sales tax – the forecast indicates that dependence on the sales tax will increase from 60% to over 67% of revenues
 - With extreme reliance comes extreme risk – economic, behavioral, and legislative
 - The Town has limited options with respect to sales tax growth – it must exercise those options very thoughtfully
- There is little prospect for significant growth in State shared revenues
 - The formulas for distributing those funds are based on relative shares of a city's or town's population to the total population of cities and towns, and Carefree is just not growing as fast as other municipalities

Closing Thoughts - Revenues

- The most conservative revenue component in the forecast is most likely Interest Earnings.
 - The (relatively) enormous cash on hand has most recently generated significant earnings, over \$400K. This level of earnings are not forecasted to continue in the future (see detailed spreadsheet).

Closing Thoughts - Expenditures

- The expenditures for the Capital Improvement Program (CIP) is the single most important element of the forecast
 - The CIP significantly increased expenditures and draws down the Town's cash balance
 - The CIP is the easiest budget item to cut or defer, the question is: at what cost?
- The greatest risk on the expenditure forecast is for fire protection:
 - The current contract is locked in through FY27 – it is unknown what will happen after that. The forecast includes flat fire protection expenditures for FY28 through FY32. Whether the amount or the no growth assumption will come to pass is doubtful

Closing Thoughts - Expenditures

- The second greatest risk to the expenditure forecast is for law enforcement
 - There are pressures on this item from two sources
 - On the demand side there are calls for a greater law enforcement presence in Carefree
 - On the supply side the contract with the Maricopa County Sheriff's Office is based on a cost reimbursement model, and the MCSO is operating under a US DOJ consent order which limits the ability of the MCSO to control costs
- Finally, opportunities to reduce expenditures outside of the Capital Improvement Program, fire protection and law enforcement is limited
 - Town government staffing is very small and spending beyond staff is limited

The Final Word(s)

- The Town's policy of maintaining a targeted level of a rainy-day fund – whether it is set at the level of \$2.5 million or six months of expenditures is very wise. The policy should be preserved to the greatest extent possible.

February Update

- The preceding forecast was constructed based upon the JLBC October estimates, in early January the Governor released her Executive Budget and shortly thereafter the JLBC issued its Baseline Budget. The JLBC Baseline Budget contained an updated revenue forecast which has been examined for its impact on the forecast.
- The January JLBC estimates make nominal changes to the previous sales tax forecast but make significant changes to the income tax forecasts for FY24 through FY27 – those estimates were reduced by \$574 million in FY24, growing to a \$636 million reduction by FY27
- After examining the updated JLBC forecast it is concluded that it will have only modest impact to the Carefree forecast

About the Author

Mr. Peter Burns retired after selling his consulting firm Burns & Associates (B&A) in 2018. Highlights of his professional career include:

- Founding partner of B&A in 2006. The firm was a Phoenix-based public policy consulting firm specializing in assisting state and local governments in health and social service programs. At the time of his departure, the firm had 15 employees and had had engagements in 23 states and one Canadian province.
- Partner with the Washington DC firm of EP&P Consulting where he also worked on health care public policy issues.
- Working in Arizona State government in a number of capacities.
 - He was the Director of the Arizona Governor's Office of Strategic Planning and Budgeting for nine years, where he served three Governors. In this position he was the primary fiscal advisor to the Governor and was responsible for the preparation and presentation of the annual Executive Budget. He also acted as the Governor's chief lobbyist in the legislative appropriations process.
 - Serving as the Chief Research Economist for the Arizona House of Representatives where he worked principally on tax and education matters for the Majority Leader.
- The Tax Supervisor for Phelps Dodge Corporation's Western Operations.

Mr. Burns received both his MBA in Finance and his undergraduate degree in Political Science and Economics from Arizona State University.

Presented By: Steve Prokopek, Economic
Development Director

Economic Opportunity



Sales Tax Revenue Opportunity

- Carefree Highway and Cave Creek Rd
- Town Center
- Tom Darlington and Carefree Highway
- Hospitality
 - 6% Sales Tax
 - Discretionary Spending

Sales Tax Revenue Threats

- Macro Economy creates volatility
- Lack of portfolio depth and diversity
- Rising Contracted Costs
- Retail Displacement, dead space
- Owners not willing to reinvest into blighted commercial properties
- Interest in putting non-tax generating uses on key commercial corners such as
 - High density residential rentals on NEC of Carefree Highway and Cave Creek Rd
 - Removal of SPA from commercial corners
- Reduction of retail sales tax opportunity
 - Construction Sales Tax
 - Grocery Food Tax
 - Residential Rental Tax

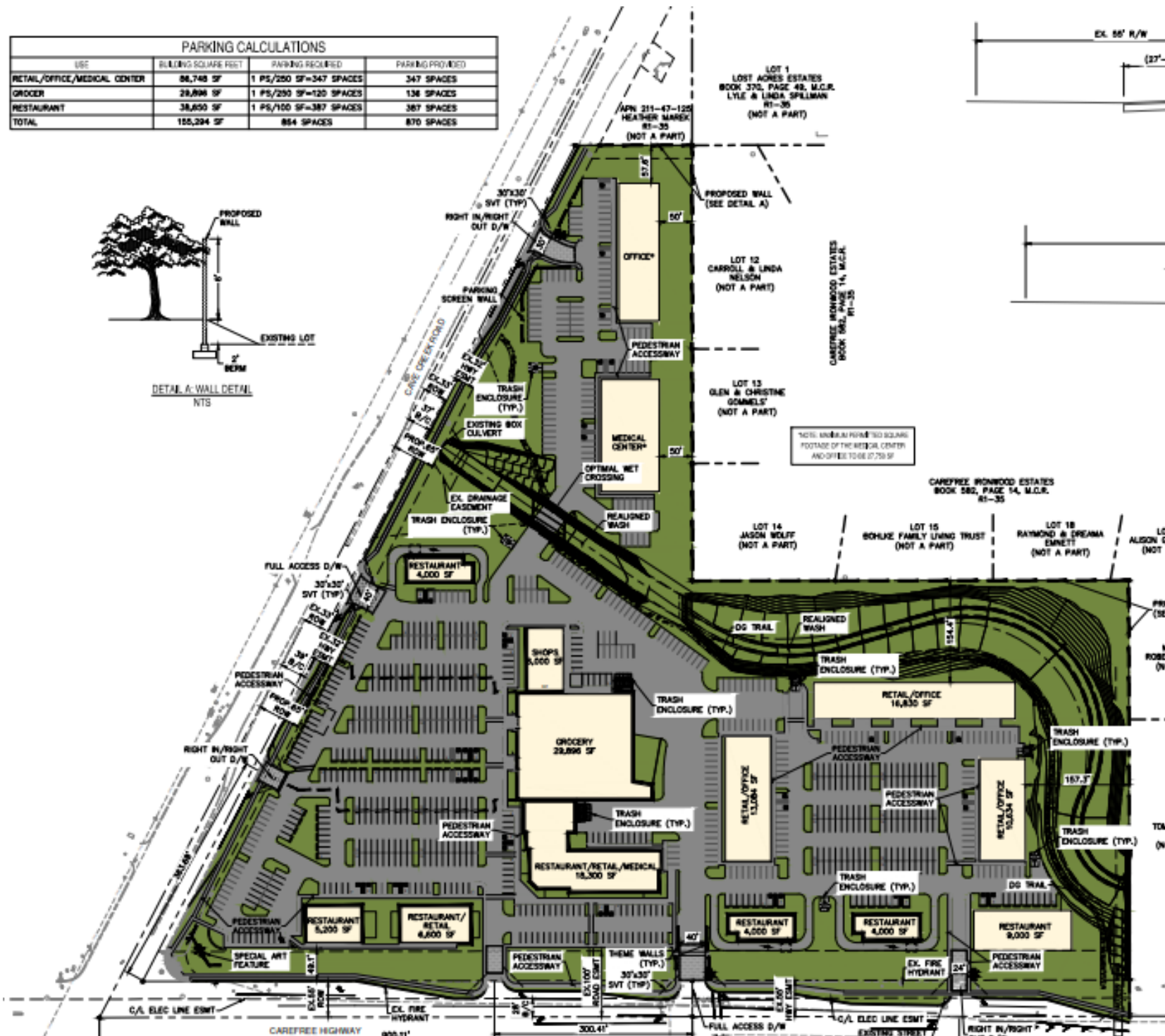
Cave Creek Rd & Carefree Hwy



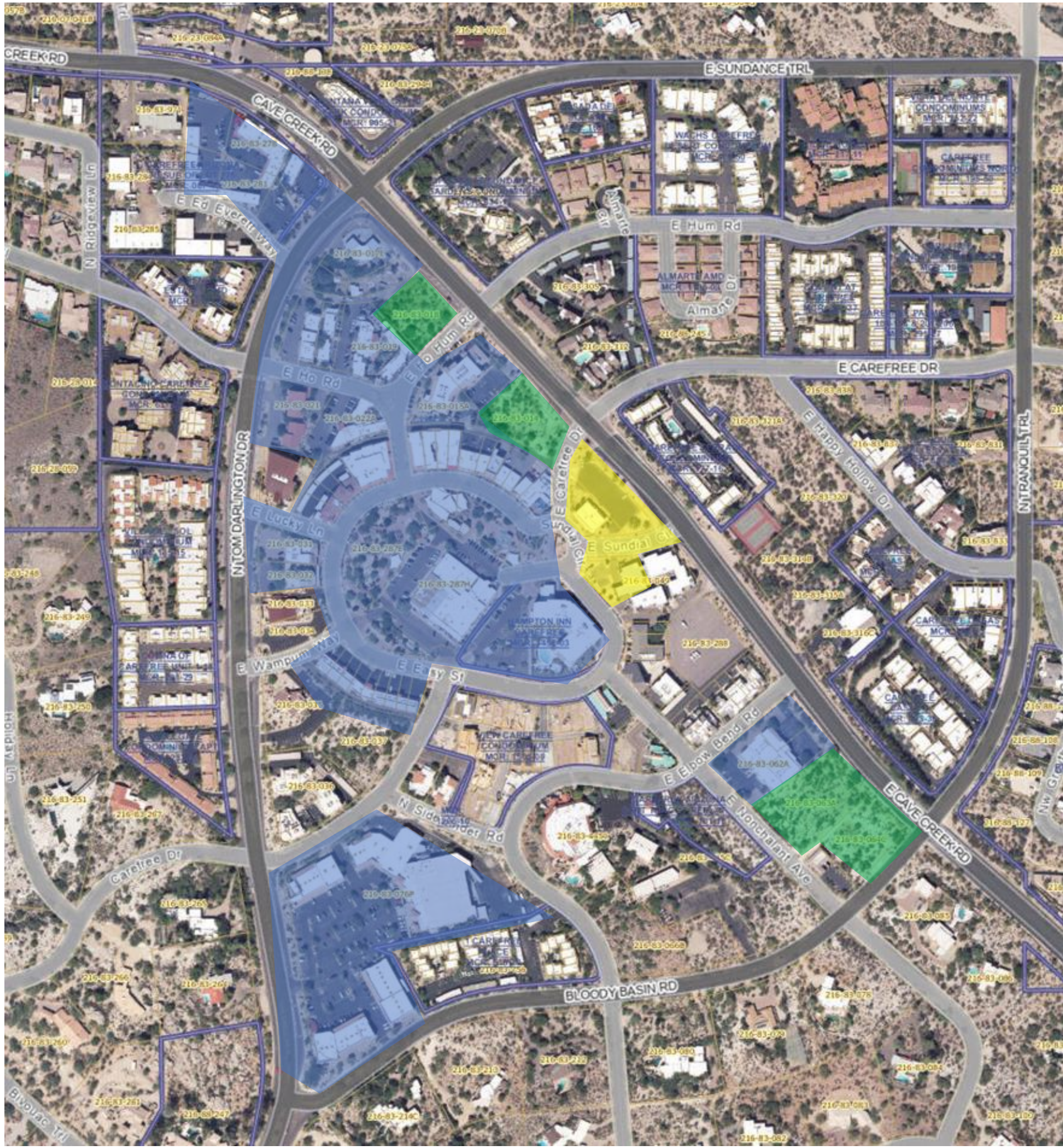
Cave Creek Road & Carefree Retail Estimations

Total Retail SF	135,000
Occupancy of Retail Space	90%
Retail Generating Revenue	121,000
Estimated Retail Sales Tax	\$1,200,000
Mini Storage	\$80,000
Estimated Total Sales Tax Revenue	\$1,280,000
Potential New Sales Tax	\$1,200,000

NEC Cave Creek Rd & Carefree Hwy Status & Issues



- Has Current approved zoning and site plan for 23 acres and 125,000 SF of potential retail
- Empire is partnered with Diversified Partners to develop the site
- Currently marketing under the existing site plan
- Dealing with major cost issues
 - Water line connection & hookup costs
 - Major wash running through the site – Rerunning flow calcs and engineering options
 - Uncertainty of Carefree Hwy improvements, timing and costs



Town Center

Town Center Retail Estimations

Total Potential Retail Square Feet	288,000
Occupancy of Potential Retail Space	98%
Percentage of Occupancy Generating Tax	55%
Retail Space Generating Revenue	166,000

Retail Dead Space – Los Portales 7,700

Retail Square Feet	130,000
Restaurant Square Feet	36,000

Estimated Retail Sales Tax Revenue \$1,500,000

Estimated Hospitality \$900,000
Civana & Hampton

Estimated Total Retail Tax Revenue \$2,400,000

Retail Potential of Vacant Land	\$150,000
Retail Potential Redevelopment	\$180,000

New Retail Potential \$350,000



Town Center Status

- Completed Village Center Redevelopment Plan
- In process on
 - Signage Circulation and Parking Plan
 - Working on blight removal
- Issues to address
 - Zoning Code and Design Guidelines
 - Town Hall Site
 - Building Improvement Program
- Working with Merchants
 - Merchant Group
 - Marketing and Branding
 - Restaurant Association
 - Art Galleries
- Actively Managing the Sanderson Lincoln Pavilion

Tom Darlington Dr & Carefree Hwy



Tom Darlington Dr & Carefree Retail Estimations

150 Room Resort with Restaurant

21 acres with significant natural features limiting to about 15 developable acres

Current General Plan places multiple expectations for natural open space, use, quality and density

New Retail Sales Tax Revenue \$800,000

Status

- Currently no submittal has been made on the property and the Town is not in active discussions
- The opportunity is currently under threat as part of the General Plan Update

Other Sales Tax Revenues



Construction Sales Tax



Online Sales Tax



Commercial Building Rental Tax



Rental Tax (Vehicles and Equipment)



Short Term Rental Lodging Tax



Other Sales Tax from Service Businesses



Utility Taxes



Questions?

