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CALL TO ORDER

[Time: 00:00:03]

Mayor Lane: Good afternoon, everyone. Nice to have you here with us. I would like to call to order our November 25th, 2019, City Council meeting. Regular meeting.

ROLL CALL

[Time: 00:00:15]

Mayor Lane: Start with the roll call, please.

City Clerk Carolyn Jagger: Thank you, Your Honor. Councilmember Milhaven will be here shortly but we'll go ahead and call the roll for everybody else. Mayor Jim Lane.

Mayor Lane: Present.

Carolyn Jagger: Vice Mayor Kathy Littlefield.

Vice Mayor Littlefield: Present.

Carolyn Jagger: Councilmembers Suzanne Klapp.

Councilwoman Klapp: Here.

Carolyn Jagger: Virginia Korte.

Councilmember Korte: Here.

Carolyn Jagger: Guy Phillips.

Councilman Phillips: Here.

Carolyn Jagger: And Solange Whitehead.

Councilwoman Whitehead: Here.

Carolyn Jagger: City Manager Jim Thompson.

Jim Thompson: Here.

Carolyn Jagger: City Attorney Sherry Scott.

Sherry Scott: Here.

Carolyn Jagger: City Treasurer Jeff Nichols.

Jeff Nichols: Here.

Carolyn Jagger: City Auditor Sharron Walker.

Sharon Walker: Here.

Carolyn Jagger: And the clerk is present.

[Time: 00:00:45]

Mayor Lane: Just a matter of some information that we need to have for everyone and we do have cards if you would like to speak on any of the topics on the agenda. They are the white card, that is being held up over the head of the city clerk right there to my right. Of course, if you would like to give us written comments on the items on the agenda, that is the yellow card. Those comments will be read through the course of the meeting. We have Scottsdale police officers Nate Mullins and Tony Wells right out here in front of me. And we also have Jason Moag from the Scottsdale Fire Department. And he is right out here directly in front of me as well in the mezzanine there. If you have a need for the services.

The areas behind me are reserved for Councilmembers and staff. We have bathroom facilities under the exit sign there for you. If you are having difficulty hearing any of the proceedings, we do have hearing assisting aids available here at the clerk's desk here to my right. Check with the city clerk and her staff if you would like to

receive one.

PLEDGE OF ALLEGIANCE

[Time: 00:02:04]

Mayor Lane: For the pledge of allegiance this afternoon, we've got the Library Teen Advisory Board members here with us today. Certainly welcome them and lead us in the pledge. If you're able, please stand for the pledge. Begin whenever you're ready.

Library Teen Advisory Board: I pledge allegiance to the flag of the United States of America and to the Republic for which it stands, one Nation, under God, indivisible, with liberty and justice for all.

Mayor Lane: Thank you very much. If you would like, you could introduce yourselves. Maybe the school that you go to. Maybe your favorite area other than library activities that you engage in. Of course you can mention that too.

Library Teen Advisory Board members: My name is Maya, I attend Mojave Middle School and my favorite subject is Spanish exploratory. Hello. My name is Iona, I go to Veritas Preparatory Academy, I am actually interested in youth in government, which is a program I don't know if all of you guys know about. But I love politics. So I guess that would be my favorite subject. My name is Tyler Gomez. I attend Mojave Middle School. And my favorite subject is math. Hello, my name is Georgia. I go to Basis Scottsdale and my favorite subject is math. Hi, my name is Ninder, I go to Basis Scottsdale, and my favorite subjects are biology and government. Hi, my name is Magana, I go to Basis Scottsdale and my favorite subject is Capstone Lit theory. Hello, my name is Alfredo, I go to Coronado High School and my favorite subject is band. Hello, my name is Richardo, I go to Cicero Prep and my favorite subject is math. My name is Michael, I go to Cicero Prep and my favorite subject is rhetoric. Hi, my name is Delia, I go to Mohave Middle School and my favorite subject is social studies. My name is Tenush, I go to Basis Scottsdale and my favorite subject is math. My name is Monroe, I go to Coronado High School and my favorite subject is history.

Mayor Lane: Thank you very much. Thank you for your work in advising the library how they may better appeal to teenagers. Thank you for that work as well.

INVOCATION

[Time: 00:05:09]

Mayor Lane: For the invocation this evening, we have Pastor Ryan Goble of the Scottsdale Bible Church. Pastor, if you could come forward.

Pastor Ryan Goble: My name is Ryan, I go to Cocopah Middle School and I like English Lit. Let us pray. Almighty God, we thank you for the ability to gather together in peace that we have the freedoms that we do here in this great country and city. Lord, give our Councilmen and women wisdom this evening, allow them to govern with justice and righteousness. Thank you for their presence here in our city. I pray that they would seek the best for our city according to your plan. We thank you for your son Jesus Christ and we ask that you would bless this meeting this evening. We pray all of these things in the name of Jesus Christ our Savior amen.

Mayor Lane: Amen. Thank you, Pastor.

MAYOR'S REPORT

[Time: 00:06:10]

Mayor Lane: We've got a couple of items that we want to report on. Starting Saturday, November 30th, Small Business Saturday. I've issued a proclamation. Whereas, Scottsdale, Arizona celebrates our local small businesses and the contributions they make to our local economy and community; according to the United States Small Business Administration, there are currently 30.2 million small businesses in the United States, they represent 99.7 percent of all businesses with employees in the United States, are responsible for 65.9 percent of net new jobs created over the past 21 years, and Whereas, small businesses employ over 47.5 percent of all businesses with employees in the United States; and Whereas, 90 percent of consumers in the United States agree that small businesses contribute positively to the local community by supplying jobs and generating tax revenue; and Whereas, 89 percent of consumers in the United States agree that small businesses are critical to the overall economic health of the United States; and Whereas, 73 percent of consumers in the United States agree that it is important for people to support the small businesses that they value in their community; and Whereas, Scottsdale, Arizona supports our local businesses that create jobs, boost our local economy and preserve our neighborhoods; and Whereas, advocacy groups as well as public and private organizations across the country have endorsed the Saturday after Thanksgiving as Small Business Saturday. Now, Therefore, I, W. J. "Jim" Lane, Mayor of the City of Scottsdale, Arizona do hereby proclaim November 30, 2019, as Small Business Saturday and urge the residents of our community, and communities across the country, to support small businesses and merchants on Small Business Saturday and throughout the year. Witness Whereof, I have hereunto set my hand and caused to be affixed the Seal of the City of Scottsdale, Arizona.

Here to accept the proclamation, are Old Town Scottsdale small business owners, Lisa Savale of Savale Antiques, Amery Bohling of Amery Bohling Fine Art, French Thompson of French Designer Jewelry, and Jaque Keller of Quantum Art. If you could come forward and make that presentation.

[Time: 00:09:37]

Another positive item to relate is I'm pleased to announce that Scottsdale Ranch Park Tennis Center was awarded the 2019 Outstanding Facility of the United States Tennis Association. The association established the award to recognize high standards in tennis facilities, and efforts to make a positive statement about the vitality of the game. Facilities are judged on the overall layout and adaption to the site, quality of each court area, evidence of good and green maintenance, USTA programs, junior tennis programming and contributions to the game. Congratulations to our Parks and Recreation department for this award, and their hard work and dedication to the many facilities within Scottsdale. I do have a presentation if Parks and Rec would come forward en masse.

And yet one other nice award for the city of Scottsdale. On an inaugural basis. The one final award announced today is Scottsdale won the Arizona State University Inaugural Resilience Prize for our Indian Bend Wash or Greenbelt. Everyone here probably knows a story about the Greenbelt, slated to be a concrete flood control channel. Citizens and civic leaders had a better idea that ended up being an 11 mile oasis in the heart of Scottsdale. Scottsdale was recognized by the ASU Knowledge Exchange for Resilience for taking what was a

flooding vulnerability and turning it into a community asset. It's a terrific honor and we want to thank Dr. Crow and his team for that recognition. This was presented the other night to us. But it's just to have the community know and see the kinds of things that your city is recognized for. Positive elements. Even when you talk about the term resilience, what I think really represents our city's great strength and what we do and accomplish as a community. Congratulations to the city and to yourselves for being part of that. Let's give ourselves a hand.

PUBLIC COMMENT

[Time: 00:12:57]

Mayor Lane: Come to the period of time, it's called Public Comment. Public Comment is reserved for citizens comments regarding non-agendized items in which no official action will be taken on these items. Comments are limited to issues within the jurisdiction of city of Scottsdale and Council. Speaker will be limited for five minutes. There will be another opportunity for Public Comment at the end of this meeting, if in fact, it's called out for. We have at this time one request for Public Comment. And it is Valeri Marsh. Over to the podium, please. And if you could give the audience your name of course and your address.

[Time: 00:13:46]

Valeri Marsh: Hi, I'm Valeri Marsh, my background is in education, health and nutrition. I'm a native of Phoenix and my husband and I have run a business in Scottsdale for 33 years. And we really want to be able to continue to do that except we're extremely concerned about the cell towers blanketing the neighborhoods. In 1999, the biggest study ever on microwave radiation was the NTP study, finally released its findings last year and had the highest rate and clear evidence that 2G and 3G radiation cause cancer. Now we're using 4G and we've already started to rollout 5G.

The plan is that cell towers are going to be installed in every neighborhood every three to five homes, where our children go in the backyard and out in their driveways to play. As you may or may not be aware, they've begun to launch the first of 20,000 low-orbiting satellites that by the end of the year 2020 going to beam the microwave radiation down from space. The last five months I've been researching this, there are zero independent published peer reviewed studies that show this is safe. Yet the telecommunication industries say it's safe though it's untested. Over 10,000 published independent peer review studies that show that there is biological effect from microwave radiation.

So what concerns me the most is what happens in our biology. Every single cell has what is called a voltage gated calcium channel. What happens is when the brain sends an impulse of low voltage to the cell, it opens the gate and allows the calcium ion into the cell to keep homeostasis in the body. The problem is that cells cannot recognize whether those voltage impulses come from the brain or man-made electromagnetic field. With this radiation, it opens the gate and instead of one calcium ion, millions pour in. They damage the mitochondria.

You might recall from high school, the mitochondria is the powerhouse of the cell. Every single disease of civilization not caused by a germ is linked to mitochondrial dysfunction. We're not talking about just cancer here, diabetes, autism, ADD, Alzheimer's, cardiac dysfunction, infertility, sleep deprivation, seizures, and DNA damage. The 1996 Telecommunications Act somehow made it legislated that if we speak out and try and halt the installation of these millions of towers across the country, we are open to lawsuits. As our Council, the Constitution has charged you to protect the health and welfare of your citizens. So my question to you, is what

can you do to stand up to this legislation that will undoubtedly harm us, our environment and our children?

Mayor Lane: Thank you, Ms. Marsh.

Valeri Marsh: Thank you.

Mayor Lane: That is the extent of our Public Comment. Moving on to our next item.

ADDED ITEMS

[Time: 00:17:04]

Mayor Lane: Materials for Consent Item Number 18 were added to the agenda less than ten days prior to the meeting and will require a separate vote to remain on the agenda, as per our policy. At this time I would request a vote to accept the agenda as presented or continue the item to December 3rd or 4th, 2019. Do I have a motion?

Councilmember Korte: Mayor, I move to accept the agenda as presented.

Vice Mayor Littlefield: Second.

Mayor Lane: Motion has been made by Councilwoman Korte and seconded by Vice Mayor Littlefield. Ready to vote. Please indicate with an aye and those opposed with a nay. It's unanimous. We then have that item as added as has been presented. Or retained as presented.

MINUTES

[Time: 00:17:58]

Mayor Lane: Our next order of business is to Approve the joint dinner meeting minutes of October 29th, 2019.

Councilwoman Klapp: So moved.

Mayor Lane: Motion has been made by Councilwoman Klapp. And seconded by Councilwoman Korte. We're ready to vote. All those in favor, please indicate aye. And register your vote. It's unanimous. And those minutes have been accepted.

CONSENT AGENDA

[Time: 00:18:34]

Mayor Lane: Next order of business is our Consent Items 1 through 18. And we have a request to speak on Item 15.

[Time: 00:18:57]

Sandy Schenk: Sandy Schenk, my address is on file. Mayor Lane and Councilmembers, there is another positive for this city. Item number 15 was going to kind of get buried. So I just want to make sure that the citizens know how great it was that the bonds got passed. And we owe a great deal of gratitude to you all for being unified in your support. And also to Paula Sturgeon for being the chairman of the bond committee and her four co-chairs Mike Norton, Andrea Alley, Dana Close and Dennis Robbins. Jason Rose did an outstanding job with his team of Mary, Mike and Mike, in organizing a great campaign. And the stats are phenomenal. And I just want to read them so that the citizens know that this was an absolutely victory for our city. Question one was 69.30 percent. Number 2 was 67.47 percent. And number three was 72.71. So thank you all and thanks for everybody that voted for the bonds. And now we can move forward and fix up our city. Thank you.

Mayor Lane: Thank you. That concludes any questions on the Consent items. Unless there is any questions from the Council, I would accept the motion to accept as presented.

Councilmember Korte: So moved.

Councilman Phillips: Second.

Mayor Lane: Motion has been made by Councilwoman Korte and seconded by Councilman Phillips. We're then ready to vote, all those in favor please indicate aye. It's unanimous then. Acceptance of all of the Consent items. If you're here for the Consent items, you're welcome to stay. Otherwise we can continue on to our Regular agenda items.

REGULAR AGENDA

ITEM 19 - FISCAL YEAR 2018/19 ANNUAL FINANCIAL AUDIT

[Time: 00:21:22]

Mayor Lane: Start with our first Regular agenda item, Fiscal Year 2018/2019 Annual Financial Audit. And we have our city auditor Sharron Walker here to present. Welcome, Sharron.

[Time: 00:21:38]

City Auditor Sharron Walker: Agenda item for this report has about 500 pages, but fortunately for me, Heinfeld, Meech prepared about 80 of those pages so that is what I'm going to summarize for you and for the public. And City Treasurer staff prepared the other 400 plus pages of financial statements, disclosures, analysis. So your next agenda item will be the City Treasurer presenting the financial results.

So just a little background before I summarize the audit results, the charter assigns the annual independent audit responsibility to the City Council and the City Council has delegated the audit contract responsibilities to the city auditor. On behalf of the Council, the Audit Committee meets with the CPA firm at the beginning and at the end of each annual audit, at the beginning they hear the CPA firm's discussion about the work that is going to be done and then at the end, they receive the annual audit reports. So at their November 12th meeting, the Audit Committee received the reports and they voted unanimously to recommend the reports be presented to Council for acceptance.

So to summarize the work that is done, the annual audit reviews the financial reports of eight different entities, that is the city's financial report plus the seven component units. The report, the types of reports presented include two different types, opinions on the financial statements and then the second time is the auditor's reports on internal control and compliance. So first the CPA firm gave an unmodified opinion on all eight of the annual financial reports and an unmodified opinion means that the financial statements are fairly presented in all material respects. In other words, that is an excellent result. Auditors tend to be understated.

So along with the report on the financial statements, auditing standards require the CPA firm to communicate other information to the governing board. For each of the eight entities, communication of governance that includes information about accounting practices and estimates about audit adjustments, disagreements with management, several other similar matters. And in those eight communications there were. The CPA attached other types of letters to the communications, one was the audit engagement letter and those letters are the, represent the CPA firm communicating to the city the work that is going to be done during the audits. And the Audit Committee chair signs those letters in acknowledgment of that audit scope.

The second type of letter is the management representation letters and those letters the City Treasurer and his key staff sign. Those letters are acknowledging management's responsibility for the financial statement and for several other aspects related to the audit. But in particular, acknowledging that they've provided all relevant information to the audit firm during the course of the audit. So the second broad type of report is related to internal control and compliance. And because the city spends more than \$750,000 in federal funding each year, quite a bit more, as you can see, last year it was about \$12.6 million, those reports on internal control and compliance are contained in what's called a single audit.

Single audit has specific testing and reporting requirements for the auditor. So the single audit report package includes a report on internal control and compliance related to the financial audit. Report on compliance, internal control and on the federal expenditures. The accounting staff prepared the schedule of federal expenditures. The auditor gave an unmodified opinion on that schedule as well. And related to the report on internal control and compliance, the audit firm had no findings and the single audit report also noted that the three prior year audit findings were fully corrected.

[Time: 00:26:38]

So the state also wants the auditor to provide a report on some state funding compliance. So for the highway user revenue fund the city's limited to using that money for transportation purposes and in the auditor's report on HERF uses, they note that theirs is not a legal determination, but in their opinion the city complied with the state compliance. So overall the financial, the internal control, the compliance audit results for this year were excellent. Two other reports completed in the January, February time frame, one of those is federal related to housing funding and the other one is related to the state expenditure limitations. I couldn't get the slide to change. So the requested action tonight for a motion to accept the financial audit reports that Heinfeld Meech had submitted. I would be happy to address any questions that you may have about the audit results.

Mayor Lane: Thank you, Ms. Walker. Do we have any questions? Vice Mayor. I'm sorry.

Councilman Phillips: I was going to make a motion to approve.

Mayor Lane: Thanks.

Councilman Phillips: Fiscal year 2018/2019 annual financial audit.

Councilwoman Littlefield: I'll second that.

Mayor Lane: All right. Thank you. We have a motion to accept and has been seconded. I would like to make a quick comment with the way city of Scottsdale is situated with how we handle our audits, whether they're external or internal. And the general public should know that we are somewhat unique in the way that we handle this process, in trying to eliminate as much as possible any kind of conflict of interest in evaluating ourselves. So Ms. Walker, who is our City Auditor, she operates independently as a charter officer. And responds to this Council as a body and representatives of the public first and foremost. But nevertheless, her position is maintained by virtue of her responsiveness here. But she works as a team member for the administration.

But she in her auditing capacity is independent of those agencies and departments that she may audit, which is really very unique in the city government. And to the best of my knowledge, we hold that position uniquely within the system of auditors in municipalities. It's one additional way that your governance here facilitates greater accountability and greater transparency even through that office as we can muster. It all works very well and we work well together. But nevertheless, I think it's a point of some differentiating between our structure as well as from others. Sharron, I want to thank you and frankly all of the charter officers for the participation in the process. Thank you for the presentation as well.

We do have the motion on the table and it's been seconded. So I think we'll go ahead with the vote. Thank you again, Sharron. Register your vote. Unanimous, the acceptance. Thank you.

ITEM 20 - FISCAL YEAR 2018/19 FINANCIAL UPDATE

[Time: 00:30:30]

Mayor Lane: Moving on to our next presentation is number 20, Fiscal Year 2018/2019 Financial Update. And our presenter is our City Treasurer Jeff Nichols. Thank you very much. Before you even start, in reference to our Treasurer, also a charter officer and serves in a very similar and independent manner in important respects of reducing conflict of interest. So thank you very much for your participation in that as well, Mr. Nichols.

[Time: 00:31:06]

City Treasurer Jeff Nichols: Thank you very much, Mr. Mayor. Reporting on the financial update, which we last met on fiscal year 18/19 financial update. As you know, we make estimates towards the end of the year, this is an update on the estimates, you see there in the fiscal year 18/19 column. Where in April, we had estimated out when we released the tentative budget where we thought we would finish the end of the fiscal year and the 18/19 actual now that the books are closed, we've been audited, where we ended. The last two months, you see we had some variances. Some positive, some negative. But overall \$4.8 million variance from that point in time.

And you look at the categories, the majority of those categories in the General Fund sales tax category, positive variance of \$2.5 million. Again, this is just that last two months. We believe that the majority of those are just

increased economic activity within these categories. But the outlier I would like to point out, the rental category, \$200,000 negative variance, and that was due to an inter-jurisdictional transfer. Taxes were paid to us in error by the Arizona Department of Revenue. Those we had to pay back of course, because they weren't ours. It created a negative variance in that category. But overall a positive variance for the two-month period.

When we look at the uses, again, majority of the personnel services, we make an estimate at the end, when we adopt the forecasted budget, tentative budget, where we thought we would finish, the two areas within personnel services where we underestimated, related to retirements and health insurance. That along with salaries created that \$1.6 million positive variance.

Most of you know I've been up here talking about it before, in contractual services, when we ask staff in the divisions, the various divisions, Police, Fire, Community Services, my office, take your best estimate out to June 30th, where do you think you'll end up? Quite often, they're reluctant to say we're not going to spend our budget. But we see consistently year in and year out they overestimate what they think they're going to spend. This isn't a bad thing. I think it's just they really have short window period of time. And their eyes are bigger than their appetite in what they can push through the spending funnel if you will. So we enjoy a positive variance on that.

There you see some of the capital outlays, where we had some issues. If you recall last fiscal year we celebrated our 50th anniversary here. We had some work done related to that. That was not budgeted at the time. Not a line item. We went ahead and completed that. Again, some of the transfers out were in excess. I don't think it's really notable. But overall \$3.3 million positive variance on the expenditure side. So when we look, when we forecasted in the tentative budget where we thought we would end in fiscal year, we said a change in fund balance of \$12.8 million. Where we actually ended up, you see there sources of \$315 million, uses of \$294, with a positive change in fund balance of \$20.9 million. During that period of time, our estimate of revenues and uses, the change in fund balance of \$8.2 million. Which is I believe a good thing.

[Time: 00:35:13]

You see there the ending undesignated, unreserved fund balance of a half a million dollars that doesn't change. Here is the reason why. When we look at our total fiscal year 2019/2020 adopted budget, we forecasted an operating contingency of three million dollars. That is for things that may or may not happen throughout the fiscal year. And it gives us the ability to then provide some contingency funding for unknowns. When we talk about the operating reserve, \$28.9 million, related to the financial policy that the city has, where we have a reserve of ten percent of the General Fund operating. Those are not contingencies, those are for things, if for some reason something happened, let's say our systems got hacked, which we worry about every day, at least I do. And for some reason the revenues were not coming in as we had thought. It would be in situations like that that we would dip into our operating reserve. The Armageddons if you will, from an operating standpoint.

You see there PSPRS pension liabilities, \$54.7 million. And then for a total, 19/20 adopted of \$87.1 million. Now, when we go out to the forecast of 19/20, the only significant changes you see there are PSPRS pension liabilities decreasing and decreasing by the same amount. I had discussions with the city manager regarding the commitment to Nationwide, we entered into a development agreement with Nationwide. I believe they're going to be coming back in December looking for a first amendment to that development agreement. But if they hit certain milestones, the city is going to then again give them some of the funding that they generate with that project. We put aside the first two phases of that. There will be a third one 15 years out. We did not

include that. But we set aside \$14.3 million for the likelihood that they're going to hit the milestones. If they don't that money will come back into the undesignated, unreserved fund balance. We felt that since we had a development agreement, we would go ahead and account for that. With that, that is the end of the fiscal year 2018/2019 budget. And I would take any questions that you would have related to fiscal year 2018/2019 before I go on to the statement of net position.

Mayor Lane: Thank you, Mr. Nichols. We do have a question or comment from Councilmember Klapp.

[Time: 00:38:03]

Councilwoman Klapp: I have a question regarding the error that was done by the Department of Revenue. How were those errors caught? Did we catch them? Do they catch them and notify us? Do we have a way of monitoring these things when taxes are being attributed to the wrong city?

Jeff Nichols: Well, Mr. Mayor, Councilwoman Klapp, good question, I think the majority of times, when we go to apply the taxes to our accounts, that is a point in time where we could catch an error where we are sent money that we don't know what account it applies to. It could be. So it's a mixture. I don't know in this particular instance. It could be the city was supposed to receive those revenues, noticed after a period of time that they didn't. They notified ADOR, and they went back and found out through an audit of those accounts where they went and where they were supposed to go. So it could be us. It could be the city that got our revenues or didn't get their revenues or ADOR. In this particular case, I don't know exactly. But I can find that out and let you know.

Councilwoman Klapp: I would be interested in knowing the process a little bit more. If you wouldn't mind letting me know.

Jeff Nichols: Absolutely.

Mayor Lane: Councilwoman Korte.

[Time: 00:39:29]

Councilmember Korte: Thank you, Mayor. Can you talk about the PSPRS pension liability, adopted versus forecast and justification for \$55 million pension contingency there.

Jeff Nichols: Certainly. Our unfunded liability within the Public Safety Personnel Retirement System has been growing. And it's been growing much faster than the liability related Arizona State Retirement System. I believe you all have met recently with the fire chief. If you haven't, you probably will be hearing from them shortly. We have a municipal fire department that began operations in July 1, 2005. For a good length of time, our, Police Public Safety Personnel Retirement and Fire Public Safety Personnel Retirement are two different plans. One for each. For the longest time, for Scottsdale, we were overfunded in that plan. Simply because we didn't have any people that were retiring in that plan. We recently became under-funded and had an unfunded liability in that plan. Not to the extent that we have in the PSPRS police, but we saw the way it was going.

We know that between now and 2025, when a lot of those folks that we hired on July 1st, 2005, will be eligible. We need to do something, not only to address that liability that we think is going to be growing, but to address

an operational plan of how we continue to provide the public safety services on the fire side, responding to the emergency medical calls and everything else 24/7. The fire chief has been talking to the city manager on his idea to lessen that amount to the extent that we can. Not just hiring people to basically fill that time frame, but giving the people that we currently have attributes, so that attribute would be, whether there be basic medical or advanced life support and those things. We don't know exactly what that is going to cost. So the city manager is being cautious in this area. Once we have a plan and we can cost that out, we'll know better.

Also, I'm meeting with some other communities in December, Mesa, Queen Creek, Gilbert, Chandler, to address some of the issues that we see within PSPRS. Because the unfunded portions of our pension plans are growing quickly. We want to find out why that is and what we can do to stem that growth. There's two costs to the pension plan, one is a normal cost. And the other is the cost of amortizing the unfunded liability over a set period of time. The normal costs continue to grow because of the second part, that unfunded liability. So we need to look for a statewide perspective.

I mean, are all of the actuarial assumptions being made throughout the state related to PSPRS because all of those assumptions are the same for us as they are for Prescott, as they are for Bisbee if they have a public safety pension plan, I mean, all of the assumptions are the same but maybe our experiences aren't the same. When you look at salary growth. The number of people that are being added to the plans. So we're going to try and get our heads around that as individuals, first to see if we agree if we're where PSPRS says we're at. Then if we can buy down some of the unfunded liability to offset the increased operating costs that we're seeing on an ongoing basis related to the unfunded liability, that is why we're setting it aside. There is a lot of unknowns right now. Especially Scottsdale, given our unique fire department experience and what we're facing.

[Time: 00:43:54]

Councilmember Korte: Thank you, Jeff. \$55 million is a big number.

Jeff Nichols: It is a big number.

Councilmember Korte: I assume that we're going to try to get our hands around what that value means in the future sometime in 2020.

Jeff Nichols: Yes. We will. And I will go over some figures later. When we say that \$55 million is a big number related to Public Safety Personnel Retirement. The unfunded liability related to Public Safety Personnel Retirement is a much bigger number.

Councilmember Korte: Yes. Thank you.

[Time: 00:44:31]

Mayor Lane: Jeff, if I might, the allocation of unfunded liability handed to us presumably every year, it does not consider any of the factors that you're talking about of our experience, it's based simply on input and presumably on an individual basis when they're entitled to benefits, is it not?.

Jeff Nichols: Correct.

Mayor Lane: What are we responsible for, what they tell us or somehow our projections going forward. It's a matter of the projections going forward, our anticipated experience that are not funded in the program, somehow or other the balancing of it? Because we're still working with the same population of people, are we not?

Jeff Nichols: Mr. Mayor, yes we are. However, there are certain assumptions. One was wage growth. So it's assumed throughout all of the public safety pension plans that wage growth averages three and a half percent. We may average less than that in total wage growth within those two components of our plans of police and fire. If in fact, our experience is less than that, that would reduce our liability. There is an assumption within tier one and tier two of the interest earnings for the fund.

Mayor Lane: Jeff, if I can ask you on the one on wage growth, is that taken individually or is that taken as a total group? I can certainly understand as we hire in and we have lesser wage growth necessarily. And then we have experienced people who are previously already funded presumably that they receive their benefits. So if the wage growth is not individual, but on the group as a whole, I can see what you're saying with regard to wage group. So their analysis doesn't go down to the individual and how it all calculates out. They say hey, three percent is the given in this particular element and so we are looking at a variable that could be different from ours.

Jeff Nichols: For that element, Mr. Mayor, yes. It's for the group as a whole.

Mayor Lane: All right. And then I'm sorry, I interrupted you.

[Time: 00:46:45]

Jeff Nichols: Quite all right. The other thing is the interest earnings of the fund. And whether that is above or below the actuarial assumption. Different for tier one and two, than they are for tier three. It's slightly less. However, if we don't meet those interest earnings assumptions, that will increase that liability. If we earn more than that, let me see. If we earn more than that, then that would decrease it. But these are things, what we're getting ready to look at as a group, that is within the East Valley, is we want to let PSPRS know our particular for our group as a whole, what our wage growth looks like, what our population growth within these plans looks like. Things that we have control, somewhat control over. Do they want to look at our individual plans and apply the actuarial assumptions more fit for Scottsdale or are they going to stay with the statewide assumption that everyone is the same?

Again, not saying that the actuaries aren't doing a good job with the information they're given, but we make those assumptions and tell them what they are. And they plug in the numbers and tell us again, what is funded, unfunded. When we looked at, you remember a couple of years ago, we had an opportunity to extend our period of amortization for that unfunded liability over a period of 30 years. We chose to stick with 20. So really, if everything works as planned, and it's perfect, within their actuarial assumptions, that would mean at the end of 20 years within these plans, they would be 100 percent funded as a whole. Not by individual persons, just the plan as a whole for our police and fire department. If those assumptions aren't correct, when we get to the 20th year, it may not be fully funded. And that's the question we're asking ourselves.

Mayor Lane: Given any kind of program, depending of course on how well it's managed, this is a point in time liability we're talking about on the overall, but That's what our reported liability is for any given year as a point in

time.

Jeff Nichols: That's correct.

[Time: 00:49:12]

Mayor Lane: Some of the efforts to try to fund that from other sources leaves a bit of a concern as to are we getting ahead of something that we don't really know. I could go on with the state of technology available today. This population should be able to be taken individually. If you remember, I don't know if you were with us at the time, but with the retirement incentive program, high valued people were retiring, at an incentive elevated price, they came back and they ended up trying to, in fact, it was subject to at least a settlement on a prospective lawsuit that we had against the retirement fund and that was about two and a half million dollars. The contention was at the time why weren't these people, wasn't this accounted for in their contributions.

Any time you jump ahead with significant amounts, you know, at the end, or 3-year average, that was unaccounted for and therefore they wanted additional monies for us at the time and that was their argument. That I can understand, because that was a unique event. But in the normal course of things, other than what you're saying about the three percent given, if that's the way they handle it, we don't know what our liability is from year to year. In your scenario where 20 years from now maybe, there's, never going to be a point that it all closes out unless something dramatic happens. Nevertheless, that it continues. We're never going to see an end game on this completely, okay, we're 100 percent, it's done. Except on an individual basis. But we don't seem to see that ever. We don't see it on an individual basis whether or not we're contributing and they're contributing to the extent the benefits that they will ultimately receive.

Jeff Nichols: First I apologize for my interruption, Mr. Mayor. I was here back then. David Smith was the City Treasurer and we looked at that program. If you recall, there were incentives that people were given. To go out the door.

Mayor Lane: That is what I was talking about, elevated rate within the last three years, substantial and therefore lent itself to the argument that they made, I think.

[Time: 00:51:37]

Jeff Nichols: It definitely did. But we had employees that had worked for the city for more than 30 years. If you assume that the actuarial assumptions are all correct, their pensions at that point in time should have been fully funded. What happens in each of these cases is that when an employee finally retires, let's say it's today, all of these assumptions are in play, but then they look at that employee's specific account and his, the assumptions that they use overall on the plan might not match with that individual's actual experience. So they calculate, when that individual walks out the door, they calculate whether it was fully funded and therefore no money is due. And in a normal circumstance, that is every time because if it wasn't fully funded it would just hit the fund as a whole. In these particular circumstances, they said their argument was that these payments that you gave the people, these incentives, if you will, were so great that it bumped up the average of the last three years. Even though we had this plan for retirement, you all bumped that up and you created this unfunded liability.

Mayor Lane: That I understand. And nevertheless, what I guess I'm concerned about is that if we're always working with givens, the discount rate, which we've tried to reckon with too, which is patently wrong and

mitigates some of the exposure to what would be a legitimate determination of the liability, we've got a number of things out there that are just not working on a given basis, but on an individual basis, and this isn't for us to answer here. I apologize really for bringing it up to this point. It does seem to me with the availability of technology now, we're not talking about actuarial tables, but you can plug in one given and that is how long somebody is anticipated to live. On the rest of it, the contribution should come close to whatever for an individual to matching up. Otherwise, we really don't know what our liability is, as an individual city. But frankly, even as a system as a whole. Who knows who else has got extraordinary circumstances.

[Time: 00:54:00]

Jeff Nichols: No apologies necessary, Mr. Mayor. We actually have recently acquired software that we're going to use internally. I know PSPRS has told us they're coming out with a software tool that will be available in January that we can also use to try and put in the input for our experience within our funds and see if in fact we can use some of this funding to lessen the ongoing operating impact by buying down some of that liability. Some of my counterparts, in other communities, they've started writing checks for five million dollars in addition to the payments that they make that are required contributions for the normal cost and amortization, an additional five million dollars, is that going to have a positive impact. The last thing I would want to do is make payments like that into these funds and come back next year and tell you our unfunded liability is grown.

Mayor Lane: Nobody wants to see that. But the fact is we need to have the reality of it. We can't be afraid to face it. Even as it comes to the discount rate, politically, nobody really wants to see what an adjustment in the area. Even though we're making small changes in that as time goes on. It's another issue. Your last assertion of what is becoming available in the way of software here in the city and that they'll be doing the same is really the answer to my question right there. They are on to the technological availability to really get a finer touch on this.

Jeff Nichols: I believe they are.

Mayor Lane: Even if it's scary.

Jeff Nichols: Well, they're big numbers and I believe eventually it will be a legislative issue to go to the state legislature for those tweaks if you will to those plans.

Mayor Lane: Thank you Mr. Nichols. Councilwoman Whitehead.

[Time: 00:55:50]

Councilwoman Whitehead: I have a question about the second assumption, the interest earnings assumption, I just wonder what those interest rates are, who determines it and what is it based on?

Jeff Nichols: They have to have a base for each tier of what the interest earnings assumptions are. You have to realize the PSPRS and ASRS are not limited in the manner that the city of Scottsdale is, in the way that we can invest our funds. They have significantly more funds that they're investing. I recently heard a discussion from the manager of ASRS, the executive director. They have approximately \$40 billion in investments within that fund. He had told us this past year the rate of earnings that ASRS received was 10.4 percent, which is much higher than the rate of return that their actuarial assumption is of 7.5 percent. I believe it's 7.4 percent now.

Mayor Lane: We do refer to that as the discount rate.

Jeff Nichols: Yes, the discount rate. So one of the investments, because I was of course interested in how he can earn that much money. One investment vehicle they have is there are private firms out there looking for entities that have the ability where they can get a significant amount to invest \$30, \$40 million, it's not that much to fund. They're willing to pay for the cost of that capital. Anywhere between 10, 12 percent over two or 3-year period for the cost of that capital. They go to the retirement system through a third party. They broker an agreement. They get the funding. They agree to pay back that interest rate. Which is a significant improvement over what we can invest in.

I asked that person what is the percent of those loans when you do that that you don't collect, that you don't get that interest earnings back on. He said it was lower than .01. These companies, they're good companies, they do their due diligence as far as investments. But they have investments outside of what we can make. That is the only instance I know. I haven't seen a figure recently for PSPRS. But I know they're an investment portfolio because they go into infinity. They believe this fund is going to continue on. So they're not worried or leveraged like we are. We can't invest past the five-year window. So the types of investments that we're seeing right now, we're getting less than two percent return. They have other investments they're getting much greater than that. I hope that helps answer your question.

[Time: 00:58:45]

Councilwoman Whitehead: So that is one year, really good year. I guess my question is more how is the, because what you provided was like a recent ten percent return. My question is, how is it calculated? Because isn't the city locked into that percentage? Into the interest.

Jeff Nichols: The discount rate is used to calculate the actuarial, it's one of the actuarial assumptions. The discount rate. On average, they're saying that the fund is going to earn 7.4 percent over a long period of time. Their experience has been that that holds true the majority of the time. Sometimes it's lower than that discount rate. Sometimes it's higher than the discount rate. But on average, it's true. One thing you have to remember for every percentage point, that we lower the discount rate, it has a large impact on the unfunded liability. Because that income stream that they're counting on decreases significantly from that revenue source. If that interest is above the 7.4, let's say to 8.4, it has a positive effect. Especially if it lasts over a period of time. It's just one of the assumptions within those calculations that they use. Just like I said, the average salary overall, they use a three and a half percent growth rate in salaries. They have to assume something.

Councilwoman Whitehead: No. I get that. Maybe I'll follow up with you for more detail. Thank you so much.

Jeff Nichols: Be happy to sit down with you.

Mayor Lane: I would just add one simple thing to that. I think it would be good if Councilwoman Whitehead would follow up as well. Nevertheless, during the years between 2009 and about 2017, it was lower for an extended period of time. But as you say, the average, if you just were to say the S&P or take the Dow Jones or something like that, generally about nine to ten percent over an extended period of time. Maybe not as long as they anticipate this fund to exist. But that is the way it's calculated. But the call came out on the discount rate being too high because set against other municipalities, we generally have been on a higher scale than some.

But thank you very much, Mr. Nichols, in indulging some of the questions.

Jeff Nichols: You're welcome. That is the end of that. I would like to get on to our financial highlights for fiscal year 218/219. Our statement of net position or in the private practice, they would refer to it as a balance sheet. You see for the change, 2017, 2018, compared to 18/19, an increase in \$25.8 million in total assets. A decrease of \$94.3 million in total liabilities. Therefore, an increase in our net position of \$120.1 million. The bottom right hand portion of this screen. I will talk about the different components, line items within this balance sheet.

If you would, if you compared that total assets minus liabilities, that would be the equity of a company. When you look at our cash and cash equivalent balances, one of the things that I want to make sure that we look at is that out of all of those cash balances, about \$133.9 million of them relate to debt reserves. We have about \$278 million related to CIP balances. These are accounts within the General Fund or water fund, sewer fund, where we have ongoing projects, therefore we have the cash to bring the projects to fruition. We have \$125 million related to special revenue and internal service funds there, about the 7 to 5 o'clock position. The special revenue funds are things like transportation, CDBG, HOME grants, Section 8, those revenues are restricted for those programs. The internal service funds would include things like Fleet, Risk Management, we're self-insured, for both insurance but we're also self-insured on the benefits side. We have cash balances to handle those programs.

[Time: 01:03:30]

And the one thing on the left hand, about the nine o'clock position, you see the General Fund, reserve contingency of \$27.7 million. And you also see the General Fund undesignated unreserved balance of about \$500,000. That's our total cash portfolio as of that point in time, June 30, 2019. When we look at our receivables, you look at that inter-governmental grants, a receivable. Includes stuff like the highway user tax. One inter-governmental grant about \$14.4 million related to the Crossroads East, where we made improvements and the Arizona State Land Department, or anyone who takes down that land will have to pay us back for that. We have that as a receivable on the books. A loan program to T-Gen of about two million dollars that they're paying back.

Arizona State Tourism Authority, about \$5.8 million. And some other grants of about \$1.3 million. So various entities. You see the property and local taxes. The vast majority of that \$22.9 million is related to our sales tax. When you look at the interest fines and others, the largest portion of that related to court fines. About \$10.9 million. I mentioned that because there is a caveat. And that is that we may or may not receive that. If we don't receive those fines, we have no way legally to go after those people for not paying the debts. We will carry those fines on our books until such time as we write them off. You look at charges for services, this point in time mostly relates to water and sewer, about \$17.3 million. So then you look at the other category.

Mayor Lane: Excuse me, Mr. Nichols. Just one quick item on the receivables side, the \$35.5 million includes, as you were indicating, some \$14 million relative to the Crossroads project. Is that the same \$14.3 million that we have as indicated as a commitment to Nationwide?

Jeff Nichols: No. Totally separate. But we did make improvements. It's in the same geographical area that we made improvements up there. We're getting some of that money, when Nationwide bought that property from the State Land Department, we got some of that receivable paid to us. But there is other receivables. It has nothing to do with Nationwide. If and when those properties sell, we will receive those moneys for those

properties.

Mayor Lane: You're talking about the state land.....

Jeff Nichols: The state land where we made physical improvements. We made flood control and street improvements.

Mayor Lane: Which we've done before. Scottsdale Road is a prime example by the Scottsdale One project. Which is now the Henkel building. We recovered that years later. And some land south. That is what that refers to. The other is some of the participation that we had with Nationwide with infrastructure that we're talking about there. Once they accomplished what they have set out to do.

Jeff Nichols: Correct.

Mayor Lane: So it's a liability if they complete that.

Jeff Nichols: It will be a liability if they complete that. And that is why we're setting aside those funds to make that payment. Because we don't want to come up and five years from now they give us all of the information that they met all of the milestones and then we have to come up with seven million dollars.

Mayor Lane: Understand. Understand. Okay. Thank you.

[Time: 01:07:30]

Jeff Nichols: You're welcome. Pensions, \$71.1 million, under others, just related to gasby 68, it has more to do with accounting than anything else. Looking at some of the supplies and the prepaid items, you look at that. The biggest thing under this asset, these are assets still. Is the Nordstrom's garage. If you remember when we financed that garage, we said it was debt. Someone else came in and said no, it's a prepayment of an operating lease. So now we have it on our books as a prepayment of an operating lease. It's an asset. It's been paid and we will write that down over time as we pay that debt off. That receivable will decrease.

Service concession agreements. Those are related to assets that we build within the Bureau of Reclamation land, so mostly WestWorld. We can't account for those as an asset on our book under the buildings. I'll get to that later. They say no, because you don't own that land, you have to account for them in this manner, as an asset. Deferred amounts on refunding, when we go out and refund the debt in the past. We save taxpayers a lot of money, again for accounting purposes they say that savings that you have has to be taken over that period of time. So you can't accrue all of that savings to one year. We set up this deferred amount on refundings and take it into our books as we earn that. So looking at the net capital assets by type for government. \$4 billion \$378 million.

First I would like to point out under non-Preserve land, and Preserve land, about \$3.2 billion. That is not depreciable so those are assets that are on our books that we do not depreciate. Some of the other large areas, streets and storm drains, \$678 million. Buildings and land improvement again, a rather large source, those are depreciable assets. But fully almost three quarters of our assets within the governmental area are non-depreciable type assets. You might be wondering, if you recall, several years ago, we looked at our accounting for when we could get streets donated to us. And over time, what had happened is we took those

assets in as streets, when really we should have broken out the components to the street, the physical improvement, curbs gutters, street and the land that they sat on. Because we're going to own that land forever and it was given to us. So the majority of the non-preserved land is either a street right-of-way for flood control, something like that, that was donated to the city through those assets that were given to the city and built by developers.

Net capital assets by type. Enterprise fund. Again, no surprise here. Vast majority of them, \$1,146,000,000, are related to the water and sewer system improvements. You see some outliers there you don't see on the other governmental side. Equity and joint venture is our participation with the city of Phoenix and other cities in the 91st Avenue waste water treatment plant. Investment for us. We own a percentage of that plant, based on that percentage, we help them operate and maintain the plant. You also see about \$87.5 million in water rights that we purchased to shore up our account for providing our citizens water now and into the future. The annual depreciation by type. You see the street and storm drains and building and improvements, vast majority of it. Not much to say there. Again, that street and storm drains that would be the actual improvements. Again, the street, curbs, gutters, those types of things.

[Time: 01:11:43]

Building and improvements could be just what it says, the building or it could be improvements to the park. Putting a pool into a park. That is what we would call and improvements on the building side. The other more internal investments and depreciation on motor vehicles and machineries and equipment, we have good programs and replace the majority of that machinery and equipment is going to be related to computer related equipment that we depreciate. Annual depreciation by type for the enterprise fund, again no surprise, water system and sewer system. The vast majority. You see a small amount for buildings and improvements. Most of the categories like the water treatment plant, would be under the water system. Up north of the 101. Same with the sewer system. But it would also include the conveyance systems for both of those utilities in the ground. I wanted to include accumulated depreciation by type for the government and enterprise.

Again, this goes to show, we have about, almost \$6 billion worth of accumulated depreciation, but these are assets that are still providing value and service to the citizens of Scottsdale. These are still on our books. They may be depreciated from one year to fully depreciated. But these are assets that we continue to use. Same on the enterprise side. Accumulated depreciation. Again, total \$801 million. Many of those assets, we replace over time. But this continues to grow. When we take an asset out of the system, we take out the asset and we take out the accumulated depreciation. So they both go away. We don't count them as assets anymore. The acquisitions by type, under governmental. You see a non-Preserve land. More than likely land donated by a developer, related to a street or street improvement. I think this was mentioned before by me.

It's an asset now. But it becomes a liability for us as well. Because now we have to maintain some of these assets into perpetuity. Mostly under the streets and storm drains, the \$27.1 million. Land is there forever. Construction in progress, again, projects that we have currently in the works that haven't been fully completed have not been taken into our asset inventory. They remain in progress. Same on the enterprise side. \$135.7 million, with the majority of those assets about 46, I'm sorry. Yeah. \$46.4 million related to the water system and sewer system. And again, a large construction in progress.

The one thing I will note on this slide, you see the building improvements. These are acquisitions. \$34.3 million. The majority of this is related by the new airport facility. Operations building up at the airport. And also

improvements to the runway out at the airport. Significant investments in that asset that the city has. Not only the assets that we have at the airport, but the asset that having the airport within the city and the surrounding airpark brings to Scottsdale. A great deal of business and a great deal of revenue. Some of our other accruals and payables, \$153.9 million. At end of year. June 30th, that is what we owed people. Vast majority of that, \$84 million is related to bond payments that we're going to make on July 1st. But for June 30th, 2019, we accrue those payables.

The others are the payables you would have in a normal course of business. Everyone that we do business with, we look out for a 30-day period and we accrue those back to June 30th. Compensated absences are just that. Absences that the employees have earned. We know we're going to pay them out at some point in time related to vacation. Other liabilities, vast majority of those \$44.6 million, is related to the pollution remediation project that we have in the southern part of the city that we continue to address with some of the companies that cause that pollution. And there you see the big ending amount, net pension liability, so you take our assets that we have in all our pension funds, ASRS, PSPRS, EOR, elected officials retirement plan. You take out all of the commitments that we made and our net pension liabilities are \$327 million. So that kind of puts it into perspective when you think about that \$54 million that we've set aside for PSPRS and to look at that issue.

Mayor Lane: Yes. Mr. Nichols, on that one, is that, does that constitute the unfunded portion of our....

Jeff Nichols: Yes, sir.

Mayor Lane: And is that the calculation that is given over to us by the state?

Jeff Nichols: Yes, sir.

Mayor Lane: It has increased, I wouldn't say significantly, by tens of millions of dollars over the last few years?

[Time: 01:17:06]

Jeff Nichols: It's increased. But this last fiscal year, I believe I have a slide on here that it's gone down somewhat. This is something different. I have information Mr. Mayor, that the pension liabilities this year actually reduced. Mostly on the ASRS side. The amount of unfunded liabilities. But they have come down somewhat. They have increased for the police side of the PSPRS, the liability has increased. Reduced somewhat for the fire department.

Mayor Lane: Yearly basis, the total of all, this number has come down.

Jeff Nichols: This has actually gone down a little bit.

Mayor Lane: On the basis of their calculations, their givens without any consideration for special circumstances that we may have to plug into it and not on an individual basis?

Jeff Nichols: Yes.

Mayor Lane: Thanks.

Jeff Nichols: You're welcome. So here, bonds, loans and other payables, you see this, what I would like to point out is about from the 3:30 to six o'clock side, general obligation, that is the amount of debt that voters have approved and we're levying the secondary property tax. Water, sewer, and airport, all made up within fees within that area, the Preserve debts repaid with the two tranches of the sales tax, .2 and .15 related to the Preserve. We have some Community Facilities Districts, and some excise tax debt. Those are improvements that we made whereby we didn't have a particular revenue source. We pledged our total excise taxes. Example of that would be the West World facility, the Tony Nelssen Equestrian Facility.

Vast majority of our debt, our bonds, we have identified revenue sources that are going to repay that debt over a period of time. Some of the implicit subsidies. You remember in 2010, they were greater than today. Some implicit subsidies for public safety that medically retire. We give them employees rate. So there is an implicit subsidy there. Some of the compensated absences, liabilities that we're going to earn in the future are what we call off-balance sheet liabilities. With that, I would take any additional questions you may have.

Mayor Lane: First, thank you very much for the presentation. And the answers thus far. Do I have any questions from the Council? Hearing none, I would say thank you for the presentation and for the information. There may be follow-up by myself and maybe Councilwoman Whitehead as well.

[Time: 01:20:09]

Jeff Nichols: Look forward to that. I would like to thank a couple of people in the audience. She's standing up and trying to get out of here. Joyce Gilbride, accounting director, and Anna Henthorn, to her left, accounting manager. They are the team that Sharron referred to as the nuts and bolts behind putting all of the financials together. They and their staff. Cindy Ensign, Cherise Moss, Chona Zuckerman, Robin Melhad, David Cordon., Marvin Mendieta, Gina Kirklin, Leslie DeResche and Deb Ramirez. In addition to them, since in our financial statements, we have budget to actual statements. I would like to thank Judy Doyle and her crew that assist accounting in putting those statements together. They do a great job. I believe it will be the 46th year in a row that we've received the Excellence in Financial Reporting from the Governmental Finance Office Association.

Mayor Lane: Very good. Congratulations on that. Thank you very much and that recognition for the staff. That completes our presentations on Regular agenda items. We have no public, I'm sorry. How did I miss this? This may come down a peg or two from where we were.

Jeff Nichols: I think it does personally. Because a lot of work goes into year end. I mean, it takes a long time. The other thing I want to say, I don't know if they've been delivered to you. We have our comprehensive annual financial report already in print. We're one of the first entities in the valley to get that out. We take great pride in that. So it was done very soon, as Sharron, the internal auditor mentioned. We have other reporting in January but those are to be expected reports that come in.

Mayor Lane: Mr. Nichols, since you broached the subject again, the amount of pension liability that comes to us, I know some have addressed it, some have not, some it's much worse than ours, some it's less exposure to that liability. As we talked about the calculation, as far as the individual circumstances in that, if you were talking about for ourselves the new software, are we trying to get to a point where we can address this more finely tuned to ourselves, in other words, we're not paying down something that may correct itself or the other way around, that we're ignoring something that may be larger than what our allocation is from the standards coming from PCPRS or the city's pension program?

[Time: 01:23:10]

Jeff Nichols: The short answer is yes. We're going to take a look at our particular set of circumstances for our populations within those plans. We're going to try and forecast what we believe our unfunded liability is and then how do we tackle that, or how do we reduce that if at all possible.

Mayor Lane: Are we also going to put into it obviously the option to go to a defined payment program.

Jeff Nichols: Defined contribution plan?

Mayor Lane: Whether we do the defined contribution program, if we do that, and are there any other variables even with regard to not paying bonus in up years, paying to increase benefits, since that has gone away, to the best of my knowledge.

Jeff Nichols: Mr. Mayor, those will be legislative changes if they happen.

Mayor Lane: That has not happened?

Jeff Nichols: In tier three of the Public Safety Personnel Retirement System, the last tier, there is an option to take a deferred contribution retirement account. Versus a defined benefit plan. So they can contribute. Also, I want to say citywide, we have a deferred comp program. People can contribute to. So in addition to their defined benefit plan, we're trying to tell people that may not be all you think it is when you get to the 30-year point and you want to retire, that might not be all you need. Please while you have it available, you can do some tax deferral, put some money in your deferred comp account as well.

Mayor Lane: You can always run the two. If one displaces the other, that is where the challenge comes in. In particular, if the defined benefit program is going to be subsidized by additional payments which are not reflected in our contribution as a city or them as individuals. Right now that is a little bit off the mark as far as what likely could happen. That is why some refinement of our circumstances may change that equation. I don't know. To make it more attractive and less liability to the city.

[Time: -1:25:17]

Jeff Nichols: You have to remember the major assumption within the defined benefit plans is that they go on forever. So if you were to say, let's say for ASRS, legislative they said all right everyone that was hired before this date can stay on defined benefit, everyone that is hired after this date is going to a deferred compensation program, that would have a major impact on the city and how the city would have to fund the tail end of that defined benefit program. Because you cannot take away benefits that someone has already earned and you wouldn't have those new employees contributing to that plan anymore. And funding that plan.

Mayor Lane: Everybody counts on the fact that they continue to have it. That is a disadvantage to the system. But I'm thinking about the employees and maybe to the city as far as the defined benefit. When you say deferred comp, not to confuse it, we're talking about defined contribution.

Jeff Nichols: Defined contribution plan.

Mayor Lane: Okay. Well, thanks. I'm sorry to have extended it a little bit further, but there you go.

ITEM 21 – MONTHLY FINANCIAL UPDATE

[Time: 01:26:26]

City Treasurer Jeff Nichols: Quite all right. Monthly financial update, as of October 31st, 2019. Go over these real quick. Here is the graph. Bottom line is, remember last month our favorable variance was much more significant, we had received an extra payment in the month of September. That has kind of gotten through the wash, if you will. What we see right now in this favorable variance of \$3.8 million, some of it is timing, but a lot of it is increased economic activity. I will tell you, you see \$1.9 million negative variance there for property tax. We don't expect that to remain. Property taxes normally come in fairly close to what we budget at the end of the fiscal year. One area where we're seeing decreases with the fed now dropping the interest rate earnings versus what we projected when they were telling us 12 months ago that there would be no reduction in the interest rates, we were projecting them to go up, they're going the opposite direction. We have negative variances there. Those probably will carry out through the end of the fiscal year because I don't think the fed is done lowering rates. But that is what I think. He says different.

You see the increased building permit fees and activities with some of the development agreements that Council has approved. That activity not only on the residential side, but commercial side has increased greater than we had budgeted so we're enjoying a positive variance there. So you look at the operating sources for the sales tax. Again, across all categories except rental. \$300,000 negative variance. Overall sales tax one percent category. \$2.1 million positive variance and across all of the commodities. When you look at our operating uses by category, personnel services, contractual commodities, positive variance in personnel services, same song, different year. When people retire, and we replace those people, we budget them at the higher savings. We fill those positions at a lower level, and we enjoy that benefit. The contractual services, most of those are just a timing issue at this point in time. We'll see if that remains. Again, we ask people to spread their budgets throughout the fiscal year, what month they think they'll do their spending in. Sometimes they hit the mark. Sometimes they're a little bit off, that causes these variances. We'll see when we get closer to the end of the fiscal year where that sits. All of the others are pretty much on mark.

[Time: 01:29:02]

When you look at personnel services, again, the savings and salary. Over time, we're seeing increased amounts of overtime. Most of that has to do with the fire department. 24/7 coverage. And it's filling in for people that can't be on a truck and now they have to bring another body to fill that. Most often overtime. You see a little positive variance in the retirement. Again, most of that relates to public safety. Because of the amount, the percentage amount per dollar that we put into retirement on public safety. Again, when someone retires and that dollar amount decreases, what we budgeted for retirement decreases as well. So the contracted workers, it's a large percentage, small dollar amount overall. Personnel services, \$700,000 positive variance. When you look at by division, some of the things administrative services, mostly in IT area, driving some of that. But all of the other positive variances. Total by division. \$1.7 million positive variance.

So where were we when we did the budget, we thought we would have a \$3.3 million positive change in fund balance, this point in time, \$8.7 million. Some of that will remain as we go through the fiscal year. Some won't.

I do believe we'll finish again the year in a positive way. But I would much rather have that than coming back to you all at the end of the year saying we need to dip into contingency because these things are going south in a bad way and we need funding. Because the revenues aren't coming in. With that, I would take any questions y'all may have.

[Time: 01:30:52]

Mayor Lane: Thank you again, Mr. Nichols for the presentation. It was nearly as interesting as the other one.

Jeff Nichols: I like the year-end one. There is a lot going on.

Mayor Lane: Yeah. Absolutely. Thank you. Any questions from the Council? Hearing none, thank you very much. That concludes our Regular agenda items. No Public Comment requests. And we have no citizen petitions. We do not have indication of Mayor or Council item.

ADJOURNMENT

[Time: 01:31:23]

Mayor Lane: With that, I would ask for a motion to adjourn.

Councilwoman Klapp: Move to adjourn.

Councilmember Korte: Second.

Mayor Lane: Motion made and seconded. All those in favor, please indicate by aye. We are adjourned. Thank you.