

DRAFT

NORTHWEST FIRE DISTRICT



Our Mission is to Save Lives, Protect Property, and Care for Our Community

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Governing Board Study Session Minutes March 13, 2024

1. Call to Order / Roll Call / Affirmation of Quorum

Present: George Carter, Chairman
Peg Green, Clerk
Bruce Kaplan, Board Member
Dave Talas, Board Member

Excused: Cyndell Chanek, Vice Chair

2. Pledge of Allegiance

Chairman Carter led the Pledge of Allegiance to the Flag.

3. Public Forum

Speakers are limited to a three-minute oral presentation and may submit written comments of any length for Governing Board files. Those wishing to address the Governing Board should complete a Citizen Information Card prior to the meeting being called to order. The Governing Board is required under law to accept any materials presented. At the conclusion of the public forum, individual Board Members may respond to criticism made by those individuals who have addressed the Governing Board and may ask staff to review a matter and place it on a future agenda. However, Board Members may not discuss or take action on a matter raised during a call to the public, that is not already on the agenda, and are not obligated to comment upon materials or presentations made by the public.

No members of the public requested to speak.

4. Business

A. Overview, Discussion and Possible Action on Draft 2024-2025 Baseline Budget Package and Limited Assessed Property Values for Tax Year 2024-2025; Possible General Fund and Capital Fund Additions to the Draft 2024-2025 Baseline Budget; Any and All District Revenues and Expenses May Be Discussed and Acted Upon; The 2024-2025 Budget Process May Also Be Discussed; The Draft Budget's Potential Impact on the District Tax Rate May Also Be Discussed; Advantages and Disadvantages of any Budget Options May Also Be Discussed; Proposed Timing of Capital Expenses May Also Be Discussed

Business Services Director, Kim Sotomayor, presented an overview of what would be covered in the meeting and presented a slide that demonstrated the taxing process for fiscal year (FY)24/25.

Sotomayor provided an overview of several current and pending legislative challenges facing Arizona fire districts. She noted that per ARS 48-807, the maximum tax rate per \$100 of assessed value was raised to \$3.75 from \$3.50 in 2023. She reported Senate Bill (SB) 1108, which would gradually reduce the tax assessment of Class One (commercial) property by ½% until 2027, would continue to negatively impact the District. Sotomayor reviewed the District's assessed values and reported that the estimated combined cumulative revenue loss

from Proposition 117 and SB1108 was \$98 million. Chief Bradley added that the legislative intent behind SB1108 was to transfer the tax burden from commercial property owners to residential property owners. In an effort to offset that reduction, the maximum allowed tax rate was raised to \$3.75 incrementally over a number of years. Chief Bradley stated that the District was mindful of SB1108's impact on property owners and made a concentrated effort to mitigate it for them. He shared that it was a paradoxical situation for the District because while the large amount of commercial property within the District provided a considerable amount of revenue, the impact of SB1108 was a larger loss of revenue to the District.

Chief Bradley reviewed a new potential legislative challenge with House Bill (HB) 2719. He explained that, if passed, bond elections would be limited to the November general election in even numbered years only and included the stipulation that a bond would only pass if the voter turnout on the issue was at least 60%. Chief Bradley noted that HB2719 was strongly opposed by the Arizona Fire Chiefs Association and the League of Arizona Cities and Towns, but if passed, would severely challenge the District's ability to seek bond funding. Chief Bradley reported that staff would continue to monitor the status of HB2719 and keep the Board apprised. Board Member Kaplan echoed the difficulties in achieving the 60% benchmark for voter turnout.

Chief Bradley referenced the Marana Development Update that was prepared by Jason Angell, Development Director for Town of Marana. Chief Bradley stated that development in the Town of Marana was very bright, however, if additional subdivisions did not begin soon, FY25/26 would be a difficult year for single-family residence permit numbers. Chief Bradley reported that due to the lag in property value assessments, the District would have some time to prepare for a slowing in development.

Chief Bradley presented a slide showing the Pima County economic outlook, a presentation prepared by Pima County. He explained that the key take-away from it was that housing, retail sales, unemployment, inflation, gasoline sales, and federal funds rates were all trending unfavorably and were factors that should be considered by the District moving forward.

Sotomayor reviewed the year-over-year medical costs from 2021 through 2023. She reported that the fixed costs remained far below the rates in 2021, but large claims and pharmacy costs were driving increases. Sotomayor stated that there was an 8% cost increase predicted in medical claims and that the District was making a concentrated effort to mitigate those costs wherever possible. Chief Bradley referenced a slide that depicted the cost savings and employee engagement of the Family Care Center (FCC). He shared that the savings of \$78,678 were conservative and did not contemplate anticipated positive long term health outcomes and associated cost savings. He added that the District would continue to leverage the FCC in an effort to provide access to high-quality, low-cost care for members. Chief Bradley explained that the District could manage cost increases by researching opportunities to dispense more prescriptions out of the clinic in order to take advantage of wholesale pricing. Chief Bradley noted that on average, employer-sponsored, on-site clinics, were considered successful when they reached 40-50% employee engagement. He shared that as of January, the FCC had 41% employee engagement and continually grew at an average rate of 4.35% per month, which was remarkable.

Sotomayor gave an overview of the assessed values for FY24/25. She reported that the limited assessed value was \$1.648 billion, a 7.79% or \$119.1 million increase over FY23/24. She reported that at the current tax rate and 100% budgeting, the assessed value resulted in \$3.468 million in additional revenue. At a 98% collection rate, which was historically on-trend for collections, the District would receive \$3.398 million in additional revenue.

Sotomayor reviewed the FY24/25 tentative budget resources by fund which included current fund balances. She explained that the General Fund was the largest and included all wages and benefits. She noted that the Grant Fund was not as large as previous years, but she anticipated more grants in FY24/25. She reported that the Medical Self-Insurance Fund was increased to \$6 million in anticipation of increased claim costs. Sotomayor stated that the General Obligations Bond Fund was required and driven by the District's current bond payments. The Ambulance Fund included a small amount of fund balance, but Sotomayor stated that she expected an increase in revenue in the Ambulance Fund as had been the case in previous

years. The Capital Reserve Fund was dedicated to funds set aside for future large purchases such as the replacement of cardiac monitors. Sotomayor then reviewed the FY24/25 tentative budget requirements by fund which included all available balances and demonstrated expenditures by fund. Sotomayor presented a summary of the tentative FY24/25 budget. She stated that the available cash on hand included funds that were available for debt service and were already dedicated to purchases made during FY23/24. She reviewed the revenue proceeds and noted that property tax revenue was the largest anticipated source of revenue.

Sotomayor reviewed the changes in the budget from previous years. She noted the 7.79% increase in property tax revenue, and highlighted that the tax revenue and transfer to reserve lines would be explained in more detail later on in the presentation, but were included in an effort to keep the combined tax rate static. Sotomayor reported that the annual step increase, plus the market adjustment, was budgeted for, as well as ten (10) positions from Fund 100 due to the end of Staffing for Adequate Fire and Emergency Response (SAFER) Grant funding. Sotomayor stated that pension was depicted on a separate line item from other employee related expenses (ERE) and was slightly increased. Lastly, the budget accounted for operations & maintenance (O&M) costs such as an academy and inflationary cost increases to materials, supplies, and services.

Sotomayor reviewed the CPI by referencing a graph sourced from the U.S. Bureau of Labor Statistics. The graph illustrated a 20-year overview of the CPI and how it trended over time. Sotomayor noted the uptick in February of 2022 and stated that although it dropped from 9.1% to 3.2%, it was still higher than 2% which was where interest rates may start to decline. Sotomayor added that the annual step increase plus market adjustment, on average, resulted in a 3.26% increase in wages, which aligned with the CPI of 3.2%.

Sotomayor reviewed the Fund Balance Policy and anticipated that the District would be at 20% contingency by the end of FY23/24 and maintain 20% for FY24/25.

Sotomayor displayed the five-year Capital Improvement Program. She noted that many of the source revenues for FY24/25 were carryovers from FY23/24 due to the long lead time in apparatus purchases. She added that the CIP had been updated for FY24/25 to include the Training Drive project, the continued replacement of apparatus, network infrastructure changes, and two transfers to reserve. Sotomayor added that the CIP reflected the need for two new stations due to the continued growth in the District. She shared that some items on the CIP for future years were dependent on bond authorization and future bond proceeds. Chief Bradley spoke on potential future bond needs pending authorization from the Board to form a Bond Committee. He shared that the potential future bond needs included the consolidation of all Essential Services sections to one location, the construction of Station 340, the purchase of an aerial platform apparatus for Station 340, Station 331 demolition and rebuild, land purchase and construction for Station 342, and the purchase of two engines for future stations. Chief Bradley noted that the land had already been purchased for Station 340 years prior, but construction had been deferred to build Station 341, a decision that had paid off positively. He explained construction of Station 340 would be needed in the near future due to the enormous growth around the area of Twin Peaks and Interstate 10, but challenges existed in the costs associated with building a new station. He added that even if the tax rate was increased to the statutory limit, it would not net the \$14 million in revenue needed in order to build a new station. Chief Bradley added that historically, large capital projects were completed using bond proceeds, but replacement apparatus had historically not been purchased using bond proceeds. However, he noted that it would take a \$0.20 increase in tax rate to gain the \$2.3 million in revenue to purchase one truck should bond proceeds not be used. Chief Bradley stated that the cost for Station 331 in the CIP included a complete demolition and rebuild, but future discussions could be had regarding other options which included a rebuild rather than a new build. Chief Bradley reiterated the challenges that existed with HB2719 and that, if passed, a bond election would have to be held off until 2026.

Sotomayor displayed a slide showing the estimated FY24/25 debt limitations should the District move forward with a bond process which indicated that the borrowing capacity of the District, an amount Sotomayor stated was well beyond what was necessary. Sotomayor directed attention to a debt service and tax rate analysis which showed how the bond tax rate, operating tax rate, and combined tax rate could be impacted by future bond issuances. Chief Bradley explained the

static combined rate strategy and explained that staff proposed that the District increase the operating rate by same amount the bond rate was decreasing and direct the associated revenue to a reserve for asset maintenance. In that same vein, the District would decrease the operating rate as necessary when the bond rate increased in order to maintain a static combined rate.

Chief Bradley provided historical tax rate information for the District as well as the operating rates for comparable fire districts in the state. He gave an overview of the difference between the statutory maximum operating tax rate versus the District's operating tax rate. He explained that the District was \$0.46 below the cap in FY22/23, \$0.59 below the cap in FY23/24, and \$0.81 below the cap in FY24/25 should the combined tax rate remain unchanged which bode very well for the organization and the community it served. Chief Bradley asked the Board for their feedback regarding seeking authorization to form a Bond Committee as well as their insight on the combined tax rate strategy.

Chairman Carter inquired about the accuracy of the 3.2% CPI in regards to Pima County. Sotomayor noted that CPI was a national average and although there was no CPI specific to Pima County, the CPI for Arizona was approximately 3.3% which was based off of the Phoenix Metro area.

Board Clerk Green asked for clarification on how the District was considering bonds given the pending legislation surrounding them. Chief Bradley stated that it was the District's hope that the legislation be halted or vetoed by the Governor's office, but that the CIP was built as though the bond process remained unchanged. He stated that if the legislation did pass, the CIP would be revised accordingly. Board Clerk Green asked when the Bill would be signed into legislation or vetoed. Chief Bradley replied that it was in the current legislative cycle so it would be known in the coming months. Chief Bradley added that although it could be halted during the current legislative session, the possibility remained for it to be revived in future years. Chairman Carter asked who was pushing the Bill forward because he felt that bonds were beneficial to everyone. Chief Bradley stated that while he did not know who was directly involved, he was confident that the League of Cities and Towns was strongly against it and saw how destructive the Bill would be to cities, towns, school districts, and fire districts who depended on bonds. Chief Bradley added that it was his belief that the likelihood of the Bill passing was low. Member Kaplan noted that depending on the structure of the legislature and/or Governor's office, the Bill could be brought back multiple times with small changes and felt that it was important for the District to move forward based off of current legislation. Kaplan also stated his support of the formation of a Bond Committee. Chairman Carter agreed with Member Kaplan in support of the formation of a Bond Committee. Board Clerk Green stated that she didn't feel that there were many other options other than bonds for the large capital purchases. Chief Bradley agreed and stated that although there was considerable room in the operating tax rate, the financial impact to the taxpayers would not be tolerable should bonding not be an option. Member Talas thanked the members and emphasized that he was confident that the Board was always given vetted information. He felt that it was important to look ahead and continue taking care of its members and the community it served. He gave his support in the formation of a Bond Committee. Chief Bradley stated that the District was in a very good position and was financially healthy and resilient which was a direct reflection of the guidance from the Governing Board and the leadership of the Command Staff in the organization. He added that although there were challenges with the pending legislation, the District was prepared to overcome and respond to those challenges.

Chairman Carter shared his support of the static combined rate strategy, but asked that the Board be kept apprised if maintaining the rate resulted in any shortfalls to the budget and meeting the needs of the organization.

Chairman Carter asked for clarification on the Contingency Fund and whether it was 20% or 23% funded. Chief Bradley replied that as of January 2024, it was 20% funded and would maintain through the end of FY23/24. Sotomayor added that the 23% shown in the FY24/25 tentative budget requirements by fund, represented all funds. She clarified that it was 20% funded for O&M and the other 3% included funds from Medical Self-Insurance, Wildland, and debt service.

Board Clerk Green voiced her support for the static combined rate strategy, but felt that the operating tax rate would inevitably have to be raised should HB2719 pass through legislation. Chief Bradley replied that the District was actively engaged in discussions and researching opportunities for funding including grants, gifted property, and assistance from developers in an effort to mitigate those challenges. Chief Bradley stated that the budget, as presented, was balanced using the static combined rate strategy. He added that staff could provide information to the Board to demonstrate increased operating rates and how those would affect the budget. Chairman Carter replied that the presentation would be helpful and had provided valuable insight in the past.

Chairman Carter asked about the revenue gained from the lowered bond tax rate alongside an increased operating rate. Sotomayor stated that that the reduced bond tax rate resulted in \$344,545 in revenue. She clarified that as presented, the increased revenue was net-neutral since it would be transferred to reserve.

Member Talas wished that the tax rate could be lowered, but acknowledged that it was not feasible for FY24/25. He voiced concern over maintaining the same operating rate alongside the enormous growth in the District and stated that the tax rate may need to increase in order to sustain a high-level of service to the community. He drew from his own experience on the Board and did not want the District to fall behind to a point that it could no longer meet the needs of the community it served. Chief Bradley replied that every penny added onto the current tax rate, based off current assessed values, resulted in \$164,000 of gross revenue. Member Kaplan explained that that as valuations increased, revenue increased, and that maintaining the same tax rate spoke well of the District. He asked that the District not look too far ahead and to be mindful of the volatile nature of the environment. He drew from his past experience on the Board where the District grew too fast without sufficient revenue to support it. Kaplan noted the importance of considering the taxpayers in the community and was in support of the static combined tax rate strategy. He welcomed the presentation of options with an increased tax rate but stated that it would take a significant change for him to be in support of raising the tax rate even more. Chief Bradley shared that, as presented, the budget was balanced and met the needs of personnel and operations. He explained that staff would provide the Board with a presentation to exhibit how an increased tax rate would create capacity and what it could address based off the budget process submittals.

Member Talas cited the Strategic Plan's role in the budget process and asked whether the Strategic Plan was representative of future growth in the District. Chief Bradley stated that the budget aligned with the current Strategic Plan and addressed growth and that the development of the 2024-2028 Strategic Plan was underway and also contemplated growth in the District. Talas asked for assurance that the Strategic Plan was a living document that could evolve as the economy changed. Chief Bradley answered in the affirmative and explained that the Strategic Plan was a guiding document for program appraisals, accreditation, Insurance Services Office measures, and National Fire Protection Association (NFPA) standards. He noted that it was the primary driver of the budget and that the Strategic Plan was developed before the budget to ensure that the budget addressed those needs and measures identified in the Strategic Plan.

Chairman Carter asked if the CIP was based solely on estimates. Chief Bradley answered in the affirmative and explained that the estimates were based off quotes and that rising costs had also been contemplated in the estimates shown in the CIP. It was his hope that costs would come down before those large purchases were made which would create additional capacity, but if costs rose above what was estimated, those items would need to be re-prioritized.

Chairman Carter ensured that Chief Bradley and Kim Sotomayor received the guidance they needed to move forward. Both answered in the affirmative. Chief Bradley ensured the same was true with staff and all agreed.

5. **Future Agenda Items**

A Governing Board Member May Bring Forth General Topics for a Future Meeting Agenda. The Governing Board May Not Discuss, Deliberate or Take Any Action on the Topics Presented, Pursuant to A.R.S. § 38-431.02 (H).

6. **Adjournment**

MOVE TO ADJOURN THE MEETING AT 11:27AM

Motioned by Chairman George Carter, seconded by Board Member Dave Talas

Vote: 4 – 0

Peg Green
Board Clerk

Two Board Briefing Books containing material related to the Board Meeting are available for public review the day before and the day of the Board Meeting during office hours at the Administration/Prevention and Safety Office located at 13535 N. Marana Main Street, Marana, Arizona 85653 – (520) 887-1010. The two Board Briefing Books are also available for public review at the Board Meetings.

The Northwest Fire District Board may vote to go into Executive Session on any agenda item pursuant to ARS §38-431.03 (A)(3) for discussion and consultation for legal advice with the Fire District Attorney on the matter(s) as set forth in the agenda item. Pursuant to Board Policy, from time to time, it might be necessary for a Board Member to attend a Board meeting via speakerphone.

The Northwest Fire District Training Facility is accessible to persons with disabilities. In compliance with the Americans with Disabilities Act (ADA), those persons with special needs, such as large-type face print or other reasonable accommodations, may request those through Heather Robey, by calling 887-1010, ext. 2929, before the meeting.

Posted _____