

Popular Annual Financial Report (PAFR)

Fiscal Year 2025
Town of Fountain Hills, Arizona



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I am pleased to present the Town of Fountain Hills Popular Annual Financial Report (PAFR) for Fiscal Year 2025. This report is designed to provide our residents, businesses, and stakeholders with a clear and accessible overview of the Town's financial performance and the ways in which public resources were invested to support services, infrastructure, and long-term community priorities.

FY25 was a year marked by financial stability, operational progress, and continued commitment to responsible stewardship of public funds. The Town ended the fiscal year with a strong **net position of \$154.16 million**, reflecting prudent fiscal management and strategic investment in capital infrastructure. Despite economic headwinds—including the statewide elimination of the residential rental tax and a slowdown in construction activity—Fountain Hills continued to maintain healthy reserves and a structurally sound financial position.

Sales tax, our largest locally controlled revenue source, totaled **\$20.19 million** for the year. State-shared revenues, which remain a vital part of municipal funding in Arizona, contributed an additional **\$11.8 million**. These reliable revenue streams allowed the Town to sustain service levels, deliver capital improvements, and maintain our commitment to long-range financial sustainability.

On the expenditure side, the Town made purposeful investments in core service areas. **Public Safety and Public Works** continued to represent the largest portions of governmental activity spending as the Town prioritized safe neighborhoods, well-maintained streets, and critical community infrastructure. FY25 also marked the first full year of operation for the Town's in-house Fire Department—a major milestone that enhances operational control and long-term service stability.

Fountain Hills made significant advancements in its capital program this year. The Town completed over **22.5 lane miles of roadway improvements**, expanded bicycle infrastructure, and delivered new amenities including a pocket park near Fountain Park, additional pickleball courts, and enhanced facilities at Four Peaks Park. These investments support quality of life and reflect community-driven priorities.

As always, the Town remains committed to transparency, accountability, and excellence in financial reporting. Fountain Hills continues to receive national recognition from the Government Finance Officers Association (GFOA) for both its Annual Comprehensive Financial Report (ACFR) and Budget Document, and we are proud to uphold those standards in this Popular Annual Financial Report (PAFR).

Looking ahead, the Town will continue to carefully monitor economic trends, maintain conservative budgeting practices, and align financial planning with Council strategic priorities. We remain dedicated to ensuring that Fountain Hills retains its strong financial foundation and continues to be a community where residents can live, work, and thrive.

The financial information contained throughout this report is derived from audited financial data included in the Town's FY2025 ACFR and Annual Expenditure Limitation Report (AELR). These and prior year reports may be reviewed at <https://www.fountainhillssaz.gov/170/Financial-Reports-Budgets>.

Paul Soldinger

Chief Financial Officer
Town of Fountain Hills, Arizona



Mayor & Town Council

The Town of Fountain Hills is an Arizona Municipal Corporation, acting as a general law town as prescribed in the Arizona Revised Statutes. The Town was incorporated on December 5, 1989, with the governmental and administrative affairs of the Town operating under the Council-Manager form of government. The Mayor is a member of the Town Council who is directly elected by the voters for a two-year term and chairs the Town Council meetings. The members of the Council are elected at large and serve four-year overlapping terms. The Town Council is responsible for the adoption and revision of local ordinances, adopting an annual budget, appointment of residents to citizen advisory committees, and hiring the Town Manager. The Town Manager is responsible for implementation of the policies of the Town Council and overall management of the Town through approximately 106 full-time equivalent (FTE) employees. The Presiding Judge, Town Attorney, and Town Prosecutor are under the direction of the Town Council.



Mayor and Council - FY2025 (as of publication)

From left to right

Top Row: Vice-Mayor Allen Skillicorn, Councilmember Peggy McMahon, Councilmember Gayle Earle, Councilmember Rick Watts

Bottom Row: Councilmember Brenda J. Kalivianakis, Mayor Gerry M. Friedel, Councilmember Hannah Larrabee

Town Government

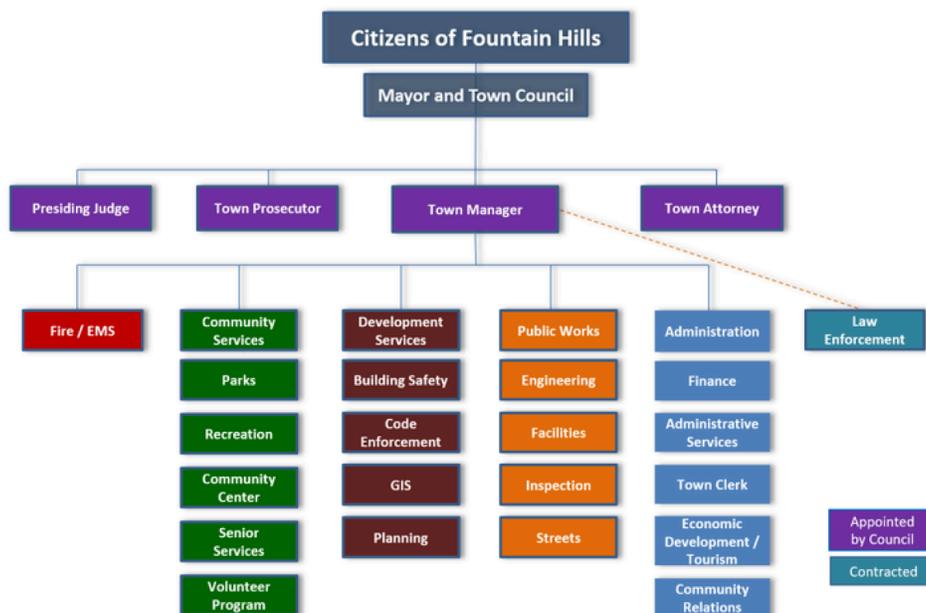
The Town provides or administers a full range of services including public safety (law enforcement, fire, animal control); development services (planning, zoning, code enforcement); public works (engineering, construction, and maintenance of streets and infrastructure); community services (parks, recreational activities, community center, senior services, and cultural events); municipal court, and administrative services (town manager, town clerk, town attorney, human resources, procurement, information technology, and finance). The Town does not maintain or operate any utilities or other operations that would require the establishment of enterprise funds.

The financial reporting entity (the Town) includes all the funds of the primary government (i.e. the Town of Fountain Hills as legally defined) as well as all of its component units. Component units consist of legally separate entities for which the primary government is financially accountable. Blended component units, although legally separate entities, are, in substance, part of the primary government's operations and are included as part of the primary government. Accordingly, the Cottonwoods Maintenance District, the Eagle Mountain Community Facilities District, and the Fountain Hills Municipal Property Corporation are included in the financial report of the Town.

The annual budget serves as the foundation for the Town of Fountain Hills' financial planning and control. The Town Council formally adopts the budget and appropriates funding for the General Fund, Special Revenue Funds, Debt Service Funds, and Capital Projects Funds. Therefore, these funds have appropriated budgets. On or before the second Town Council meeting in April, the Town Manager submits to the Town Council a proposed budget for the fiscal year commencing the following July 1st. The budget includes proposed expenditures and the means of financing them. The Town Council is then required to adopt a tentative budget, which sets the maximum budget amount for the coming year, and then hold a public hearing and adopt a final budget by June 30, the close of the Town's fiscal year. The budget is legally enacted through the adoption of a resolution, and the budget is controlled at the fund level. However, since additional detail is desired, the budget is prepared by fund, department and division.

More information may be found at fountainhillsaz.gov.

Town of Fountain Hills Organization



Community Profile

The Town of Fountain Hills is a master-planned community established in 1970 by McCulloch Properties (now MCO Properties, Inc.). Prior to 1970, the area was a cattle ranch and was part of one of the largest land and cattle holdings in Arizona. The land was purchased by Robert McCulloch in the late 1960s, and the community was designed by Charles Wood, Jr. (designer of Disneyland in southern California). The centerpiece of Fountain Hills is one of the world's tallest man-made fountains, a focal point that attracts thousands of visitors each year.

Located on 13,006 acres of land, Fountain Hills is surrounded by the McDowell Mountains and Scottsdale on the west, the Fort McDowell Yavapai Nation on the east, the Salt River Pima-Maricopa Indian Community on the south, and by the McDowell Mountain Regional Park on the north. The elevation is 1,520 feet at the fountain, 2,460 feet at the Adero Canyon Trailhead, and is approximately 500 feet above Phoenix.

Over the past thirty years, Fountain Hills has grown from 10,030 residents to a town of about 24,000 in 2025. In 2006, the Town of Fountain Hills became about ten percent larger and overall twenty square miles by annexing 1,300 acres of State Trust Land. The Town offers a wide range of living accommodations, from small condominium complexes to large custom homes. Fountain Hills also offers recreational and cultural programs and services that contribute to a high quality of life for its residents. The community consists primarily of residential property and open space. Of the total 20.32 square miles of land, only 2.5% of the total is zoned commercial and/or industrial, 24.7% is preserved as open space, and 48.5% is residential.



One of the many features that make the Town of Fountain Hills so unique is the vast municipally-owned public art collection. More than 150 pieces of art comprise the collection that are located throughout the Town for all to enjoy. The collection includes sculptures, bronzes, murals, paintings, photography, and more.

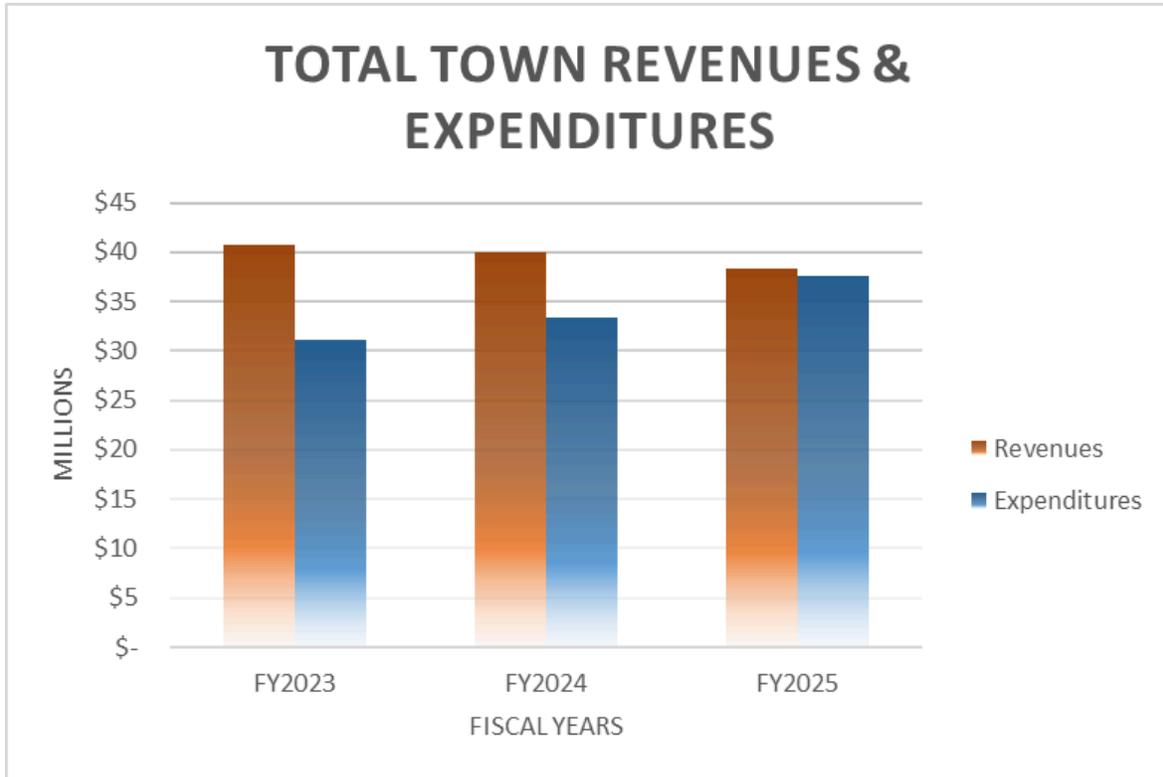
Fountain Hills has dedicated itself to providing award-winning community service programs for residents of all ages. With numerous parks, fields, courts, meeting rooms, and conference facilities, everyone is sure to find an activity that is right for them. The Town also hosts various special events throughout the year, including celebrations for St. Patrick's Day, the Fourth of July, Thanksgiving, and Christmas.

The Town of Fountain Hills encourages involvement in government through volunteerism. Many community members volunteer their time and efforts to the Town of Fountain Hills and thereby enrich the community every day. Volunteers work within the Town to reduce the cost of delivering services to its residents all while having fun, meeting others and enjoying new challenges. Annually, Volunteers are recognized at the Volunteer of the Year Awards Ceremony.

Visit www.fountainhillsaz.gov for more information about the community.

Summary of Revenues and Expenditures

In this section, we present an overview of total revenues and expenditures for Town of Fountain Hills operations for the past three fiscal years. The Town brought in about \$38.4 million of total revenues and expended about \$37.5 million during the fiscal year and the two following sections detail key revenue and expenditure information for your consideration. See the following pages for more information on total Town revenues by type and expenditures by function.



Town Total Revenues and Expenditures - FY2023 through FY2025

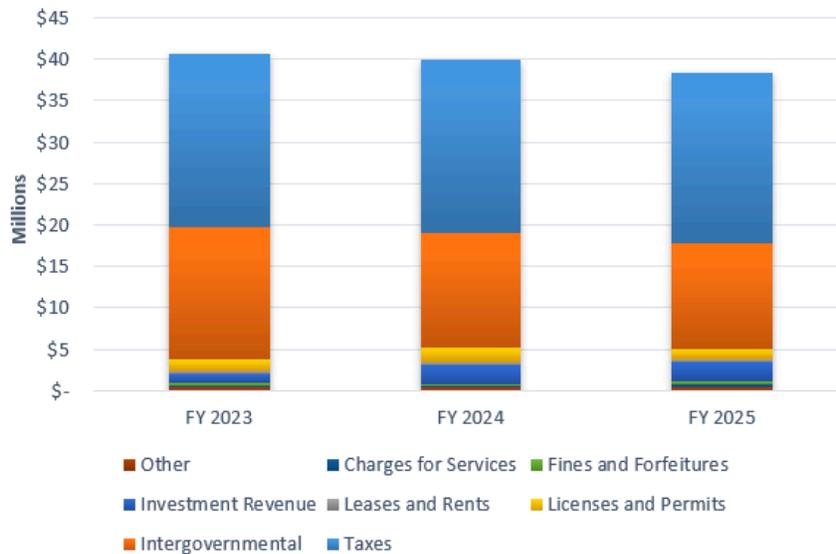
Revenues by Type

As a governmental entity, the Town uses fund accounting to separately account for specific activities. Governmental funds are used to account for tax-supported activities, and the Town receives the funding it needs to provide services to the community from a variety of sources. In FY2025, the Town generated **\$38.8 million in total revenues**, supported primarily by \$20.5 million in total taxes (including sales and franchise taxes) and \$11.8 million in State-shared revenues. After several years of strong growth, overall revenues began to flatten, driven mainly by two major factors: the State's elimination of long-term residential rental taxes beginning January 2025 and a slowdown in construction activity. The rental tax change led to a 28% drop in real estate rental tax revenues, while reduced development activity resulted in lower building permits and a 7% decrease in construction-related sales taxes, which in turn impacted both operating and capital funding.

While sales taxes remain the Town's largest revenue source, overall collections declined slightly by 1.8%, with small decreases in retail and restaurant categories indicating softer local economic activity. State-shared revenues—another major operating revenue source—also decreased due to a state-wide implementation of flat income tax reforms, adding further pressure to the Town's revenue picture.

Even with these declines, several categories, such as services and utilities, continued to grow and helped offset some of the losses. However, FY2025 marks a shift toward **slower, more moderate revenue growth**, shaped largely by statewide policy changes and lower construction momentum—key conditions that will influence the Town's financial planning in the years ahead.

All Town Revenues

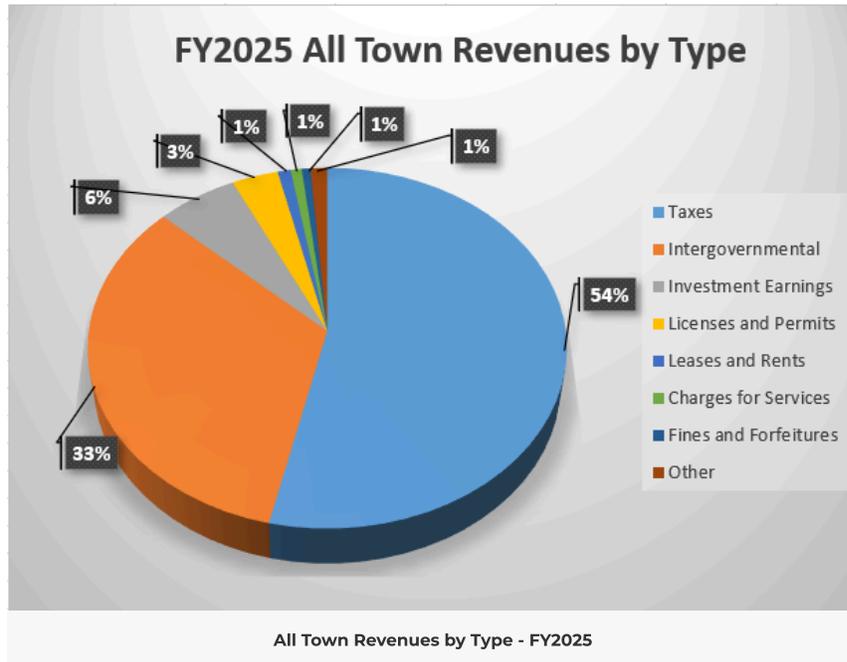


All Town Revenues by Type - FY2023 through FY2025

Revenue Type Definitions

- Local Sales Taxes:** The Town charges a local sales tax of 2.9% on most goods purchased in the Town. This tax is in addition to the State of Arizona rate of 5.6% and the Maricopa County rate of 0.7%, for a total sales tax rate of 9.2%. [All Fountain Hills local sales tax rates are listed on the Arizona Department of Revenue's website.](#)
- Property Taxes:** The Town does not currently assess a primary or secondary property tax. Future voter-approved tax and bond initiatives could require property tax levies upon Town residents.
- Franchise Taxes:** Revenue received from utility (telecommunications) companies for the right to operate within the Town.

- **Licenses and Permits:** Includes building permit fees, business license and short-term rental permit fees, fire inspections, etc.
- **Leases and Rents:** Rental fees for use of the Town facilities, park amenities and fees from leases for wireless communication towers.
- **Intergovernmental:** These are revenues received from other governments or entities, including state shared sales tax and income tax, fire insurance premium tax, vehicle license tax, federal and state grants.
- **Charges for Services:** These are revenues received from services and/or programs provided by the Town such as recreation programs.
- **Fines and Forfeitures:** These are revenues received from municipal court fines and fees.
- **Investment Earnings:** Revenue received from interest on invested fund balances.
- **Other:** These are revenues that do not fit under another classification.



In FY2025, the Town of Fountain Hills’ revenues are primarily supported by taxes, which account for approximately 54% of total revenues, reflecting the Town’s strong reliance on local tax sources. Intergovernmental revenues make up the second-largest share at about 33%, providing significant support from state and other governmental sources. Investment earnings contribute roughly 6%, while licenses and permits account for about 3%. The remaining revenue categories—including leases and rents, charges for services, fines and forfeitures, and other miscellaneous revenues—each represent approximately 1% or less of total revenues, collectively providing a smaller but diversified contribution to the Town’s overall revenue structure.

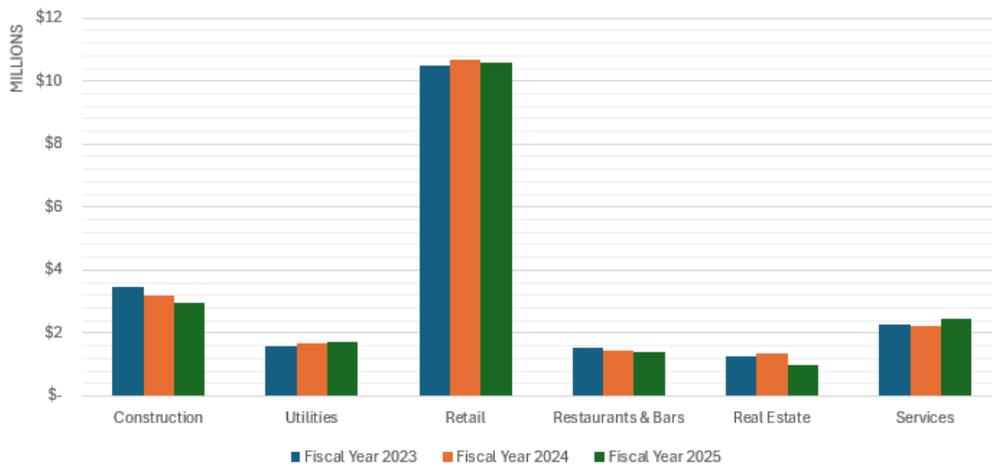
Primary Revenue Source - Local Sales Taxes

The Town of Fountain Hills' primary revenue source is local sales taxes, which are derived from a local 2.9% tax rate on most categories. Specifically, local sales tax revenues accounted for \$20.2 million, more than half of the Town's total revenues in fiscal year 2025. Local Sales Tax Revenues and State Shared Revenues combine to account for nearly 90% of the General Fund revenues. Therefore, Town Finance placed a strong emphasis on regularly monitoring these revenue sources compared to annual projections and reported this data to the Town Council each quarter of fiscal year 2025.

Over the past five fiscal years, Fountain Hills' local sales tax revenues have shown strong overall growth, particularly from FY2021 through FY2024, before flattening in FY2025. Retail sales—the Town's largest revenue category—grew steadily each year and reached their peak in FY2024 before leveling off slightly in FY2025. This mirrors broader statewide economic conditions, where consumer spending remained robust coming out of the pandemic and into FY2024, but softened modestly in FY2025. Restaurant and bar revenues followed a similar pattern, increasing through FY2023 and FY2024 before experiencing a minor pullback in FY2025. Construction-related sales tax revenues increased meaningfully from FY2021 through FY2023, reflecting strong development and home-building activity, and then peaked in FY2024 before decreasing in FY2025. The Town experienced a 7% decline in construction sales tax in FY2025, driven by a noticeable slowdown in local construction activity and fewer building permits issued. Given that construction sales taxes support both General Fund operations and capital infrastructure needs, this downward trend has implications for long-term budget planning.

The most significant change affecting FY2025 revenues appears in the Real Estate category, where revenues dropped sharply due to the State's elimination of long-term residential rental taxes beginning January 2025. The Town experienced a 28% year-over-year decrease in real estate rental tax revenues, and the chart below reflects that decline clearly. This change signals a permanent reduction in this revenue stream, with the full impact continuing into FY2026. Despite these declines, other categories—particularly Services and Utilities—continued to grow steadily. The Town's Services (leisure and tourism) category increased 11.8% in FY2025, demonstrating ongoing strength in professional and service-based sectors. These gains helped offset the losses in real estate and construction, but overall they were not enough to prevent the 1.8% decrease in total sales tax revenues for FY2025. Together, the past five years show a transition from rapid post-pandemic recovery and expansion toward a more moderate and structurally constrained revenue environment shaped by economic cooling and major legislative changes.

Fountain Hills Local Sales Tax Revenue



Town Local Sales Tax Revenues by Categories - FY2023 through FY2025

Expenditures by Function

Over the past three fiscal years, the Town’s expenditures have steadily increased as Fountain Hills has continued to expand public services and invest in community infrastructure. Total governmental expenditures rose from \$31.1 million in FY2023 to \$33.4 million in FY2024, and then to **\$37.6 million in FY2025**. Much of this growth reflects rising costs across nearly all service areas, including general government, development services, and culture and recreation. These increases mirror broader statewide trends, as Arizona municipalities continue to face higher personnel costs, inflationary pressures, and rising construction expenses that impact service delivery.

A significant driver of expenditure growth is the transition to the Town’s in-house fire department, which began operations in January 2024. This operational shift **resulted in a substantial increase in public safety spending**, which rose sharply between FY2023 and FY2024 and remained elevated in FY2025. Bringing fire and emergency medical services under Town management has strengthened local service capacity but also increased staffing, equipment, and operating costs—similar to challenges seen in other Arizona communities.

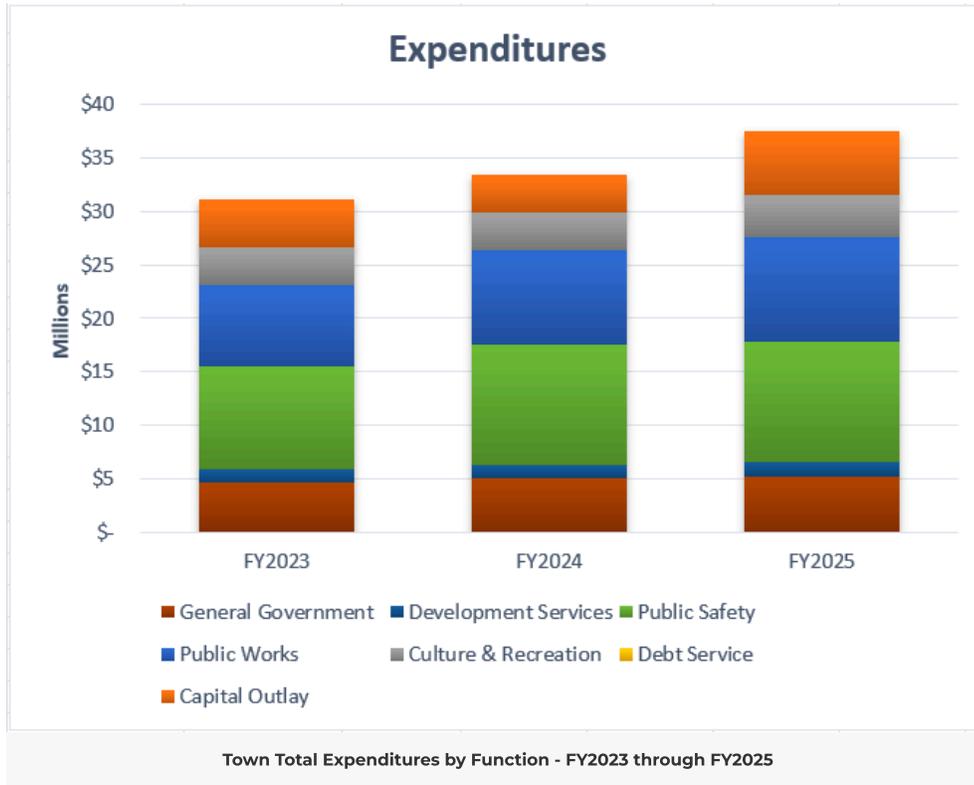
FY2025 also marked a period of **heightened investment in capital projects**, as reflected in the increase in **Capital Outlay spending from \$3.5 million in FY2024 to \$6.0 million in FY2025**. Public Works expenditures also rose significantly, reflecting ongoing street maintenance, infrastructure improvements, and higher construction-related costs driven by market conditions. These capital investments demonstrate the Town’s commitment to maintaining and improving essential infrastructure, even as revenues flatten due to reduced construction activity and changes to state tax policy. Together, these expenditure trends highlight the Town’s focus on service enhancement and long-term community investment during FY2025.

Governmental Funds			
Three Year Expenditures Summary by Type			
Expenditures	2023	2024	2025
General Government	\$ 4,697,681	\$ 4,996,577	\$ 5,215,125
Development Services	1,210,967	1,275,320	1,345,270
Public Safety	9,612,993	11,330,144	11,315,905
Public Works	7,542,736	8,774,689	9,695,361
Culture & Recreation	3,583,471	3,483,590	3,980,572
Debt Service	98	208	453
Capital Outlay	4,498,734	3,523,577	6,001,131
Total Expenditures:	\$ 31,146,680	\$ 33,384,105	\$ 37,553,817

Town Total Expenditures by Function - FY2023 through FY2025

Expenditures Function Definitions

- **General Government:** functions serving Town operations as a whole, including Town Council, Town Manager, Town Clerk, Finance, Administrative Services, Economic Development, Information Technology, Town Attorney, and Town Prosecutor.
- **Development Services:** includes Planning, Building Safety, Code Compliance, and Mapping and Graphics divisions.
- **Public Safety:** MCSO Law Enforcement contracted services and the Town Fire Department expenditures.
- **Public Works:** Streets, Engineering and Facilities divisions.
- **Culture and Recreation:** encompasses the services, programs and facilities provided by Parks & Recreation, Community Center and Senior Services.
- **Debt Service:** principal, interest, and other related costs affiliated with the Town's issuance of debt to support various capital improvement activities.
- **Capital Outlay:** expenditures for long-term Capital Improvement Program improvements and necessary facilities replacement, maintenance and repairs.



Statement of Net Position

Understanding the Town’s Statement of Net Position and Recent Trends

The Statement of Net Position provides a snapshot of the Town’s overall financial condition. It reports everything the Town owns (**assets**), what it owes (**liabilities**), and certain items that will impact future years (**deferred inflows of resources**), in accordance with governmental accounting standards set by the Governmental Accounting Standards Board (GASB). When liabilities and deferred inflows are subtracted from assets, the result is the Town’s **net position**—an important measure of long-term financial health. Fountain Hills’ total net position increased from \$143.4 million in FY2023 to \$150.3 million in FY2024, and then to \$154.2 million in FY2025, demonstrating steady improvement over this three-year period.

Assets include the Town’s cash, investments, and amounts owed to the Town, as well as its long-term capital assets—roads, buildings, parks, and equipment—reported net of depreciation as required by GASB. These capital assets make up the majority of the Town’s asset base and reflect years of investment in infrastructure that benefits the community. Both current assets and capital assets have grown over the past three years as the Town continues to reinvest in public facilities and maintain solid reserves. Liabilities, on the other hand, remain low relative to assets, even with normal year-to-year changes in contract obligations or long-term commitments. This favorable balance contributes to the upward trend in net position.

The Town’s net position is classified into three components: Net Investment in Capital Assets, Restricted, and Unrestricted. More than two-thirds of the Town’s net position is invested in capital assets used to provide essential services. Restricted net position represents funds that must be used for specific purposes, such as state-mandated street projects. The remaining unrestricted net position provides financial flexibility for future needs. Overall, the increase in net position from FY2023 to FY2025 reflects continued investment in community infrastructure, responsible financial management, and the Town’s ability to maintain stable reserves while meeting service demands. This positive trend indicates that Fountain Hills remains on solid financial footing and well-positioned to support residents in the years ahead.

Government-Wide Financials Statements of Net Position			
	2023	2024	2025
ASSETS			
Current and Other Assets	\$ 46,708,494	\$ 53,009,050	\$ 55,358,008
Capital Assets, net	101,838,463	101,990,127	104,695,606
Total Assets	148,546,957	154,999,177	160,053,614
LIABILITIES			
Current and Other Liabilities	3,087,313	2,838,171	3,611,283
Long-Term Liabilities	284,016	553,757	1,139,415
Total Liabilities	3,371,329	3,391,928	4,750,698
DEFERRED INFLOWS OF RESOURCES			
Leases	1,734,697	1,274,470	1,140,535
NET POSITION			
Net Investment in Capital Assets	101,838,463	101,990,127	104,695,606
Restricted	9,646,597	9,474,160	11,497,408
Unrestricted	31,955,871	38,868,492	37,969,367
Total Net Position	\$ 143,440,931	\$ 150,332,779	\$ 154,162,381

Town Statement of Net Position - FY2023 through FY2025

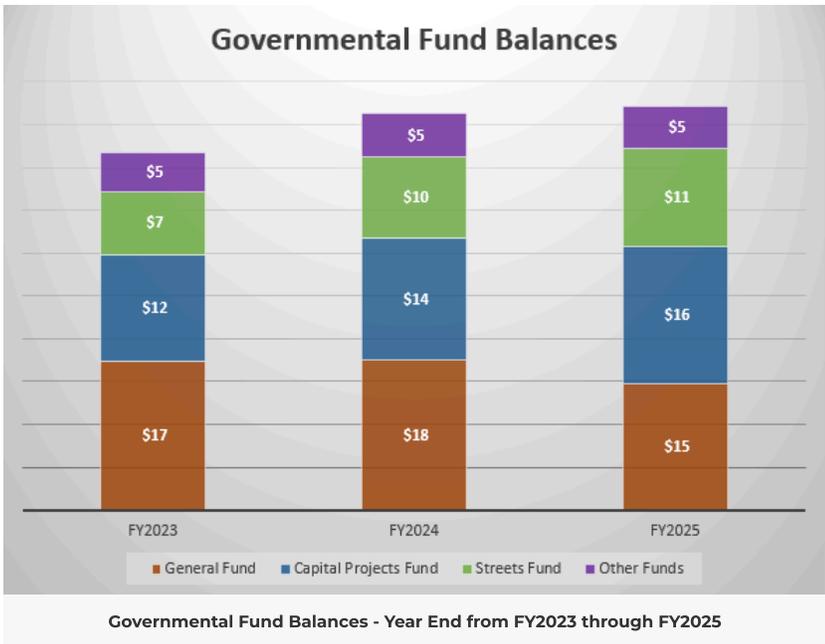
Understanding the Difference Between Net Position and Fund Balance

It is important to note that the Town's net position, shown in the government-wide Statement of Net Position, is different from the fund balances reported in the governmental fund financial statements. Government-wide statements follow full accrual accounting under GASB standards, meaning they include all long-term assets and liabilities—such as capital assets, depreciation, and long-term obligations—that reflect the Town's overall financial condition. Governmental fund statements, however, use modified accrual accounting, which focuses on short-term inflows and outflows of spendable financial resources. As a result, fund balance reflects what is available to spend in the near term, while net position provides a broader, long-term view of the Town's financial health. The Town also prepares and adopts its annual budget using this modified accrual, fund-by-fund basis, which aligns the budgeting process with how day-to-day operations are managed but differs from the government-wide statements that combine all activities into a single, long-term financial perspective. Understanding these differences helps explain why the numbers in the budget and fund statements do not match the government-wide net position totals, even though they are all part of the same overall financial picture.

Fund Accounting

Understanding the Town’s Governmental Fund Balances

Governmental fund balances represent the financial resources the Town has available to support day-to-day operations and services in the near term. Under GASB’s modified accrual accounting, these balances focus only on short-term, spendable resources—such as cash, investments, and revenues expected to be collected within the year. This is different from the government-wide Statement of Net Position, which includes long-term items like capital assets, depreciation, and long-term liabilities. As a result, **governmental fund balances are the amounts that are actually available for the Town to budget and spend each year**, while the government-wide numbers reflect the Town’s overall financial condition from a long-term perspective. Because governmental fund balances reflect **current, spendable resources**, they form the foundation of the Town’s annual budget. The Town is required by Arizona State Statute to adopt a balanced budget each year, and it does so using the modified accrual fund-by-fund basis. This budgeting method is considered a governmental best practice because it shows clearly how much funding is available for each operating area, ensures budget transparency, and prevents the Town from committing resources it does not have.



The Town has maintained strong financial reserves over the past three years with **total governmental fund balances of \$47.1 million at June 30, 2025**, even while navigating changing revenue trends. The General Fund, which supports core services such as public safety, administration, and parks, increased from \$17 million in FY2023 to \$18 million in FY2024 before decreasing to \$15 million in FY2025. This slight reduction reflects higher operating costs—particularly in public safety and infrastructure—while still keeping the General Fund comfortably above policy reserve levels. The Streets Fund, which must be used exclusively for roadway and transportation projects as required by law, grew steadily from \$7 million to \$11 million over the same period. The Capital Projects Fund also increased significantly, rising from

\$12 million in FY2023 to \$16 million in FY2025. The Capital Projects Fund includes the Town’s Facilities Reserve Fund for financial reporting purposes, although they are presented in the annual budget separately. The Town Council has been intentionally saving in the Facilities Reserve Fund to prepare for major future capital projects, including the eventual replacement of the Fountain Park lake liner, a substantial long-term infrastructure need. Maintaining strong capital reserves allows the Town to plan for these major projects without requiring sudden tax or fee increases.

Lastly, in addition to the governmental fund balances shown in the chart, the Town has also set aside **\$3.2 million in internal service funds** for the future replacement of Town vehicles, equipment, and IT systems. These internal reserves are not part of the governmental funds, but they play an important role in ensuring the Town can maintain reliable equipment and technology without creating unexpected budget pressures. Taken together, these governmental and internal service fund reserves reflect a commitment to responsible financial planning and long-term stability.

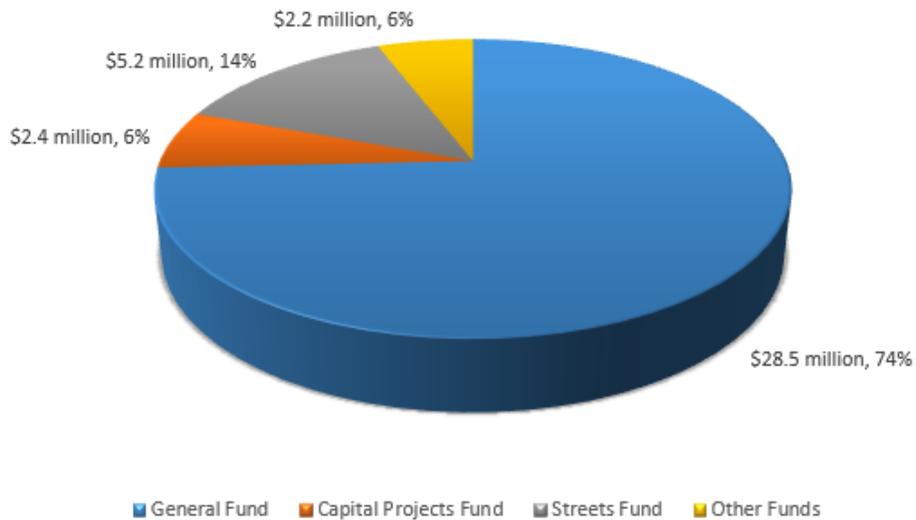
Governmental Fund Revenues and Expenditures

Revenues by Major Fund

The **General Fund continues to be the Town's primary operating fund**, accounting for **\$28.5 million, or 74%**, of all governmental revenues. This reflects the Town's reliance on general revenues such as local sales taxes, state-shared revenues, and service charges to support day-to-day services including public safety, parks, administration, and community programs. The remaining funds—**Capital Projects (\$2.4 million), Streets (\$5.2 million), and Other Funds (\$2.2 million)**—make up the other 26% of revenues. These funds are typically more restricted in how they can be used and often fluctuate based on grant availability, construction activity, and dedicated revenue sources like state gas tax distributions.

Looking at trends over the past three years, FY2025 revenues show a **flattening pattern**, driven by several statewide and local factors. General Fund revenues remain strong but grew more slowly than in prior years, reflecting softening construction activity and the elimination of long-term residential rental taxes beginning in 2025. Streets Fund revenues increased modestly due to stable state gas tax distributions, while Capital Projects Fund revenues declined compared to earlier years as fewer one-time grants and construction-driven revenues were available. Overall, FY2025 represents a shift from the rapid revenue growth seen in FY2023 and FY2024 to a more moderate and stable revenue environment, requiring the Town to balance ongoing service needs with reduced year-to-year revenue expansion.

FY2025 Revenues by Major Fund



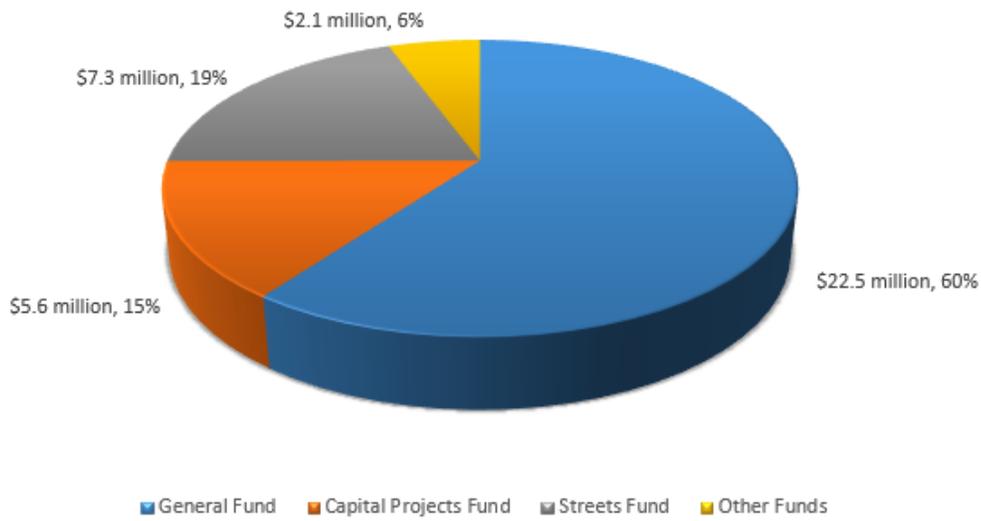
Town Total Revenues by Major Fund - FY2025

Expenditures by Major Fund

The **General Fund accounts for the largest share of Town spending**, totaling **\$22.5 million, or 60%**, of all governmental expenditures. This reflects the cost of providing core community services such as public safety, parks and recreation, administration, and general government operations. The **Capital Projects Fund**, representing **\$5.6 million (15%)**, reflects the Town's continued investment in infrastructure, facilities, and long-term capital improvements. The **Streets Fund** accounts for **\$7.3 million (19%)** of spending, driven by roadway maintenance, pavement management, and transportation projects funded primarily through state-restricted revenues. The remaining **\$2.1 million (6%)** in the "Other Funds" category supports specialized programs and legally restricted activities.

Compared to the prior two fiscal years, FY2025 marks a noticeable increase in capital and infrastructure-related spending. Capital Projects Fund expenditures rose as the Town accelerated investment in facilities and long-term improvements, while Streets Fund spending increased to address ongoing roadway needs and higher construction costs. General Fund expenditures also grew, largely reflecting the full-year impact of the Town's transition to an in-house fire department and rising service delivery costs. Overall, the FY2025 spending pattern demonstrates the Town's focus on maintaining essential services while making strategic investments in infrastructure and public facilities to support long-term community needs.

FY2025 Expenditures by Major Fund



Town Total Expenditures by Major Fund - FY2025

Expenditure Limitation and Its Impact on the Town’s Finances & Budget

Arizona’s Constitution and State statutes impose a legally binding **expenditure limitation** on cities and towns that restricts how much they may spend each fiscal year, regardless of available revenues or accumulated fund balances. This limitation is established under Article IX, Section 20 of the Arizona Constitution and implemented through state law and the Uniform Expenditure Reporting System. Each year, the Arizona Economic Estimates Commission calculates and sets the Town of Fountain Hills’ expenditure limitation based on a statutory formula that accounts for population changes and inflation. Local governments are required to budget and operate in compliance with this limitation.

For FY2025, the Town of Fountain Hills’ constitutional expenditure limitation was **\$35,588,003 million**, and expenditures subject to the limit totaled **\$35,588,002—just one dollar below the allowable maximum**. This illustrates how closely the Town must manage its finances to remain compliant. Exceeding the limit, even unintentionally, could result in significant statutory consequences, making conservative budgeting and ongoing monitoring essential. While the constitutional expenditure limitation applies to spending, it does not align with the Town’s total budget. The total FY2025 adopted budget was \$45.2 million, substantially higher than the \$35.6 million expenditure limit. This difference reflects the fact that certain revenues and expenditures—such as specific intergovernmental revenues, investment earnings, voter-approved amounts, and other constitutionally defined exclusions—are allowed to be excluded from the limitation. As a result, the Town must prepare and manage a budget where a significant portion of planned spending does not count toward the constitutional cap, adding complexity to both budget development and long-term financial planning.

**Town of Fountain Hills, Arizona
Annual Expenditure Limitation Report – Part I
Year Ended June 30, 2025**

1. Economic Estimates Commission expenditure limitation	\$ 35,588,003
2. Amount subject to the expenditure limitation (total amount from Part II, Line C)	35,588,002
3. Amount under the expenditure limitation	\$ 1

Town Expenditure Limitation - Actual Results for FY2025

Future Options to Address the Expenditure Limitation

Looking ahead, the Town of Fountain Hills has two primary voter-driven options available under Arizona law to provide greater long-term flexibility under the expenditure limitation: a **permanent base adjustment** or adoption of a **home rule**. A permanent base adjustment requires voter approval to modify the Town’s expenditure limitation to a higher base level, from which future annual limits are calculated; this option permanently increases spending capacity but does not eliminate the constitutional framework. Alternatively, adoption of a home rule—also subject to voter approval—allows the Town to establish its own expenditure limitation that replaces the State-imposed formula for a temporary 4-year period, providing greater local control over spending decisions while still requiring fiscal balance and transparency. Both options involve careful consideration, public engagement, and voter approval, and each would represent a significant policy decision regarding how the Town balances long-term financial flexibility with fiscal discipline.



GFOA Awards for FY2024 ACFR & PAFR, and FY2026 Adopted Budget



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Executive Director/CEO



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For the Fiscal Year Beginning

July 01, 2025

Christopher P. Morill

Executive Director

The Town of Fountain Hills has been awarded Government Finance Officers Association awards for its FY2024 Annual Comprehensive Financial Report (ACFR), PAFR, and its FY2026 Adopted Budget over the past year.



Town of Fountain Hills
16705 E. Avenue of the Fountains
Fountain Hills, Arizona 85268
480-816-5100
www.fountainhillsaz.gov



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