



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 12, 2025

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

Present: Cyndell West, Board Vice Chair
Peg Green, Clerk
Bruce Kaplan, Board Member
Dave Talas, Board Member

Excused: George Carter, Board Chair

2. Pledge of Allegiance

Vice Chair West led the Pledge of Allegiance to the Flag.

3. Public Forum

No members of the public requested to speak.

4. Business

- A. Overview, Discussion and Possible Action on Draft 2025-2026 Baseline Budget Package and Limited Assessed Property Values for Tax Year 2025-2026; Possible General Fund and Capital Fund Additions to the Draft 2025-2026 Baseline Budget; Any and All District Revenues and Expenses May Be Discussed and Acted Upon; The 2025-2026 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 during the meeting. Chief Bradley explained that the budget development process was largely the same as previous years and that the District had used a zero-based budget approach rather than a status quo approach. He stated that the FY25/26 budget was driven by the Strategic Plan and aligned with accreditation and Insurance Services Office (ISO) standards. Chief Bradley added that the budget was focused, transparent, and made responsible use of taxpayer dollars.

Sotomayor reviewed the taxing process for FY25/26. She explained that annexations were filed with the Arizona Department of Revenue (AZDOR) and Pima County Assessor by November 1, 2024, which were typically included in the December 2024 tax valuation. Those properties would then be included on the 2025 tax roll which would be paid in two halves: the first half in November 2025 and the second half in April 2026. Sotomayor referenced the 2025 Fire District Levy Limit Worksheet and noted that the new revenue from annexations was in Section A of the worksheet and was \$44,032. She explained that Section B showed the maximum allowable levy limit which was calculated by taking the prior year's maximum allowable levy limit and adding the 8% allowable levy limit annual increase plus new revenue from annexations. Sotomayor explained that Section C showed the current year net assessed values which was \$1,764,809,696 for 2025. Section D of the worksheet used the information from Sections A-C to calculate the Maximum Allowable Levy Limit and showed that if the District reached its Maximum

Allowable Levy Limit, the associated operating tax rate would be \$5.4539. However, statutorily, the operating tax rate was limited to \$3.75 for FY25/26 and would equate to \$66,180,364 should the District levy the maximum operating tax rate.

Sotomayor provided an overview of several current and pending legislative challenges facing Arizona fire districts. She noted that per ARS 48-807, the maximum operating tax rate per \$100 of assessed value was raised to \$3.75 in 2024 and would remain the same for tax year 2025 and each year thereafter. Sotomayor stated that Senate Bill (SB) 1421, enacted in 2009, limited the increase in total tax levy for fire districts to no more than 8% over the prior year's actual levy. She explained that House Bill (HB) 2001, enacted in 2011, reduced the tax assessment of Class One (commercial) property from 20% to 18%. Sotomayor explained that Proposition 117, enacted in 2012, limited the annual percentage increases on property values to 5% above the previous year. Sotomayor reviewed SB1108, from 2021, tied into HB2001, and reduced the tax assessment of Class One properties 0.5% until 2027. Sotomayor noted that the rate for Class One property for FY25/26 was 16%. Sotomayor continued to review the legislative challenges and stated that HB2028, enacted in 2023, reduced contribution rates to 7.65% for Tier Two Public Safety Retirement System members and that all calculations had already occurred. House Bill 2064, also from 2023, gave property tax exemptions to persons with permanent disabilities. Lastly, and also from 2023, HB2446 modified the distributions from the Smart and Safe Fund which was revenue from the excise tax on marijuana sales. Sotomayor noted that there were no proposed changes to legislation in the current year that needed to be discussed.

Sotomayor reviewed the District's assessed values and reported that the estimated combined cumulative revenue loss from Proposition 117 was \$113 million. Sotomayor then reviewed the estimated revenue impacts from the reduction in Class One property as a result of SB1108. She stated that for FY25/26, at an assessed rate of 18%, the value of Class One property was \$12,151,168. However, at 16%, the assessed rate post-SB1108 was \$10,713,928, or a loss of \$1,427,240. Cumulatively the revenue loss since FY22/23 was estimated to be \$3,317,304.

Chief Bradley reviewed development in the Town of Marana. He explained that there was more development in the Town of Marana than what was seen in Pima County, City of Tucson, Oro Valley, Green Valley, etc. He noted that commercial projects such as the Marana Aquatic Center and Gladden Farms K-8 were tax-exempt facilities and that other private commercial properties, including a large-scale data center, were in the permit process. He stressed the importance of recognizing that while newly built properties required service by the District, there could be a year-long delay between providing service to those properties and receiving the property tax revenue from them. Chief Bradley noted the difference between sales tax-based entities and property tax-based entities and explained that property tax-based entities, such as the District, would not feel the effect of economic downturns as quickly as sales tax-based entities. He stated that while the lagging effect gave the District time to prepare, recovery from the downturn typically took longer. Chief Bradley stated that predictions for the large influx of permits in the Town of Marana in 2025 were coming to fruition and that he would be attending a presentation by Jason Angell, Town of Marana Development Services Director, to delve into the ongoing development further.

Sotomayor reviewed the year-over-year medical costs from 2021 through 2024. She reported that the fixed costs remained below the rates in 2021, but medical claims and pharmacy costs were driving increases. Sotomayor noted that there was a large increase (45.74%) in medical costs in 2023, it continued to increase by 1.38% in 2024 and would continue to increase. She stated that the national average predicted medical increase was 8.3% while the pharmacy increase was 11.4%, which would be difficult to manage. She noted that in 2021, there was an average of 242 employees on the medical plan whereas in 2024 there were 295 employees.

Sotomayor gave an overview of the assessed values for FY25/26. She reported that the limited assessed value was \$1.764 billion, a 7.05% or \$116.2 million increase over FY24/25. She reported that at the current tax rate and budgeting 100% collection rate, the assessed value resulted in \$3.45 million in additional revenue. At a 98% collection rate, which was the historical trend, the District would receive \$3.38 million in additional revenue.

Sotomayor reviewed the static combined rate strategy used in FY24/25 which increased the operating rate by the same amount that the bond rate decreased and directed the associated revenue to a reserve for asset maintenance. She stated that the District was proposing the

same methodology for FY25/26. She explained that the bond rate would decrease by \$0.0169 in FY25/26 which would be added to the operating tax rate and would result in a net effect of \$0.00 to the combined tax rate and generate an additional \$300,000 in revenue. In total, the rate offsets from FY24/25 and FY25/26 would generate \$667,097 to be used for future station needs. She added that should the District move forward with future bond authorizations, the District would decrease the operating rate as necessary when the bond rate increased to maintain a static combined rate.

Sotomayor reviewed the FY25/26 tentative budget resources by fund which included current fund balances and totaled \$107,371,050. She noted that approximately \$10 million in fund balance was obligated to apparatus and equipment that was ordered in previous years but not yet delivered. She explained that the General Fund was the largest fund and included all wages and benefits. Sotomayor then reviewed the FY25/26 tentative budget requirements by fund which included all available balances and demonstrated expenditures by fund.

Sotomayor reviewed the total full-time employees by year from FY23/24 through FY25/26. She noted that there were 292 Governing Board authorized positions, but there were 11 vacancies at fiscal year-end which increased by three (3) positions to 295 in FY24/25. Sotomayor explained that there was an increase to 300 authorized positions in FY25/26 to accommodate the academy graduates.

Sotomayor presented a summary of the tentative FY25/26 resources (revenues) & requirements (expenditures) by fund which demonstrated a balanced budget. Sotomayor reviewed the changes in the tentative FY25/26 budget from the adopted FY24/25 budget. She noted that there was a large increase in ambulance revenues due to increased basic life support (BLS) transports. Although dispatch revenue appeared to decrease, the typical 2% increase was offset by the reduction from the cancellation of the American Medical Response agreement. Sotomayor explained that grant revenue was based on grants available at the time, prevention revenue was based on plans review projections, and that investment revenue was budgeted higher based on current fiscal year activity. Sotomayor noted that Smart & Safe revenue was anticipated based on historical revenue and that transfers were driven by capital needs. She added that the medical insurance line increased by 8% in response to anticipated cost increases. Sotomayor reviewed the requirements and reported that the increase in personnel services was due to the normal 3% step increase and that material and services costs increased due to contractual increases and inflation. She stated that debt service payments were reduced due to principal/interest changes from bond payments made in the previous year.

Sotomayor reviewed the Fund Balance Policy and reported that the District would be nearly at 20% for FY24/25. She explained that staff was proposing a new Fund Balance and Reserves Policy to protect the District from financial instability, ensure stable service delivery, meet future needs, and demonstrate prudent fiscal responsibility. She asked that the Governing Board consider the addition of a Budget Stabilization Reserve and an Operating Reserve. She explained that the Budget Stabilization Reserve could be used to provide funding to deal with fluctuations within the fiscal cycle(s) and operating requirements that exceed \$350,000. She added that the Operating Reserve would be intended as a reserve for unexpected events whose impacts exceed \$500,000. She noted that use of either fund reserve would require Governing Board approval and a repayment plan to restore the reserve balance. Sotomayor noted that the policy was recommended by the District's external auditors as well as the Government Finance Officers Association (GFOA) and, although similar to the District's current practice, committed the funds rather than leaving them unassigned. Sotomayor advised that the District was also proposing to gradually increase the minimum 20% general fund balance by 2% per year over the next five (5) years for a total of 30%. She explained that the 30% was based on the District's financial risk assessment, an assessment developed by the GFOA, which recommended a 35% or higher fund balance based on NWFD's risk score. She added that the risk assessment considered factors such as the ability to fund and respond to an extreme event, having one main revenue source, sensitivity to expenditure volatility, growth needs, and the negative impact of an economic downturn. She stated that since the District had one main revenue source, the District had a very high-risk score. Chief Bradley noted that other agencies had similar reserve policies and that the policies provided greater transparency and accountability. He stated that based on the GFOA recommendations and the District's realized risks, the policies provided the District with the level of funding necessary for stabilization. Chief Bradley noted that the grant revenue indicated in the previous slide was dependent upon grant availability and uncertain given the

current economic climate. Regardless, the needs of the District remained, and the proposed policies delineate a mechanism to provide funding should critical needs arise with limited resource availability.

Sotomayor clarified that fund balance was the net position of the agency and was the difference between an organization's assets and liability. In contrast, the reserve policy defined the available liquid resources in the event of an extreme and/or unpredicted event. She added committed fund balance would be done through a Board Resolution which would obligate funds toward a specific need(s). She stated that it was a constraint set by the agency and could be changed or redirected should the Governing Board find it necessary. She clarified that non-spendable/restricted fund balance had specific legal restrictions for use.

Member Kaplan asked if separate funds would be created for funds that were committed through a Board Resolution. Sotomayor answered in the negative and explained that all funds would remain in Fund 100, the General Fund, and that internal controls would be used to track each item, similar to what was done with Fund 450, the Capital Reserve Fund. Member Kaplan stated that he was happy to see the District moving in such a direction and thanked staff for exploring it.

Sotomayor displayed the five-year Capital Improvement Program (CIP). She noted that the CIP also included a master plan beyond FY29/30 which was done in preparation for a future bond authorization. She stated that only FY25/26 would be adopted through the current budget process. Sotomayor noted that several of the uses (indicated by boldface on the presentation) were carryovers from previous years for apparatus purchases. She shared that some items included on the CIP in future years were dependent on bond authorization and future bond proceeds. Sotomayor stated that one of the largest items in the FY25/26 CIP was for the Vehicle/Apparatus Replacement Program. Sotomayor referenced the Vehicle Replacement Plan and stated that the plan was plotted out for many years and was created to be proactive and allocate funds each year towards future vehicle purchases. She noted that there were two (2) ambulances, and five (5) code 3 support vehicles included in FY25/26 as outright purchases.

Chief Bradley shared that the potential future bond needs were estimated at \$45,650,000 and 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 stated that the District would be putting together a Stakeholder Committee to discuss various bond related matters. Chief Bradley shared that, provided the Board authorized a bond election in November 2026, the tentative FY25/26 budget contemplated architectural design costs associated with each capital project that would use bond proceeds. Should the District be successful during the November 2026 election, the District may go to sale in July 2027 for the first series and projects would be based on prioritization.

Sotomayor displayed a slide showing the estimated FY25/26 debt limitations should the District move forward with a bond process which indicated that the borrowing capacity of the District was \$81,328,082, 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. Sotomayor explained that in FY27/28, the annual principal greatly decreased and would be an ideal time to issue new debt.

Sotomayor provided historical tax rate information for the District and gave an overview of the difference between the statutory maximum operating tax rate versus the District's operating tax rate. She noted that the District was well below the statutory cap of \$3.75. Chief Bradley gave a comparison of the District's operating rate versus comparable fire districts in the state and noted the importance of staying under the statutory cap.

Chief Bradley asked the Board for their feedback regarding maintaining the combined tax rate strategy and the proposed changes for the Fund Balance and Reserves Policy.

Board Clerk Green asked Sotomayor for her opinion on what she considered an optimum contingency amount and whether she was in agreement with the risk assessment results. Sotomayor stated that she agreed with the risk assessment given that the District was a small political subdivision in the state of Arizona with one primary revenue source which drove its risk level higher in addition to the challenges associated with addressing volatility. She added that 35% could be too high but felt that 30% was reasonable. She recalled the District's fund balance during the pandemic and stated that it reached 15% and could still be there had the District not been mindful and strategic about its expenditures. Sotomayor stated that 30% fund balance was a great goal for the District but that the timeframe in which that goal was achieved was dependent upon many factors. She explained that other fire districts and bigger municipalities had adopted the same methodology for fund balance. Chief Bradley explained that the District needed to be cautious about how quickly it strived to get to the 30% fund balance because it needed to be done without compromising other priorities of the organization. Chief Bradley stated that achieving the goal within five (5) years was reasonable and contemplative of meeting the needs of the members, the growing community, deployment needs, and capital needs. He stated that the most important part was getting started and that the policy provided a target for the District to meet each year.

Member Kaplan clarified whether the 2% gradual increase to fund balance was set in stone or more of a goal for each year. Sotomayor stated that the 2% was a lofty goal and could be modified each year should conditions change. Chief Bradley added that the 2% goal provided guidance and clarity for budget development in future years. Member Kaplan stated that 20% fund balance had been a long-standing goal in the District. Chief Bradley noted that the organization was unique in that the first allotment of property tax collections was not received until October which meant that the District relied on reserves to fund its operations until then. However, if the allotment received was lower than projected, the 20% in reserves may be depleted which would be challenging to recover from. Chief Bradley noted that the District had never found itself in a position where it needed to borrow money from Pima County to fund itself, but that it had happened to other agencies who faced similar challenges. He explained that there were other regional fire districts who had similar fund balance policies in place and, although their reserve balance was targeted at 40%, the policies were working as intended for them. Member Kaplan noted that different tax bases could allow for higher reserve policies. Vice Chair West noted that the growth of other agencies was much different than the rapidly increasing growth in the District and that the District had to prepare itself as much as possible to keep up with the growth. Chief Bradley noted that the reserves also gave the District the ability to have funds set aside for capital needs should the District be unsuccessful in securing bonds.

Clerk Green asked what "Plan B" would be for the District should the bond initiative fail. Chief Bradley replied that the District would take a balanced approach in terms of tax capacity and reducing expenditures. He added that even if the tax rate was increased to the statutory limit, it would only net enough revenue to build one station while no other capital needs could be addressed. However, the District would have no further capacity to increase the tax rate if needed. Chief Bradley explained that the District could articulate and justify its needs to community members and was optimistic that the District would be successful in a future bond election. He added that being prepared and having an awareness of potential future challenges was important so that the District could better navigate those challenges when they arose. Chief Bradley added that greater fund balances in reserves gave the District greater stability. He explained that he would explore additional funding through tax rates and reserves before cuts in service to the community and/or benefits to the members.

Member Talas thanked staff and stated that the budget improved each year. He stated that the District's hard work and effort in looking towards the future made him confident that the District was committed to protecting the future of the District and the community it served. He stated that the Fund Balance and Reserves Policy offered more transparency to the community and that he was a strong proponent for implementing it.

Member Kaplan asked that the District be mindful and not look too far ahead until the projected growth actually materialized. He stressed the importance of going slowly and preparing while not committing funds or bonds until necessary. Chief Bradley stated that in the past, the District had faltered and gotten ahead of itself, but that the mindset had shifted. He explained that the District would rather have the authority to issue bonds if needed and that the District would be

judicious and conservative in its approach. Member Kaplan, Clerk Green, and Vice Chair West voiced their support for the Fund Balance and Reserves Policy. West added that the District had an obligation to prepare for the unknown.

Member Talas explained that the Study Session provided a great opportunity for the Board and District members to gain insight into the present and future environment of the District. Chief Bradley asked if any attendees had any questions or concerns regarding the budget. No attendees had any questions. Chief Bradley asked that members reach out should any questions arise after the Study Session.

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 11:14AM

Motioned by Vice Chair Cyndell West, 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 _____