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#### CALL TO ORDER

[Time: 00:00:05]

Mayor Lane: GOOD EVENING, EVERYONE. I'M GOING TO CALL TO ORDER THE REGULAR MEETING OF THE CITY COUNCIL THIS 5TH OF FEBRUARY, 2013. IT'S APPROXIMATELY 5:00 P.M. I'LL START WITH THE ROLL CALL, PLEASE.

City Clerk Carolyn Jagger: THANK YOU, YOUR HONOR. MAYOR JIM LANE.

Mayor Lane: PRESENT.

City Clerk Carolyn Jagger: VICE MAYOR SUZANNE KLAPP.

Vice Mayor Suzanne Klapp: HERE

City Clerk Carolyn Jagger: COUNCILMEMBER VIRGINIA KORTE.

Councilmember Virginia Korte: HERE.

City Clerk Carolyn Jagger: BOB LITTLEFIELD.

Councilman Littlefield: HERE.

City Clerk Carolyn Jagger: LINDA MILHAVEN

Councilwoman Milhaven: HERE

City Clerk Carolyn Jagger: GUY PHILLIPS

Councilmember Phillips: HERE

City Clerk Carolyn Jagger: AND, DENNIS ROBBINS

Councilman Robbins: HERE

City Clerk Carolyn Jagger: ACTING CITY MANAGER DAN WORTH.

Acting City Manager Dan Worth: HERE.

City Clerk Carolyn Jagger: CITY ATTORNEY BRUCE WASHBURN.

City Attorney Bruce Washburn: HERE.

City Clerk Carolyn Jagger: CITY TREASURER DAVID SMITH.

City Treasurer David Smith: PRESENT.

City Clerk Carolyn Jagger: CITY AUDITOR SHARON WALKER.

City Auditor Sharon Walker: HERE.

City Clerk Carolyn Jagger: THE CLERK IS PRESENT.

Mayor Lane: THANK YOU. SOME ORDERS OF BUSINESS, IF YOU WOULD LIKE TO SPEAK ON ANY OF THE ITEMS ON THE AGENDA OR PUBLIC COMMENTS, WE HAVE WHITE CARDS HERE. THE CITY CLERK HAS THOSE. YOU CAN FILL THOSE OUT. IF YOU WOULD LIKE TO WRITE COMMENTS, THERE'S A YELLOW CARD FOR YOU TO COMPLETE ON THE AGENDA ITEMS. WE DO HAVE SCOTTSDALE POLICE OFFICERS HERE IF YOU HAVE ANY NEED FOR THEIR ASSISTANCE. THE AREAS BEHIND THE COUNCIL ARE RESERVED FOR COUNCIL AND STAFF MEMBERS ONLY. WE DO HAVE FACILITIES OVER HERE UNDER THE CLEARLY-MARKED RESTROOM SIGN TO MY LEFT FOR YOUR CONVENIENCE.

**PLEDGE OF ALLEGIANCE**

[Time: 00:01:40]

Mayor Lane: TONIGHT WE HAVE THE GREAT PRIVILEGE OF HAVING THE BROWNIE TROOP 383 TO LEAD US IN THE PLEDGE OF ALLEGIANCE WITH THEIR LEADER, CHRISTI JOHNSON. LADIES, IF YOU WOULD COME TO THE MICROPHONE AND WE CAN STAND. WHENEVER YOU'RE READY.

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, LADIES. IF YOU WOULD, WE CAN TURN THE MICROPHONE AROUND. AND IF EACH OF YOU INDIVIDUALLY WOULD COME UP AND JUST INTRODUCE YOURSELF, YOUR NAME, YOUR SCHOOL AND MAYBE YOUR FAVORITE SUBJECT. SOME OF YOU ARE PRACTICED IN THIS.

Brownie Troop 383: MY NAME IS GABRIELLE I GO TO LAGUNA, MY FAVORITE SUBJECT IS READING. HELLO MY NAME IS OLIVIA MARRIOTT MY FAVORITE SUBJECT IS ART AND MUSIC THANK YOU. HELLO MY NAME IS ROWEN AND MY FAVORITE SUBJECT IS ART. THANK YOU. MY NAME IS SOFIA ROMERO. MY FAVORITE SUBJECT IS ART, MUSIC AND THAT'S ALL. AND MY SCHOOL IS LAGUNA. MY NAME IS CARLIE JOHNSON. I GO TO LAGUNA ELEMENTARY SCHOOL AND MY FAVORITE SUBJECT IS MUSIC. MY NAME IS KIERA. I GO TO LAGUNA. AND MY FAVORITE SUBJECT IS ART. I'M KATE. I GO TO LAGUNA. MY FAVORITE SUBJECT IS ART. MY NAME IS EMMA. I GO TO LAGUNA ELEMENTARY SCHOOL AND MY FAVORITE SUBJECT IS MATH. MY NAME IS AUDREY. I GO TO LAGUNA AND MY FAVORITE SUBJECT IS PE. MY NAME IS AVA. I GO TO LAGUNA SCHOOL. MY FAVORITE SUBJECT IS MUSIC, PE, AND MATH.

### **INVOCATION**

[Time: 00:05:05]

Mayor Lane: THANK YOU VERY MUCH, LADIES. WE DON'T HAVE A FORMAL INVOCATION THIS EVENING, BUT I WOULD LIKE US TO TAKE A MOMENT OF SILENT PRAYER TO CONSIDER THE VICTIMS OF VIOLENCE ACROSS OUR COUNTRY AND MOST SPECIFICALLY FOR A YOUNG MAN, WHO WAS IN THE PROTECTION OF OTHERS HERE, TYRISE THOMPSON, WHO LOST HIS LIFE THIS WEEK FROM AN ACT OF VIOLENCE. SO PLEASE, IF WE COULD. THANK YOU.

### **MAYOR'S REPORT**

[Time: 00:05:59]

Mayor Lane: LET ME START BY ASKING THE COUNCIL, WE HAD AN APPLICANT'S REQUEST FOR CONTINUANCE OF ITEM 17, THE LAS AGUAS REZONING. BEFORE WE MOVE ON, IN THE INTEREST OF EVERYONE WAITING ON THAT ITEM, I'D LIKE TO TAKE A VOTE AT THIS POINT IN TIME, IF WE'RE OF A MAJORITY TO ALLOW FOR A CONTINUANCE ON ITEM 17, THE LAS AGUAS REZONING. THIS IS THE SECOND REQUEST. ACTUALLY, THE FIRST ONE WAS AUTOMATIC. AT THIS TIME, WE WILL TAKE A VOTE ON THAT SO IF WE COULD ACCEPT A MOTION ONE WAY OR THE OTHER.

Councilman Robbins: MAYOR, I MOVE THAT WE CONTINUE THAT CASE. DO WE HAVE ANOTHER DATE SPECIFIC?

Mayor Lane: THAT'S A GOOD QUESTION. I THINK WE DO.  
Councilman Robbins: WE CONTINUE THAT TO MARCH 5TH.

Mayor Lane: MOTION WAS MADE TO CONTINUE THAT TO MARCH 5TH. WE ARE READY TO VOTE. ALL THOSE IN FAVOR, PLEASE INDICATE WITH AYE. THOSE OPPOSED WITH A NAY. MOTION PASSES 5-2 WITH COUNCILMAN LITTLEFIELD AND COUNCILMAN PHILLIPS OPPOSING. SO THAT WILL BE THEN CONTINUED TO MARCH 5TH.

I'M PLEASED TO INFORM THE COMMUNITY THAT THE ASSOCIATION OF GOVERNMENT ACCOUNTANTS OF VIRGINIA-BASED ASSOCIATION DEDICATED TO ADVANCING GOVERNMENT ACCOUNTABILITY HAS PRESENTED THE CITY WITH A CERTIFICATE OF EXCELLENCE IN CITIZEN-CENTRIC REPORTING. THERE'S COPIES OF IT. IT PROVIDES CITIZENS WITH A BRIEF SNAP-SHOT OF THE GOVERNMENT. WE ARE ONLY ONE OF THREE CITIES IN THE COUNTRY TO HAVE EARNED THIS AWARD THREE TIMES. THE REPORT WAS VISUALLY APPEALING AND AN UNDERSTANDABLE DOCUMENT THAT DEMONSTRATES TRANSPARENCY. WE DO HAVE COPIES HERE IF YOU WOULD LIKE TO SEE THEM. THEY CAN ALSO BE DOWNLOADED. I UNDERSTAND, MR. WORTH, YOU HAVE A CITY MANAGER'S REPORT.

**CITY MANAGER'S REPORT**

[Time: 00:08:41]

Acting City Manager Dan Worth: YES, MAYOR. I HAVE TWO ITEMS I WOULD LIKE TO BRING TO YOUR ATTENTION. FOR THE FIRST ONE, I WOULD LIKE TO INTRODUCE THE CITY'S BUDGET DIRECTOR JUDY MCILROY.

Budget Director Judy McIlroy: GOOD EVENING, MAYOR, MEMBERS OF COUNCIL. AS DAN MENTIONED, I AM THE CITY BUDGET DIRECTOR AND I'M PLEASED TO ANNOUNCE THE CITY'S FISCAL YEAR 2013 BUDGET HAS EARNED RECOGNITION. FIRST, OUR BUDGET BOOK EARNED A DISTINGUISHED BUDGET PRESENTATION AWARD FOR THE 23RD CONSECUTIVE YEAR. THIS RECOGNIZES MUNICIPAL BUDGETS THAT ARE HIGH-QUALITY AND INFORMATIVE. ON TOP OF THAT WE RECEIVED DISTINCTIONS. THE BOOK WAS RECOGNIZED AS AN OUTSTANDING POLICY DOCUMENT AND OUTSTANDING COMMUNICATIONS DEVICE. WE ALSO RECEIVED SPECIAL RECOGNITION FOR OUR PERFORMANCE MEASURES. THOSE WHO LOOK THROUGH OUR BUDGET BOOK WILL SEE A LOT OF INFORMATION ABOUT THE SERVICES THAT THE CITY PROVIDES AND THAT THE OPENING 16 PAGES ARE DESIGNED SPECIFICALLY TO CONVEY A VARIETY OF INFORMATION ABOUT THE CITY, ITS BUDGET, AND PERFORMANCE MEASURES IN AN EASY-TO-READ FORMAT. I WOULD LIKE TO THANK EVERYONE ON MY STAFF, THE BUDGET LIAISONS ACROSS THE CITY, BRENT STOCKWELL IN THE CITY MANAGER'S OFFICE, AND BRENT HAGLUND , THE GRAPHIC DESIGNER FOR THEIR HARD WORK ON OUR BUDGET AND WE LOOK FORWARD TO RAISING THE BAR HIGHER WITH THIS NEXT FISCAL YEAR'S BUDGET. THANK YOU.

Mayor Lane: THANK YOU.

Dan Worth: MAYOR, FOR THE SECOND ITEM, I WOULD LIKE TO GIVE DAVID SMITH AN OPPORTUNITY TO TALK ABOUT A PIECE OF GOOD NEWS.

City Treasurer David Smith: THANK YOU, DAN, MAYOR, MEMBERS OF COUNCIL. THE ARIZONA DEPARTMENT OF REVENUE PUT OUT A RULING IN AUGUST 2001 THAT HAD TO DO WITH SALES TAX APPLICABLE TO THE CONSUMPTION OF WATER FOR GOVERNMENTAL ACTIVITIES INCLUDING IRRIGATION OF PARKS, RIGHT-OF-WAYS AND SO FORTH. THE RULING WAS THAT SUCH USES DO NOT CONSTITUTE TAXABLE WATER SALES TO CUSTOMERS AND, THEREFORE, THEY'RE NOT SUBJECT TO SALES TAX. UNFORTUNATELY, THE CITY NEGLECTED TO ACT ON THIS RULING AND REQUEST A SALES TAX REBATE UNTIL RECENTLY. IN THE MIDDLE OF LAST YEAR, THE DIRECTOR OF ACCOUNTING TOOK AN ACTION TO IMMEDIATELY DISCONTINUE PAYING THE SALES TAX TO THE STATE BUT WE

SUBMITTED REQUEST FOR A REFUND OF PAST TAXES. WE WERE RECENTLY NOTIFIED THAT OUR REQUEST WAS APPROVED AND THE CITY WILL BE RECEIVING A REFUND IN THE AMOUNT OF \$554,000. IT'S GOING TO BE A MISCELLANEOUS REVENUE, FOR THIS MONTH AND ALL OTHER THINGS BEING EQUAL, IT WILL SERVE TO INCREASE THE YEAR-END FUND BALANCE.

Mayor Lane: VERY NICE. VERY GOOD. NEVERTHELESS, CONGRATULATIONS TO ALL PARTIES IN IDENTIFYING IT AND IN AN EFFORT TO GET MONEY BACK FROM THE TASK DEPARTMENT OF REVENUE. THAT'S ALWAYS A TASK. I APPLAUD YOU IN THAT EFFORT AND THAT SUCCESS. THANK YOU VERY MUCH. ANYTHING FURTHER, MR. WORTH?

Acting City Manager Dan Worth: MAYOR, THAT COMPLETES THE REPORT.

**PUBLIC COMMENT**

[Time: 00:12:37]

Mayor Lane: THANK YOU. WE'VE COME TO A TIME FOR THE PUBLIC COMMENT. PUBLIC COMMENT IS RESERVED FOR CITIZEN COMMENTS REGARDING NON-AGENDIZED ITEMS. THERE WILL BE ANOTHER OPPORTUNITY AT THE END OF THE MEETING FOR PUBLIC COMMENT IF THERE'S A NEED. WE DO HAVE FOUR CARDS FOR PUBLIC COMMENT. WE'LL START WITH SONNIE.

[Time: 00:13:26]

Sonnie Kirtley: GOOD AFTERNOON MAYOR LANE AND COUNCILMEMBERS. MY SAME NAME IS SONNIE KIRTLEY. I'M SPEAKING TO YOU AS A PRIVATE CITIZEN. MY ADDRESS IS ON RECORD. I'M GOING TALK TO YOU ABOUT A SECRET AND I'M USING THESE PICTURES TO TELL A STORY. SOMETHING IS MISSING IN THESE PICTURES. PLEASE LOOK AT IT CAREFULLY. IF YOU DON'T SEE IT IN THOSE PICTURES, HOW ABOUT THESE PICTURES? HOW ARE YOU DOING? NOT YET. GOT THE ANSWER? THOSE ARE PICTURES, OF COURSE, OF OUR DOWNTOWN AREA, OUR MAJOR INTERSECTIONS THAT COME INTO THE CITY. THIS IS A PICTURE OF A TROLLEY STOP. VISITORS ARE USUALLY WAITING FOR A FREE TROLLEY. THIS IS A PICTURE OF THE AMBASSADOR CART. THIS IS THE TYPICAL SIGNATURE LIGHT POST IN DOWNTOWN WITH OUR EMBLEM ON THE TOP. SO WHAT'S MISSING IS PARADA DEL SOL BANNERS, BANNERS ON THE STREET POLES, BANNERS ACROSS THE INTERSECTION. THAT'S OUR SECRET. WHY IS IT A SECRET? WE, HOWEVER, DO HAVE ONE BANNER FOR THE NATIVE TRAILS THAT OCCURS BETWEEN NOW AND MARCH AND ONE BANNER ON SCOTTSDALE ROAD FOR THE ARABIAN HORSE SHOW. THE SECRET THAT I'M TALKING TO YOU ABOUT AND IS BEING TOLD IN THIS STORY OF PICTURES, MY QUESTION TO YOU IS WHY DO WE HAVE OUR SECRET? THIS IS OUR SIGNATURE EVENT, THE PARADA, WHICH IS THIS SATURDAY, WHY ARE WE NOT ALERTING THE LOCALS AND OUR TOURISTS? WHY ARE WE NOT FLYING OUR BANNERS AND WHERE ARE THE TELEVISION ADVERTISEMENTS, THE NEWSPAPER ADVERTISEMENTS, THE RADIO SPOTS IN THE PONY EXPRESS ARRIVED LAST FRIDAY? IT WAS THE SMALLEST CROWD WE'VE HAD. EVERYONE IN THE VALLEY IS CURRENTLY AWARE THAT GLENDALE NEXT WEEKEND HAS A CHOCOLATE FESTIVAL. HOW DO THEY KNOW? NATIONAL TV NEWS MINUTES ARE BEING ADVERTISED. DIANE SAWYER, ABC. I MEAN, THAT'S BIG DOLLARS. THEY'RE ON TELEVISION SPOTS, RADIO SPOTS, IN THE NEWSPAPER. WE DO HAVE, FROM THE JAYCEES SOME POSTERS IN SOME OF OUR STORES. WHO IS SUPPOSED TO BE PROVIDING THE MARKETING? OUR CONVENTION BUREAU RECEIVES MILLIONS OF DOLLARS. WHO IS RESPONSIBLE IN THE CITY TO MARKET CURRENT EVENTS?

LATER IN THE AGENDA TODAY THERE IS AN ITEM FOR THE ECONOMIC DEVELOPMENT DEPARTMENT. IS IT THEIR JOB? WHOSE JOB IS IT? WHAT I'M REQUESTING AS A PRIVATE CITIZEN IS THAT THIS COUNCIL TAKE ACTION SO THAT WE HAVE A MARKETING PLAN IN 2014 SO THAT WE HAVE NO MORE SECRET PARADA. THANK YOU.

Mayor Lane: THANK YOU. NEXT IS TIM RODGERS.

[Time: 00:17:36]

Tim Rodgers: MAYOR, COUNCIL, I'M TIM RODGERS, DIRECTOR OF THE SCOTTSDALE MUSEUM OF CONTEMPORARY ART. MY FAVORITE SUBJECT IS ART. IT WAS A DELIGHT TO SEE SO MANY CHILDREN NAME ART AS THEIR SUBJECT. I'M HERE TO INVITE YOU TO SOMETHING. WE HAVE AN OPENING AT THE MUSEUM THIS FRIDAY. THE PUBLIC OPENING, WHICH IS FREE, IS FROM 7:00 TO 9:00. SO EVERYBODY IS INVITED. WE ARE GOING TO HAVE PERFORMERS FROM THE ARIZONA CIRCUS SCHOOL, WHICH IS LOCATED IN SCOTTSDALE. IT'S ALSO A PREVIEW TO OUR FUNDRAISER, WHICH WILL BE MAY 11TH. I'M ASKING YOU TO SAVE THAT DATE ON YOUR CALENDAR. WE WILL BE ENTERTAINED, AMAZED BY THE CIRCUS SCHOOL. THEY ARE HIGHLY TALENTED INDIVIDUALS. ALL OF THEM ARE LOCATED IN SCOTTSDALE. I'M HERE TONIGHT TO MENTION BRIEFLY A GRANT WE RECEIVED AT THE MUSEUM. IT'S A NATIONAL HONOR. IT HAS ONLY GIVEN OUT FOR 14 YEARS AND WE ARE ONLY THE 4TH INSTITUTION WEST OF THE MISSISSIPPI TO RECEIVE THIS GRANT. WE ARE IN THE COMPANY OF THE BALTIMORE ART MUSEUM, IN COMPANY OF THE MUSEUM OF CONTEMPORARY ARTS IN CHICAGO. THESE ARE THE INSTITUTIONS THAT COMPETES EVERY YEAR FOR THIS GRANT. OUR LITTLE MUSEUM HERE IN SCOTTSDALE WAS ONE OF ONLY THREE AWARD THIS GRANT. AS I SAID, ONLY THE FOURTH THAT'S BEEN AWARDED, WEST OF THE MISSISSIPPI. IT'S FOR A SHOW THAT WE WILL BE DOING IN THE FALL OF 2014. IT WILL GO THROUGHOUT THE ENTIRE MUSEUM AND TRAVEL HOPEFULLY AROUND THE WORLD. IT'S CALLED COVERT OPERATIONS, INVESTIGATING THE KNOWN UNKNOWN. THAT'S A TITLE. I'M SURE YOU'LL BE INTERESTED TO FIND OUT WHAT IT'S ABOUT AND YOU'LL BE LEARNING MORE. I JUST WANTED TO ALERT YOU AND HELP YOU CONTEXTUALIZE THIS.

Mayor Lane: THANK YOU, TIM. CONGRATULATIONS ON THAT SUCCESSFUL APPLICATION AND RECEIPT OF THAT GRANT. NEXT WE'LL HEAR FROM NANCY CANTOR AND CHRIS SCHAFFNER. I MIGHT JUST ASK IF YOU'RE REALIZING WITH KNOW MOST OF THE INDIVIDUALS ARE COMING TO THE PODIUM. FOR THE RECORD, IF YOU COULD STATE THAT YOU'RE A SCOTTSDALE RESIDENT OR NOT.

[Time: 00:20:44]

Nancy Cantor: SAME OLD NANCY THAT STOOD HERE LAST YEAR TO TALK ABOUT NEIGHBORHOODS IS TO TALK ABOUT NEIGHBORHOODS AND THE REST OF MY INFORMATION IS ON RECORD.

Mayor Lane: YOU'RE A SCOTTSDALE RESIDENT?

Nancy Cantor: FOR 54 YEARS. NEIGHBORHOODS, LAST YEAR WE WERE MERGING HOUSING AND NEIGHBORHOOD ENHANCEMENT AND WE CREATED THE NEIGHBORHOOD ADVISORY COMMISSION. AND I PROMISED YOU WOULD HAVE SOMETHING OF A WORK PLAN AND STRUCTURE BEFORE I LEFT IN MAY. AND YOU DID. THEY WOULD LIKE TO KNOW, THOUGH IF THEIR WORK PLAN AND GOALS AND OBJECTIVES SIT WELL WITH COUNCIL. THEY'VE NOT HEARD ANYTHING BACK. THOSE WERE SUBMITTED

TO YOU IN JUNE. IT WOULD BE A GOOD IDEA TO LET THEM KNOW. ONE REASON FOR THAT IS WE ARE CREATING NEW NEIGHBORHOODS. WE ARE INCREASING THE NUMBER OF MULTI-FAMILY HOUSING UNITS, WHICH IS GOING TO BRING DENSITY OF PEOPLE AS WELL AS DENSITY OF STRUCTURE. WE'RE GOING TO NEED TO LOOK AT THINGS AS THEY DO THAT SO THEY ARE COMPATIBLE TO THE EXISTING NEIGHBORHOODS. THAT'S CRITICALLY IMPORTANT AS WE'RE DOING ALL THAT, THIS WE'RE LOOKING AT THINGS HAVING TO DO WITH TRANSPORTATION. THAT NEEDS TO BE BROUGHT INTO THE MIX AND MY FAVORITE IS AGING IN PLACE, BECAUSE I AM AND IT'S VERY IMPORTANT BECAUSE THIS IS A GOAL THAT MARICOPA COUNTY ASSOCIATION OF GOVERNMENTS HAS SET TO CREATE AN ELDERLY SERVICES PROGRAM THAT ADDRESSES AGING IN PLACE. IT DOESN'T MEAN YOU STAND STILL. IT DOESN'T MEAN YOU GO INTO A NURSING FACILITY. IT MEANS YOU CAN STAY IN YOUR COMMUNITY, BE ATTACHED TO THE THINGS YOU'VE BECOME ACCUSTOMED TO AND LIVE A QUALITY LIFE. THERE'S SOME ADJUSTMENTS THAT, AS INDIVIDUALS WE HAVE TO MAKE. AND THERE ARE SOME ADJUSTMENTS THE COMMUNITY IS GOING TO HAVE TO MAKE. WE NEED TO LOOK AT THESE. DIALOGUE IS A CRITICAL THING AND THEY NEED TO HEAR FROM ALL OF US. OTHER BOARDS AND COMMISSIONS NEED TO HEAR FROM YOU. YOU'RE THE GUYS WHO SET THE POLICY AND YOU HAVE THE VOICE. SO WE NEED TO HEAR FROM YOU, BECAUSE I DO GO TO THEIR MEETINGS BECAUSE I HAVE NOTHING ELSE TO DO AT THAT TIME OF DAY. THANK YOU.

Mayor Lane: THANK YOU. CHRIS.

[Time: 00:23:23]

Chris Schaffner: GOOD EVENING. CHRIS, 7346 EAST SUNNY SIDE. I'M A RESIDENT OF SCOTTSDALE. I WANTED TO TAKE THIS OPPORTUNITY BRIEFLY TOO, SINCE THIS IS MY FIRST TIME SINCE THE ELECTION TO CONGRATULATE OUR MEMBERS THAT WERE RE-ELECTED OR NEWLY ELECTED, MAYOR LANE, COUNCILWOMAN KLAPP, COUNCILMEMBER KORTE, COUNCILMAN GUY PHILLIPS. TONIGHT I WANTED TO MENTION MY CONDOLENCES FOR THE FAMILY AND FRIENDS OF MR. THOMPSON. I KNOW THAT'S UPSETTING TO ALL OF US HERE AND HOPEFULLY WE'LL BE ABLE TO PUT THE STEPS IN PLACE SO THAT DOESN'T HAPPEN AGAIN. TO THAT END, I WANT TO SUGGEST THAT PERHAPS A PUBLIC SAFETY TASK FORCE IS SOMETHING THAT SHOULD BE SET UP PERHAPS ON AN ONGOING BASIS TO INCLUDE NOT ONLY MEMBERS OF THE COMMUNITY WHO ARE AFFECTED BY THIS BUT ALSO THE BUSINESS OWNERS AND OUR FINE POLICE FORCE AS WELL. ONE OF THE TOPICS THAT WAS TALKED ABOUT A LOT IN THE CAMPAIGN LAST YEAR WAS HAVING THE POSSIBILITY OF HAVING A UNIFORMED OFF-DUTY POLICE OFFICER IN THE BARS DOWNTOWN. THAT WAS SOMETHING I WAS A PROPONENT OF AND I REMAIN A PROPONENT OF THAT. I THINK YOU CREATE A DIFFERENT ENVIRONMENT WITH THESE POLICE OFFICERS IN THESE ESTABLISHMENTS THAN WITH A BOUNCER, SOMEONE WHO IS THERE TO CHECK I.D.'S. THERE ARE SOME PEOPLE THAT WILL LOOK AT SOMEONE IN THAT ROLE AS A CHALLENGE. I THINK THAT LEADS TO THINGS LIKE WHAT HAPPENED WITH MR. THOMPSON. THAT RARELY HAPPENS WITH THE POLICE DEPARTMENT. AND WHEN IT DOES, THEY ARE EQUIPPED TO DEAL WITH THAT. AGAIN, MY CONDOLENCES TO THE FRIENDS AND FAMILY OF MR. THOMPSON. IT'S A TERRIBLE TRAGEDY THAT I KNOW WE DON'T WANT TO SEE REPEATED. THANK YOU.

Mayor Lane: THANK YOU. THAT COMPLETES THE PUBLIC COMMENTS ON REQUEST TO SPEAK FOR PUBLIC COMMENTS.

**ADDED ITEMS**

[Time: 00:25:47]

Mayor Lane: WE DO HAVE AN ADDED ITEM, SUPPORTING MATERIALS FOR ITEM 15 WERE ADDED TO THE AGENDA LESS THAN 10 DAYS PRIOR TO THE MEETING. BY RULE, IF WE HAVE SUCH A SITUATION, WE NEED TO VOTE AS TO WHETHER TO CONTINUE IT ON THE AGENDA OR NOT. SO I WOULD ASK DO WE HAVE A MOTION ACCEPT THIS AGENDA OR CONTINUE THE ITEM TO FEBRUARY 26 COUNCIL MEETING?

Councilwoman Milhaven: MAYOR, I MOVE WE ACCEPT THE AGENDA AS PRESENTED.

Mayor Lane: MOTION MADE TO ACCEPT AS PRESENTED ON THIS AGENDA AND SECONDED. WE ARE READY TO VOTE ON THIS SUBJECT. ALL THOSE IN FAVOR, PLEASE INDICATE BY AYE. THOSE OPPOSED WITH A NAY. MOTION IS UNANIMOUS. THE VOTE IS UNANIMOUS.

## **MINUTES**

[Time: 00:26:02]

Mayor Lane: THE NEXT ORDER OF BUSINESS IS THE APPROVAL OF MINUTES AND I JUST ASK, WE HAVE HAD THE MINUTES FOR REVIEW AND IF THERE ARE ANY QUESTIONS OR OTHERWISE. SEEING NONE, DO I HAVE A MOTION APPROVE THE REGULAR MEETING MINUTES OF JANUARY 8, 2013?

Councilman Dennis Robbins: SO MOVED.

Mayor Lane: MOVED AND SECONDED TO APPROVE THOSE MINUTES OF JANUARY 8, 2013. WE'RE READY TO VOTE, ALL THOSE READY TO APPROVE, PLEASE INDICATE WITH AN AYE. THOSE MINUTES HAVE BEEN ACCEPTED.

## **CONSENT ITEMS**

[Time: 00:27:14]

Mayor Lane: MOVE ON TO CONSENT ITEMS 1-16. I HAVE NO CARDS FOR COMMENTS FROM CITIZENS. UNLESS THERE'S A COMMENT ON QUESTION ON ANY ITEMS IN ITEMS 1-16, I WOULD ASK FOR A MOTION TO ACCEPT CONSENT ITEMS 1-16.

Councilman Robbins: MOVE TO APPROVE ITEMS 1-16.

Councilwoman Milhaven: SECOND.

Mayor Lane: MOTION MADE AND SECONDED TO APPROVE CONSENT ITEMS 1-16. WE'RE NOW READY, THEN, TO VOTE. ALL THOSE IN FAVOR, PLEASE INDICATE BY AYE. UNANIMOUS ACCEPTANCE. THANK YOU VERY MUCH.

## **REGULAR AGENDA**

[Time: 00:27:55]

Mayor Lane: IF YOU'RE HERE FOR ANY OF THE CONSENT ITEMS AND YOU WOULD LIKE TO STAY FOR THE REST OF SESSION, THAT'S FINE. OTHERWISE YOU'RE FREE TO LEAVE.

**ITEM 17 – LAS AGUAS REZONING (8-ZN-2012)**

[Time: 00:28:02]

Mayor Lane: AS WAS MENTIONED EARLIER, ITEM 17 HAS BEEN CONTINUED TO MARCH 5TH AND THEREFORE, WILL NOT BE HEARD THIS EVENING.

**ITEM 18 – LEGISLATIVE UPDATE**

[Time: 00:28:17]

Mayor Lane: ITEM 18, LEGISLATIVE UPDATE. THIS UPDATE HAS BEEN WITHDRAWN FOR THIS WEEK'S I SHOULD SAY FOR THIS COUNCIL MEETING. I'LL BRING IT BACK WHEN THERE'S MORE INFORMATION TO REPORT. THAT WAS AT THE REQUEST OF BRAD LUNDAHL. THE NEXT ITEM OF BUSINESS WOULD BE ITEM 19. THIS IS A PROPOSED FISCAL YEAR 2013/2014 KEY OPERATING BUDGET ISSUES. MR. SMITH, OUR TREASURER, IS AT THE PODIUM TO PRESENT.

**ITEM 19 – PROPOSED FISCAL YEAR 2013/14 KEY OPERATING BUDGET ISSUES**

[Time: 00:28:58]

City Treasurer David Smith: THANK YOU. GOOD EVENING, MR. MAYOR AND MEMBERS OF THE COUNCIL. I'M ALMOST RELUCTANT TO MAKE A PRESENTATION. YOU'RE RACING THROUGH THE SCHEDULE SO FAST. THIS IS, I GUESS, IN A SENSE, THE KICKOFF OF THE BUDGET SEASON. WHAT WE DO IN THIS FIRST REVIEW OF THE UPCOMING BUDGET IS TO GIVE YOU, AS THE TITLE SAYS, AN OVERVIEW OF SOME OF THE KEY ISSUES IN THE BUDGET THAT WE'RE GOING TO BE WRESTLING WITH OR DEALING WITH AS BEST WE KNOW THEM RIGHT NOW. THIS IS NOT AN ACTION ITEM FOR THE COUNCIL. THERE'S NO RESOLUTION FOR YOU TO PASS, BUT WE'RE VERY MUCH LOOKING FOR YOUR FEEDBACK, GUIDANCE, DIRECTION. AND SOME OF THE ITEMS IN HERE MAY BE CONTROVERSIAL OR AT LEAST HAVE MORE THAN ONE ALTERNATIVE TO SOLVING THE QUESTION. AND I THINK YOU ALL HAVE A HANDOUT PACKET IN FRONT OF YOU THAT REPLACE THE PACKETS SUBMITTED TO YOU BY E-MAIL. I WOULD LIKE TO WORK OFF OF THE PACKET THAT YOU HAVE SUBMITTED TONIGHT NOW. THE FIRST ITEM WE'RE GOING TO TALK ABOUT IS THE LOCAL SALES TAX AND WHAT WE FORESEE IN NEXT YEAR'S BUDGET AND TO FAMILIARIZE YOU WITH THE FORMAT. THIS IS A PAGE WITH AN AWFUL LOT OF NUMBERS ON IT. BUT IT'S SIMILAR TO THE OTHER PAGES THAT WE'LL BE LOOKING AT. IN THE FIRST-MOST COLUMN, WE PUT DOWN THE APPROVED BUDGET FOR THIS YEAR. AND IN THE COLUMN NEXT TO THAT, WE PUT DOWN THE FORECAST. SOME ITEMS WE HAVE NOT REFORECAST BUT SOME WE HAVE. AND THE THIRD COLUMN, THEN, TO THE RIGHT OF THE NARRATIVE, IS WHAT WE ARE TENTATIVELY PLANNING TO SUBMIT AS THE FORECAST OR THE BUDGET FOR THE UPCOMING NEAR '13/14. WE'LL SHOW YOU THE AMOUNT, THE AMOUNT BY WHICH IT IS CHANGING. THE CHANGE IS

GOING TO BE AGAINST THE LEFT-MOST COLUMN AND PERCENT CHANGE. WE'LL TALK WHAT ABOUT WE SEE AS CHANGE IN THE FOUR OUTLYING YEARS. THE PRINCIPAL FOCUS WILL BE ON WHAT WE'RE FORECASTING FOR YEAR '13/14. THESE ARE THE CATEGORIES THAT YOU'RE ACCUSTOMED TO LOOKING AT FOR THE LOCAL SALES TAX. 1.1% OF THE SALES THEY COLLECTED IN THE CITY OF SCOTTSDALE GOES FOR THE BENEFIT OF THE GENERAL FUND. SINCE THE TOTAL TAX RATE IS 1.65, .35 % OF THE LOCAL SALES TAX COLLECTION GOES INTO A FUND TO BE USED FOR PRESERVE ACQUISITION AND .20 GOES INTO ANOTHER FUND TO BE USED FOR TRANSPORTATION CONSTRUCTION, TRANSPORTATION UPGRADING NEEDS. SO 1.1% IS AVAILABLE FOR THE GENERAL FUND. AND YOU CAN SEE IN THE LOWER LEFT-HAND CORNER, THE APPROVED BUDGET WAS \$97.3 MILLION FOR THIS COLLECTION OF CATEGORIES OF LOCAL SALES TAX COLLECTION. THE BIGGEST SINGLE REVENUE WE HAVE, SUPPORTING THE GENERAL FUND OPERATIONS, CLOSE TO \$100.0 MILLION IN THE APPROVED BUDGET. WE DON'T THINK WE'RE GOING TO HIT THAT NUMBER. AND YOU'LL SEE THAT IN THE COLUMN NEXT TO IT WHEN WE SAY WE THINK WE'RE GOING TO COLLECT ABOUT \$95.8 MILLION. THAT WILL LEAVE US \$1.5 MILLION SHORT OF WHAT WAS THE APPROVED BUDGET. LATER TONIGHT, JOYCE WILL GIVE YOU THE UPDATE FOR THE ACTUAL RESULTS OF THIS FISCAL YEAR FOR THE FIRST SIX MONTHS AND YOU'LL SEE WHY WE'RE CAUTIOUS IN OUR EXPECTATION. WE ACTUALLY HAVE A SHORT-FALL OF 2% LESS THAN EXPECTED. WE ARE PREDICTING THAT IT MIGHT ONLY BE A SHORT FALL OF 1.5%.

[Time: 00:33:38]

Mayor Lane: MR. SMITH, IF I MIGHT ASK. BROKEN OUT AS LARGE RETAIL STORES, I WAS JUST CHECKING TO SEE WHAT, IF THERE'S BEEN ANY CONSIDERATION, MAYBE EVEN ON THE OVERALL. I DIDN'T MEAN TO PICK ON JUST THE LARGE RETAIL STORES. BUT THE RESULTS OF RESTRUCTURING OF THE DEBT THAT WE ACCOMPLISHED FRANKLY WITHIN WEEKS AGO, WHEN WILL WE SEE, AND I KNOW THERE'S A DELTA OF SAVINGS THERE OF SOME REASONABLE AMOUNT. WHEN WILL WE SEE THAT REFLECTED IN OUR MONTHLY STATISTICS AS IT GOES TO PAY THAT DEBT AND THEN, OF COURSE, THE EXCESS BEING RETRIEVED AND RECOVERED SALES TAX?

David Smith: YOU WON'T SEE AT THIS TIME ON THIS SCREEN. WHAT WE WERE REQUIRED TO DO IN YEARS PASS WAS ON AN EXPENDITURE LINE OR TRANSFER OUT LINE, WE WERE SENDING BACK THE COLLECTED SALES TAX OR A LARGE CHUNK OF IT TO THE SCOTTSDALE FASHION SQUARE PEOPLE IN CONNECTION WITH THE AGREEMENT THAT YOU'RE TALKING ABOUT. SO THERE'S A LATER SLIDE THAT TALKS ABOUT CONTRACTS PAYABLE. THAT'S WHAT THAT FELL UNDER. UNDER CONTRACTS PAYABLE, WE HAD AN OBLIGATION TO SEND BACK A SUBSTANTIAL AMOUNT OF SALES TAX COLLECTED. TO ANSWER YOUR QUESTION, WE'RE GOING TO SEE THE BENEFITS IMMEDIATELY, BECAUSE THAT AGREEMENT WAS INKED, EFFECTIVE JANUARY 1. YOU'LL HAVE SIX MONTHS OF BENEFIT. THE BENEFIT WE'RE TALKING ABOUT IS THAT WE SUBSTITUTED DEBT FOR THE SALES TAX REBATE. WE THINK IT'S GOING TO SAVE US ANYWHERE FROM \$800,000 TO \$1.0 MILLION A YEAR. SO YOU WILL START SEEING IT, HALF YOUR BENEFIT THIS YEAR, FULL NEXT YEAR.

Mayor Lane: ON THAT NOTE, IF IT WERE SOMEWHERE IN THE AREA OF \$1.0 MILLION DOLLARS, WE HAVE APPROXIMATELY A HALF OF A YEAR, IF THE CONTRACT HAS BEEN CHANGED AS OF JANUARY 1st, WHERE WE SHOULD SEE THE SAVINGS OF ABOUT \$0.5 MILLION DOLLARS. I KNOW WHEN WE FINANCED THAT PAYMENT; WE ENDED UP DOING AT THIS TIME AS A LESSER RATE THAN WE HAD

ORIGINALLY ESTIMATED. IS THERE SOMETHING FURTHER THAT WE MIGHT RECOGNIZE OR IS IT STILL WITHIN THE SAME REALM OF NOW WE'RE GETTING GOWN TO TENS OF THOUSANDS OF DOLLARS?

David Smith: IT IS TENS OF THOUSANDS OF DOLLARS. WHEN WE MADE THE PROPOSAL TO FINANCE THE AGREEMENT, WE WERE JUDGING WHAT WE THOUGHT WOULD BE THE SALES TAX REBATES WE WOULD PAY AND LOOKING AT THE DEBT SERVICE COST FOR THE DEBT WE WOULD ISSUE. THE INTEREST RATE WE USED IN THAT ANALYSIS WE BROUGHT WAS A 3% ESTIMATED INTEREST RATE. WE JUST DID THE DEAL LAST WEEK, AND WE SOLD THE DEBT AT 2.54% INTEREST. SO I THINK ON AN ANNUAL BASIS, YEAR BY YEAR, PROBABLY WILL SAVE US AN ADDITIONAL \$75,000 OR SO IN DEBT SERVICE COST OVER THE LIFE OF THE AGREEMENT.

Mayor Lane: THE FINAL PART OF MY QUESTION, I SUPPOSE, IS WE LOOK AT THE BUDGET IN THE CURRENT FISCAL YEAR WHETHER OR NOT LET'S JUST, FOR PURPOSES OF CONVERSATION, SAY IT'S A \$0.5 MILLION DOLLARS. HAS THAT BEEN BUILT INTO THE FIGURES OR IS THAT SOMETHING WE LOOK TO HELP US WITH ANY KIND OF SHORT FALL WE MIGHT HAVE ON OUR FORECASTED INCOME?

David Smith: IT'S GOING TO HELP AGAINST THE FORECASTED SHORT FALL OF INCOME.

Mayor Lane: SO IT'S NOT REFLECTED IN ANYTHING WE HAVE IN THE BUDGET COLUMN RIGHT NOW?

David Smith: YOU WON'T SEE IT IS ON THIS SLIDE, WHICH IS THE RECEIPTS OF SALES TAX. LATER ON I'LL TALK ABOUT CONTRACTS PAYABLE. THERE YOU WILL SEE A FORECAST THAT WE'RE GOING TO HAVE A LESSER AMOUNT OF CONTRACTS PAYABLE, EVIDENCING THAT VERY AGREEMENT.

Mayor Lane: BUT ULTIMATELY WE SHOULD BE SEEING GREATER RECEIPTS IN THE SECOND HALF OF '12/ '13?

David Smith: YOU WON'T SEE GREATER RECEIPTS YOU'LL SEE LESSER AMOUNTS OF PAYOUT WE'LL AVOID THE PAYBACK.

Mayor Lane: I UNDERSTAND WHERE WE'RE GETTING CAUGHT UP ON THIS. WE ALWAYS RECEIVED ALL OF IT AND PAID BACK MORE THAN WE WILL BE NOW. NOW WE'RE NOT PAYING IT BACK. WE'RE PAYING IT TO PAY THE DEBT THAT FINANCED IT. THERE WAS A DELTA DIFFERENCE BETWEEN WHAT WE WERE EXPENDING BEFORE VERSUS WHAT WE WILL BE NOW. SO WE SHOULD HAVE IMPROVED NET RECEIPTS FROM THAT AREA OF THINGS?

David Smith: YES. AGGREGATE TOTAL BOTTOM LINE RECEIPTS TO THE GENERAL FUND WILL BE BETTER FOR SURE.

Mayor Lane: SOMEWHERE IN THAT AREA. MY ONLY QUESTION IS WHETHER OR NOT THAT \$500,000 WILL IMPROVE OUR SITUATION, AND I'M SURE THAT IT WILL OR WHETHER IT HAD BEEN CALCULATED IN?

David Smith: IT WILL IMPROVE OUR SITUATION. IT WON'T IMPROVE THIS SLIDE BUT IT WILL IMPROVE THE BUDGET AND OFFSET THE POTENTIAL SHORT FALL.

Mayor Lane: WE WILL SEE, IN THE LAST SIX MONTHS, AN IMPROVEMENT OF THE NET RECEIPTS HOWEVER WE ARE PAYING IT BACK AND FORTH.

David Smith: THAT IS CORRECT, MR. MAYOR. THE BOTTOM LINE, OF COURSE, FOR ALL OF THIS IS WHEN WE GET TO THE END OF THE YEAR WE'LL HAVE SOME QUANTITY OF MONEY THAT WE CALL THE UNRESERVED GENERAL FUND ACCOUNT BALANCE. AND LAST YEAR LAST THE ACCOUNT BALANCE THAT YOU SPENT FOR A VARIETY OF ONE-TIME INITIATIVES. YOU MAY HAVE THAT OPPORTUNITY AGAIN THIS YEAR. BECAUSE OF THINGS LIKE THAT AGREEMENT, BECAUSE OF THE THINGS LIKE WE MENTIONED A LITTLE EARLIER TONIGHT, THE \$0.5 MILLION DOLLARS COMING BACK FROM THE STATE, THE SETTLEMENT THAT WE DID WITH ASRS AND DISCUSSED WITH YOU AT THE LAST COUNCIL MEETING, ALL THESE THINGS EVENTUALLY COLLAPSE INTO THAT ENDING CASH BALANCE.

Mayor Lane: EXCELLENT. THANK YOU VERY MUCH.

David Smith: WHEN YOU LOOK AT THESE. GOING BACK TO THE SLIDE ON LOCAL SALES TAX, NOT TOO MANY OF CHANGES APPEAR ALARMING. THE AUTOMOTIVE NUMBER, WHICH I'VE CIRCLED, WE THINK IS GOING TO BE UP FROM WHERE IT WAS LAST YEAR AND THEN A PRETTY HEALTHY INCREASE IN '14/'15. THE ONE THING IS THE FORECAST FOR CONSTRUCTION SALES TAX. WE HAD STARTED WITH A BUDGET OF \$10.6 MILLION. WE NOW THINK WE'RE GOING TO FALL SHORT OF THAT. IT'S GOING TO BE \$9.9 MILLION. WE'RE A LITTLE RELUCTANT TO BE TOO AGGRESSIVE ABOUT THE FORECAST. NEXT WE'RE PUTTING IN \$10.1 MILLION. IT'S A LITTLE BIT CONFUSING TO ALL OF US WHY THIS NUMBER IS NOT RECOVERING A BIT BETTER. WE ARE SEEING CONSTRUCTION HERE IN THE CITY, SO WE MIGHT BE PLEASANTLY SURPRISED. THAT'S THE FORECAST WE HAVE NOW.

[Time: 00:41:53]

Mayor Lane: I'M SORRY. COUNCILMEMBER MILHAVEN HAS A QUESTION.

Councilwoman Milhaven: WE SEE A LOT OF DIRT BEING MOVED, THE BUILDING GOING UP AROUND THE CORNER. HAVE WE ALREADY RECEIVED THAT? IS THAT IS THE BASELINE? IT'S CONFUSING TO ME WITH ALL THE DIRT WE SEE MOVING AND BUILDINGS WE SEE COMING OUT OF THE GROUND THAT OUR CONSTRUCTION SALES TAX WOULD BE DOWN, UNLESS WE'VE ALREADY REALIZED THAT. I'M WONDERING, WHERE WILL WE SEE THAT?

David Smith: I'M GOING TO HAVE MY STAFF ANSWER THAT.

Budget Director Judy McIlroy: YOU WILL SEE THAT REFLECTED IN OUR BUILDINGS PERMITS. RIGHT NOW, I THINK JOYCE WILL MENTION DURING THE FINANCIAL UPDATE THAT WE'RE ABOUT 43% OVER BUDGET IN THAT PARTICULAR LINE ITEM. THAT'S WHERE WE'RE SEEING THAT REVENUE. THERE'S A LAG AS IT COMES TO THE SALES TAX PORTION OF THE CONSTRUCTION.

Councilwoman Milhaven: SO WE SEE IT IN THE BUILDING PERMIT REVENUE BUT WE DON'T SEE IT IN THE SALES TAX. I GUESS IF STUFF IS COMING OUT OF THE GROUND NOW, WHEN WE WILL SEE THE CONSTRUCTION TAX?

Judy McIlroy: IT'S MY UNDERSTANDING THERE COULD BE A 12-MONTH LAG.

Councilwoman Milhaven: SO THEN THESE PROJECTS WERE STARTED SEVERAL MONTHS AGO. THEY HIT 12 MONTHS FROM THE BEGINNING AT SOME TIME IN THIS COMING YEAR. AGAIN, I'M CONFUSED ABOUT WHY THAT LINE WOULD BE DOWN FOR NEXT YEAR IF SOME OF THOSE PROJECTS WILL HIT THAT 12-MONTH HURDLE IN THE COMING YEAR?

David Smith: WELL, I DON'T KNOW THAT THIS IS AN EXPLANATION, BUT IT'S A SUBSTANTIAL QUANTITY OF CONSTRUCTION VALUE THAT WILL GENERATE EVEN \$10.0 MILLION OF CONSTRUCTION SALES TAX. THE CONSTRUCTION SALES TAX FORMULA, I THINK IT'S TRUE FOR PROJECTS LIKE YOU'RE TALKING ABOUT. IT'S CERTAINLY TRUE FOR HOMES. WHEN A HOME IS BUILT, THEN THE SALES VALUE OF A HOME, \$1.0 MILLION, 35% IS ASSUMED TO BE MATERIALS. SO IT'S ONLY THAT PART THAT'S TAXED AT 1.1%. SO YOU'RE TALKING ABOUT A SUBSTANTIAL DOLLAR VALUE OF CONSTRUCTION. IN OTHER WORDS, THIS NUMBER MAY ENCOMPASS THINGS LIKE OPTIMA AND OTHERS. IT OBVIOUSLY DOES IN PEOPLE'S MINDS. I KNOW THAT'S MAYBE NOT A GOOD ANSWER. WE CAN COME BACK WITH A BETTER ANSWER.

Councilwoman Milhaven: I'M JUST THINKING COMING OFF OF A LOW, YOU KNOW, ANYTHING NEW, SO THE BASELINE IS PRETTY LOW, I WOULD THINK A LOW BASELINE AND ANYTHING NEW SHOULD SEE AN INCREASE. I WOULD LOVE TO HAVE MORE INFORMATION. AND THEN IF I COULD GO BACK TO THE BEGINNING, I'VE PULLED UP THE ASU WP CAREY DOES AN ECONOMIC FORECAST. FOR RETAIL SALES, THEY'RE PROJECTING A RETAIL SALES LOW OF 4.5% INCREASE AND A HIGH OF 8%. WE LOOK PRETTY CONSERVATIVE. SO IT LOOKS LIKE MOST OF OUR RETAIL SALES TAX CATEGORIES ARE EVEN LOWER THAN THEIR LOWEST ESTIMATE. SO I DON'T KNOW IF YOU CAN ANSWER IT TODAY BUT I WOULD LIKE TO UNDERSTAND BETTER WHERE THOSE FORECASTS ARE COMING FROM SINCE THEY'RE SO MUCH LESS THAN WHAT OTHER FOLKS ARE FORECASTING FOR THE REGION ECONOMY.

[Time: 00:45:36]

David Smith: WE COULD DO THAT. WP CAREY. WE DID A PRESENTATION TO THE COUNCIL, I THINK, PROBABLY A YEAR AGO ON THIS SUBJECT AND WENT THROUGH SOME OF THE METRICS THAT THE TAX FOLKS HERE IN THE CITY USE TO COME UP WITH THESE NUMBERS. PERHAPS IT WOULD BE BENEFICIAL IF WE DO THAT AGAIN. WP CAREY ARE THE ONES THEY USE, SO IT SHOULD BE RECONCILABLE.

Judy McIlroy: MAYORS AND MEMBERS OF COUNCIL, I DO JUST WANT TO NOTE THAT ON MARCH 5TH WE ARE PLANNING TO COME BACK AND PRESENT OUR REVENUE ASSUMPTIONS. I THINK THAT WOULD BE A GOOD OPPORTUNITY TO GO THROUGH THAT.

Councilwoman Milhaven: THANK YOU.

[Time: 00:46:17]

Mayor Lane: THANK YOU, COUNCILMAN AND THANK YOU, STAFF. I WANTED TO ADD ONE THING. WHEN YOU TALK ABOUT CONSTRUCTION SALES TAX, WE MAY KNOW IS UNDER SOMEWHAT OF AN ATTACK AND THE CHANGE OF FORMULA AND HOW THAT WOULD BE CALCULATED COMING AWAY FROM PRIME CONTRACTORS, BUT I'M SURE THE ESTIMATES ARE PUT FORWARD ON THE BASIS OF ANTICIPATED COMPLETION DATES BY DEVELOPERS AND CONTRACTORS. THEY'RE NOT ALWAYS FOOL-

PROOF. THE BUDGET, I'M SURE, IS PUT TOGETHER ON THE BASIS OF THAT. WE HAVE TO WAIT AND SEE HOW IT PROGRESSES. ONE OF THE THINGS, IT IS AT THE POINT OF TRANSFER FROM THE GENERAL CONTRACT TO THE OWNER THAT'S WHEN THAT CALCULATION OF 65% OF THE TOTAL IS SUBJECT TO THE SALES TAX. IT'S NOT PART OF THIS PROGRAM, BUT IT IS SOMETHING THAT THE TREASURER AND I HAVE BEEN TALKING ABOUT AND WE ARE LOBBYING WITH THE GOVERNOR'S OFFICE NEXT WEEK WITH REGARDS TO CHANGES BY THE TPC COMMISSION ON CHANGING THE ENTIRE SALES TAX EQUATION, WHICH WOULD BE DETRIMENTAL TO THE CITY OF SCOTTSDALE. WE'RE WORKING HARD ON THAT. I GUESS I'M JUST TRYING TO SAY THAT IT'S A BIT OF A HIT AND MISS. YOU COULD HAVE DELAYS FOR ANY REASON.

David Smith: TWO ADDITIONAL COMMENTS, NUMBER ONE, TO AMPLIFY WHAT THE MAYOR SAID, THE SALES TAX LINE IN ITS ENTIRETY IS AT RISK. IF THEY GO TO THIS ALTERNATIVE METHOD OF TAXATION, SCOTTSDALE WOULD GET NOTHING. THEIR INTENT WOULD BE TO ASSESS THE TAX AT THE POINT WHERE THE MATERIALS ARE PURCHASED RATHER THAN WHERE THE CONSTRUCTION OCCURS. BUT THE OTHER POINT I WANT TO MAKE BEFORE I LEAVE THIS SLIDE IS PLEASE ABOUT IN WE'RE NOT BEING DEFENSIVE ON ANY OF THESE NUMBERS. THIS KIND OF FEEDBACK IS WHAT THIS REVIEW IS ALL ABOUT. WE'RE TRYING TO TELL YOU WHERE WE'RE INITIALLY HEADED WITH SOME OF THESE ASSUMPTIONS. IF THEY LOOK OUT OF LINE OR UNREASONABLE, THAT'S WHAT WE WANT TO HEAR, SO WE'RE ON TRACK.

THIS SALES TAX NUMBER, IF IT HOLDS, THE ONE WE HAVE HERE, \$99.7 MILLION FORECAST FOR NEXT YEAR, WOULD, IN A HISTORICAL PERSPECTIVE, STILL BE SUBSTANTIALLY BELOW THE PEAK THAT THIS REVENUE CATEGORY GENERATED, THE PEAK BACK IN 2006 AND '07 WHEN THIS CATEGORY GENERATED \$110.0 MILLION OF REVENUE FOR THE CITY OR \$120.2 MILLION. THERE ARE SOME THINGS THAT MAY NEVER GET US BACK TO THAT LEVEL. CERTAINLY CONSTRUCTION, NO MATTER WHAT THE RECOVERY RATE IS, IT WILL TAKE A WHILE TO GET BACK TO THE LEVELS OF 2006 AND 2007. IT'S GOING TO BE A DIFFERENT MIX BY THE TIME WE GET BACK TO THAT NUMBER. STATE-SHARED REVENUES, ANOTHER IMPORTANT CATEGORY OF REVENUE, GENERATING ABOUT \$50.0 MILLION. IT'S COMPRISED OF THREE REVENUE STREAMS, ONE, WHATEVER IS COLLECTED AT THE STATE LEVEL FOR SALES TAX. THAT'S ALLOCATED BACK TO CITIES BASED ON YOUR POPULATION.

THE REALITY IS THE CITY OF SCOTTSDALE GENERATES A LOT OF BENEFIT FOR SALES TAX THAT DOES NOT TURN AROUND AND COME BACK TO US. THE SECOND CATEGORY OF REVENUE IS THE STATE INCOME TAX, OUR SHARE OF WHAT COLLECTED AT THE STATE LEVEL FOR INCOME TAX. AND THEN, THIRD, THE SMALLEST PIECE IS THE AUTO TAX. IT'S IMPORTANT TO REALIZE THESE ARE OUR BEST GUESSES HERE, THE NUMBERS THAT WE HAVE IN HERE FOR '13/14. WE WILL VERY SOON RECEIVE A FORECAST FOR THE STATE OF ARIZONA. WE THINK THESE ARE CLOSE TO WHAT THEY'RE GOING TO TELL US BUT THEY HAVEN'T TOLD US YET. WHAT WE DO KNOW IS THAT EVENT WHEN WE LOOK AT THE FORECAST THAT WE HAD FOR LAST YEAR, \$47.6 MILLION IN THE BUDGET, IT IS UNLIKELY THAT WE'LL HIT THAT NUMBER. WE'RE THINKING WE'LL BE 1% BELOW THAT AT \$47.2 MILLION. YOU'LL HEAR LATER TONIGHT THE SIX-MONTH REPORT WAS BELOW, SO WE HAVE RECOVERY TO DO ON THESE STATE REVENUES EVEN THIS YEAR AND A FURTHER RECOVERY FOR NEXT YEAR. THAT \$50.0 MILLION, AGAIN, LACKING AT THE TEN-YEAR HISTORICAL PERSPECTIVE, WOULD BE SUBSTANTIALLY BELOW THE PEAK OF THESE THREE REVENUE SOURCES, WHICH TOTALED \$64.7 MILLION IN FISCAL YEAR '07/'08 . NOTHING WE SEE ON THE HORIZON GETS US BACK TO THAT IN THE FIVE-YEAR TIMEFRAME.

THE NEXT THING IS PROPERTY TAX. WE'LL SPEND SOME TIME ON THIS ONE. THIS IS IN TOTAL ABOUT A \$25.0 MILLION SOURCE OF REVENUE, PLUS OR MINUS. THERE ARE SEVERAL THINGS THAT HAPPEN THROUGH THIS REVENUE SOURCE. WE START WITH THE PRIOR YEAR'S COLLECTIONS BASE. IT'S THE NUMBER CIRCLED AT THE TOP OF THE COLUMN, \$25.3 MILLION. THE FIRST THING THAT HAPPENS IS THAT NEW CONSTRUCTION OCCURS IN YOUR COMMUNITY. THAT GENERATES ABOUT \$500,000 OF ADDITIONAL TAX AS THE LEVY IS APPLIED TO THAT NEW CONSTRUCTION. AND SO RIGHT OUT OF THE BOX, WE'LL BE LOOKING AT \$25.8 MILLION AS THE FORECAST FOR '13/'14. BUT THEN YOU GET INTO OPTIONAL INCREASES, AND THE STATE ALWAYS ALLOWS A COMMUNITY TO INCREASE THE LEVY BY 2%. WHAT WE SHOW HERE IS TWO THINGS, NUMBER ONE, A REALIZATION THAT WE DID NOT TAKE THAT INCREASE, SO IT ACCUMULATES. YOU HAVE THE OPPORTUNITY TO TAKE THE INCREASE. IF YOU WENT BACK AND PICKED UP THOSE YEARS, YOU WOULD BE ADDING \$1.0 MILLION TO THE TAX LEVY AND FOR THIS YEAR, YOU HAVE A 2% ALLOWANCE, GIVING YOU A \$500,000 INCREASE IN THE LEVY IF YOU CHOOSE TO TAKE IT THIS YEAR. THERE'S A SMALLER ITEM SHOWN ON HERE AS WELL. THAT IS THE AMOUNT OF TAX LEVY FOR TORTE RECOVERY. SO IF YOU EXERCISED ALL OF THESE OPTIONS, YOU WOULD BE AT \$27.4 MILLION IN THE TOTAL PROPERTY TAX LEVY FOR '13/'14.

THIS COUNCIL OR PREVIOUS COUNCIL, AS I SAID, FOR TWO YEARS, DID NOT ELECT TO TAKE THE 2% ALLOWED INCREASE. IT IS SHOWN IN HERE BECAUSE IT IS AN ALLOWABLE AMOUNT AND ONE ITEM THAT WE WILL BE SEEKING YOUR INPUT, FEEDBACK, AND GUIDANCE IN TERMS OF WHAT WE DO. THE THING I WILL SAY, PROBABLY THESE 2% ALLOWANCES, I'M NOT SURE WHAT THE LEGISLATIVE HISTORY IS. THEY WERE PROBABLY TO GIVE CPI IN COST STRUCTURE. THE CPI HAS GONE UP IN EACH OF THE PAST YEARS WHEN THESE INCREASES HAVE BEEN FOREGONE. I THINK IN THE FIRST YEAR THEY WENT UP ABOUT 1.6% ON CPI AND THE SECOND YEAR ABOUT 3.2%. BUT THESE ARE THINGS YOU WILL CONSIDER IN YOUR GUIDANCE AND DELIBERATIONS. FOR THE TIME BEING, I WANT YOU TO BE AWARE THESE NUMBERS ARE IN HERE IN THE TOTAL AMOUNT OF A \$1.5 MILLION. WE'LL SEE HOW IT FITS INTO THE TOTAL PICTURE.

[Time: 00:56:02]

Mayor Lane: MR. SMITH, THE QUESTION IS WHETHER OR NOT WHEN WE LOOK AT NEW CONSTRUCTION, THAT'S SELF-EXPLANATORY. WHAT ABOUT INCREASE IN VALUATIONS? WE'VE NOTED IN MOST EVERY STUDY THAT VALUATIONS OF PROPERTY HAVE COME UP AT SUBSTANTIAL AMOUNTS. ARE WE KEEPING TRACK AND WILL IT HAVE THE IMPACT OF INCREASED VALUATIONS SET AGAINST THE SAME RATE WITH INCREASING PROPERTY TAX DOLLARS AND CENTS WITHOUT DOING ANYTHING WITH THE RATE?

David Smith: MR. MAYOR, MEMBERS OF COUNCIL, I MAY GIVE YOU A LONGER ANSWER THAN YOU BARGAINED FOR. THERE ARE TWO WAY A COMMUNITY CAN ASSESS PROPERTY TAXES. THEY CAN SET A RATE, SOMETHING LIKE \$1.50 PER \$100 OF EVALUATION OR SET A LEVY. I WANT \$2.5 MILLION I DON'T CARE WHAT THE RATE IS. SCOTTSDALE HAS ALWAYS CHOSEN THE LATTER. OTHER COMMUNITIES SET THE RATE. IF YOU SET THE RATE. AND PHOENIX WAS ONE THAT DID THIS FOR MANY YEARS UNTIL IT DIDN'T WORK. BUT THEY WOULD SET A RATE AND SAY I WANT \$1.50. AS PROPERTY VALUES WENT UP, THEY GOT MORE AND MORE MONEY. WHEN IT STOPPED WORKING IS WHEN PROPERTY VALUES HEADED SOUTH AND ALL OF A SUDDEN THEIR FIXED RATE DIDN'T GENERATE ENOUGH MONEY TO RUN THE CITY. SCOTTSDALE HAS NEVER DONE IT THAT WAY. SCOTTSDALE ALWAYS SETS THE DOLLAR

AMOUNT THAT WE WANT AND THEN THE RATE FLOATS. SO DURING THE PERIOD OF HOUSING PRICE DECLINES, THE CITIZENS DIDN'T NECESSARILY SEE AN INCREASE IN THE PROPERTY TAX DOLLARS BUT THEY SAW THE RATE PER ONE HUNDRED DOLLARS VALUATION GO UP. NOW AS THE VALUES RECOVER, THEY WILL SEE THE RATE GO DOWN. FOR US, THE RATE FLOATS UP OR DOWN. WE, THE CITY, DO NOT BENEFIT FROM THE INCREASE OR DECREASE IN THE HOUSING PRICES BECAUSE WE SIMPLY SET A LEVY OF A FIXED DOLLAR AMOUNT.

Mayor Lane: OKAY. I UNDERSTAND AND I APPRECIATE THAT AND WHEN WE GO ACROSS THE TOP LINE THERE, WE GO TO 14/15, 15/16, 16/17 AND 17/18. IS THAT IN ANTICIPATION OF A 2% INCREASE EACH YEAR?

David Smith: IT'S TWO THINGS. WHAT YOU SEE IS THE EXPIRING RATE FROM THE PRIOR YEAR. AND IN EACH YEAR, WE HAVE FORECAST TWO THINGS. NUMBER ONE, WE FORECAST \$700,000 ATTRIBUTABLE TO NEW CONSTRUCTION. AND THEN WE DO FORECAST THAT WE WOULD BE TAKING THE 2% ALLOWABLE INCREASE, WHICH WOULD BE A \$0.5 MILLION, THEN WE HAVE A FORECAST FOR TORTE RECOVERY. THAT DOESN'T. I PROBABLY SHOULD HAVE CLARIFIED. THAT DOESN'T ADD INTO THE CARRY-FORWARD NUMBER, IF ALL THAT CAME DOWN TO 29.8, THE NUMBER THAT GOES FORWARD IS 29.7 BECAUSE THE TORTE RECOVERIES ARE NOT INCLUDED IN THERE. TO ANSWER YOUR QUESTION, IT'S ASSUMING TWO THINGS GOING FORWARD. IT'S ASSUMING THAT THERE WILL BE NEW CONSTRUCTION EXPANDING THE TAX BASE AND IT DOES ASSUME THAT WE WILL TAKE THE 2% ALLOWABLE IN FUTURE YEARS.

Mayor Lane: I APPRECIATE THE COMPLETENESS, BUT EFFECTIVELY IT DOES INCLUDE THE 2% INCREASE. COUNCILMAN LITTLEFIELD HAS A QUESTION OR COMMENT.

[Time: 01:00:15]

Councilman Littlefield: WELL, THEN SINCE WE SET AN AMOUNT RATHER THAN A RATE, WE HAVE TO SET THAT AMOUNT EVERY YEAR?

David Smith: THAT IS TRUE.

Councilman Littlefield: RIGHT. SO THE QUESTION OF WHAT YOU'RE PUTTING OUT THERE AS YOUR PREDICTION IS THE NUMBERS THAT YOU PREDICT THAT THE STAFF WILL ASK US TO APPROVE.

David Smith: THAT IS TRUE.

Councilman Littlefield: OKAY. SECONDLY, IN SO FAR AS, IT DOES MATTER TO THE HOME OWNERS THE VALUATION, BECAUSE EVEN THOUGH THE AMOUNT STAYS THE SAME, THEY DO LOOK AT THEIR RATE. SO THE QUESTION IS, I JUST WANT TO MAKE SURE I UNDERSTAND, BECAUSE OF THE ARIZONA STATE LAW, THERE'S A LAG BETWEEN ACTUAL INCREASES IN REAL ESTATE VALUE AND WHEN THE ASSESSED VALUES CHANGE, IS THERE NOT?

David Smith: I'M OUT OF MY LEAGUE IN ANSWERING THAT QUESTION. I DON'T KNOW WHAT THE LAG IS.

Councilman Littlefield: ALL RIGHT. WE'LL LET IT RIDE. I'M SURE YOU'LL FILL ME IN LATER.

Mayor Lane: THANK YOU, COUNCILMAN.

[Time: 01:01:20]

David Smith: AT THIS POINT, I'VE DISCUSSED WITH YOU THE TOP THREE LINES ON THESE ASSUMPTIONS. WE TALKED ABOUT THE \$100.0 MILLION DOLLARS ON THE LOCAL SALES TAX, THE \$50.0 MILLION THAT WE'LL GET FROM THE STATE AND WE TALKED ABOUT THE \$27.0 MILLION FROM THE PROPERTY TAX SLIDE. THE THREE OTHER THINGS THAT I WANT TO TALK ABOUT, THE FIRST ONE IS THE INDIRECT CHARGES, WHICH WE CALL H2O. THAT'S AN ABBREVIATION FOR WHAT WE WILL CHARGE WATER, SEWER, AND OTHER FUNDS. MANY OF YOU WILL REMEMBER, WE WENT THROUGH A FAIRLY EXHAUSTIVE PROCESS OF TRYING TO FIGURE OUT WHAT WE ARE CHARGING. WHAT ARE WE CHARGING THEM AND WHAT SHOULD WE CHARGE THEM? THIS IS THE NUMBER THAT, WHEN I GOT HERE, WAS A NUMBER OF CLOSE TO 12 TO \$14.0 MILLION. AS WE FIGURED OUT WHAT THE RIGHT NUMBER IS, WE'VE COME DOWN TO A RIGHT NUMBER IS ABOUT \$5.5 MILLION. THAT'S WHAT WOULD BE IMPLEMENTED IN '13/ 14. WE TOOK KIND OF A BLIND PATH IN IMPLEMENTING THIS. IN LAST YEAR'S BUDGET WE TOOK IT DOWN TO 6.7. THE INTENT WOULD BE TO TAKE IT DOWN TO 5.3 AND THEN IT WOULD STAY AT THAT LEVEL, AS YOU CAN SEE IN ALL OF THE OUT YEARS. ONE THING THAT YOU MAY CONSIDER LATER ON IS WHETHER YOU WANT TO MOVE THE PATH OUT FURTHER, WHETHER YOU WANT TO FINISH UP THE IMPLEMENTATION ON SCHEDULE AND DO IT ALL NEXT YEAR, BUT IT WILL HAVE THE EFFECT OF REDUCING BY \$1.4 MILLION THE REVENUES AVAILABLE TO THE GENERAL FUND BECAUSE THE GENERAL FUND IS THE BILLING SERVICE THAT SENDS OUT THIS BILL TO THE WATER AND SEWER AND OTHER ENTERPRISE FUNDS. THE OTHER ITEM THAT WE'LL CALL OUT FOR ATTENTION IS THE WEST WORLD REVENUES. THEY ALL COME TO THE GENERAL FUND. THE BUDGETED NUMBER THIS YEAR WAS \$2.7 MILLION. I THINK YOU'LL HEAR A LITTLE LATER WHEN YOU HEAR THE SIX-MONTH REPORT, WE'RE SHOWING STILL \$2.7 MILLION IS THE FORECAST BUT THE ENTERPRISE IS STRUGGLING HITTING THAT NUMBER. THEY'RE OFF A COUPLE HUNDRED THOUSAND DOLLARS THROUGH SIX MONTHS AND I THINK JOYCE WILL HAVE SOME EXPLANATION OF WHAT THAT'S ATTRIBUTABLE TO. BUT IF THEY DO HIT THE \$2.7 MILLION, THE PREDICTION IS THEY WOULD GO TO 3.2 AND 5.2 IN YEARS THEREAFTER. THAT 3.2 IS A LITTLE BIT SHY OF WHAT THEY'D HOPED FOR WHEN THE PROJECT WAS SUBMITTED FOR YOUR CONSIDERATION. IT WOULD BE A \$400,000 INCREASE, BUT THE EXPECTATION WAS THAT IN '13/14, THE INCREASE WOULD BE ABOUT \$0.5 MILLION DOLLARS OF NEW SHOWS. SO 700,000 OR SO SHOULD BE THE CHANGE THAT WE'RE LOOKING FOR HERE. BUT THAT MAY BE BECAUSE OF CONSTRUCTION-SCHEDULED DELAYS. THAT WAS THE FORECAST THAT WAS SUBMITTED AND THAT WILL GENERATE \$400,000 OF MONEY. A WHOLE MEDLEY OF STUFF WILL GENERATE A \$1.5 MILLION OF ADDITIONAL REVENUES, MEANING IF YOU TAKE THE PIECES AND THEY ALL WORKED OUT THE WAY WE PUT THEM HERE, WE WOULD SEE \$7.4 MILLION OF ADDITIONAL REVENUES COMING TO THE CITY. IN A SENSE, THAT'S WHAT WE HAVE TO WORK WITH ON THE REVENUE SIDE. NOW WE'LL TALK A LITTLE BIT BRIEFLY ON A VERY HIGH LEVEL ON THE SPENDING SIDE. I'LL CALL YOUR ATTENTION TO INTERNAL SERVICE CHARGES. THESE ARE CAPTIVE BUSINESSES IN THE GENERAL FUND OF SERVICES WE PROVIDE, INSURANCE, FLEET, THINGS LIKE THAT. THE TOTAL ADDITIONAL COST FOR THIS GROUP OF ACTIVITIES IS \$3.2 MILLION HIGHER NEXT YEAR THAN IT WAS IN THE YEAR THAT WE'RE CURRENTLY IN. BUT THERE'S A COUPLE OF REASONS FOR ALMOST HALF THAT NUMBER AND I'LL CIRCLE THEM HERE.

[Time: 01:06:22]

LAST YEAR WE TOOK ADVANTAGE OF TWO INSTANCES OF ONE-TIME MONEY. WE HAD ADDITIONAL FUNDS AVAILABLE IN THE RISK MANAGEMENT INSURANCE POOL AND WE SAID LET'S USE THAT TO TAKE A RATE DECREASE FOR THE GENERAL FUND BLEEDING DOWN THAT RESERVE LEVEL TO THE LEVEL IT SHOULD BE AND THAT ARTIFICIALLY REDUCED THE ONE-TIME RATES BY \$1.6 MILLION. WE DON'T HAVE THAT OPPORTUNITY AGAIN. THAT'S ONE REASON WHY NEXT YEAR WILL BE HIGHER. THEN WE ALSO HAD IN THE P.C. REPLACEMENT PROGRAM THE OPPORTUNITY TO USE SOME RICOH MONEY AND PAY FOR SOME OF THE COMPUTER, SOFTWARE, I.T. NEEDS TO THE TUNE OF \$0.5 MILLION DOLLARS. IT WAS ONE-TIME MONEY AVAILABLE LAST YEAR. WE TOOK ADVANTAGE OF IT BUT IT WILL NOT BE AVAILABLE THIS YEAR. WITHOUT THOSE TWO ADVANTAGES, THIS CATEGORY WILL COST US AN ADDITIONAL \$3.2 MILLION.

THE NEXT MAJOR CATEGORY, THE MAJOR CATEGORY OF EXPENSE THAT WE HAVE OF THE CITY IS EMPLOYEE COMPENSATION AND BENEFITS. I'LL TELL YOU WHAT WE HAVE IN THIS PRELIMINARY KEY ISSUE PRESENTATION. WE ARE SHOWING FOR NEXT YEAR A BASE COMPENSATION OF \$119.5 MILLION. THAT INCLUDES THE RATE FROM LAST YEAR, AND IT ALSO INCLUDES THE ACTION THAT THE COUNCIL TOOK A YEAR AGO TO INCREASE BY 2% ALMOST ACROSS THE BOARD. IT WAS CALLED PAY FOR PERFORMANCE. BUT IT WAS A PAY INCREASE. THOSE GIVE US THE STARTING BASE OF 119,500. WE HAVE A LINE CALLED COMPENSATION ADJUSTMENT. THIS IS THE 5% NUMBER THAT WE DISCUSSED THE LAST COUNCIL MEETING. AND WHAT YOU SEE IS THE FULL PROGRAM IMPLEMENTATION IS \$1.2 MILLION. HALF WAS IN LAST YEAR'S BUDGET, HALF IN THIS YEAR'S BUDGET. THAT'S A NEGATIVE IMPACT OF .6 AND YOU CAN SEE WHAT IS HAPPENING.

THEN, TO SOME OF THE CATEGORIES OF BENEFITS. THE PENSION RATES ARE GOING UP 3.8%, \$600,000. YOU CAN SEE THE HEALTHCARE. YOU'RE GOING TO HAVE A PRESENTATION ON THIS IN FEBRUARY. THE HEALTHCARE IS GOING UP ABOUT 7.7. I THINK THE PREDICTION ON RATES IS 6%. YOU'LL SEE AT THE BOTTOM, TUITION, TRAINING PROGRAMS, WHATEVER. I THINK SOME OF THESE ARE NEW PROGRAMS BEING PUT IN, NOT NEW PROGRAMS BUT RESTARTING OLD PERHAPS FOR THE BENEFIT OF EMPLOYEES. THE MOST SIGNIFICANT THING TO REALIZE IN THIS SLIDE IS THAT FOR NEXT YEAR FOR THIS PRESENTATION WE HAVE PUT NOTHING IN AS AN EXPENDITURE FOR RATE ADJUSTMENT OR PAY FOR PERFORMANCE FOR THE WORKFORCE, NOTHING ABOVE THE INITIATIVE THAT YOU APPROVED A FEW WEEKS AGO. THAT IS NOT WHAT THE CITY MANAGER INTENDS TO TRY TO ACCOMPLISH IN THE BUDGET. I CALL YOUR ATTENTION TO IT. IT'S IN HERE AT ZERO AT THIS POINT AND WE'LL TALK ABOUT WHAT THE IMPLICATIONS ARE AS WE GET CLOSER TO THE END. WITHOUT THAT IN THERE, THE COMPENSATION AND BENEFIT LINE IS COSTING ANOTHER \$1.6 MILLION NEXT YEAR OVER WHAT IS IN THE ADOPTED BUDGET FOR THE CURRENT YEAR. WHAT WE HAVE SHOWN OUT HERE IN THE OUT YEARS IS A PLACE-SAVER, IS RATE ADJUSTMENTS AND PAY FOR PERFORMANCE NUMBERS THAT ARE ROUGHLY 2% FOR THE TOP LINE RATE ADJUSTMENTS. THAT'S REALLY NOT THE FOCUS ON THE DISCUSSION TONIGHT AS MUCH AS WHAT WE'RE PUTTING IN FOR '13 /14. THE EMPLOYEE BENEFIT COMPENSATION LINE AND ITS TEN-YEAR HISTORICAL PERSPECTIVE IT IS BELOW WHERE IT WAS IN FISCAL YEAR 08/09 AND DOES NOT GET BACK TO THAT LEVEL IN THIS PLANNING HORIZON. YOU CAN SEE HERE IN 09/10, THE COLUMN HTAT HAS THE LARGE DROP, THAT'S WHEN WE HAD THE EARLY OUT PROGRAM AND SOME OTHER LAYOFFS. MOST OF THAT HAS BEEN RETAINED. CONTRIBUTION TO CIP, YOU'RE GOING TO HEAR MORE ABOUT THIS FROM DEREK EARLE LATER TONIGHT. I'M NOT GOING TO SPEND A LOT OF TIME ON THIS. I AM SHOWING MORE THAN A TEN-

YEAR CHART. IF I SHOWED ONLY A TEN-YEAR CHART, YOU WOULDN'T HAVE THE DATA ON THE LEFT AND IT WOULD LOOK EVEN MORE DRAMATIC. YOU'D BE GOING FROM A HISTORICAL LEVEL OF MAKING CONTRIBUTIONS OF \$45-50 MILLION TO CIP DOWN TO THE LEVELS THAT WE'RE AT NOW. BUT IN FAIRNESS, THOSE WERE PRETTY EXAGGERATED HEALTHY YEARS. IF YOU LOOK AT THE LONGER TIME FRAME, WE ARE NOT MAKING WHAT YOU WOULD CALL A SUSTAINABLE LEVEL OF CONTRIBUTION TO THE PROGRAM. LAST YEAR YOU PUT IN AN ADDITIONAL \$3.0 MILLION. IT WAS A GOOD MOVE. WE HAVE NOT FORECAST ANY SUCH INCREASE IN THE FUTURE. WHAT YOU SEE DISPLAYED HERE IN ALL OF THESE YEARS IS THE AMOUNT THAT IS REQUIRED BY OUR OWN INTERNAL POLICIES TO BE CONTRIBUTED TO CIP. WE HAVE A POLICY THAT SAYS WE WILL --IT'S FINANCIAL POLICY NUMBER 18 AND IT SAYS WE WILL PUT INTO CIP FROM THE GENERAL FUND 25% OF THE CONSTRUCTION SALES TAX COLLECTED MONIES. SO WE SPENT A LOT OF TIME TALKING ABOUT CONSTRUCTION SALES TAX A FEW MINUTES AGO, A NUMBER LIKE \$10.0 MILLION. THAT TELLS YOU \$2.5 MILLION GOES INTO THIS FUND.

[TIME: 01:13:24]

AND FINALLY I WANT TO TALK ABOUT GENERAL FUND- SUPPORTED DEBT SERVICE AND CONTRACTS PAYABLE. A SIGNIFICANT PART OF OUR BUDGET IS REQUIRED TO PAY THE MPC DEBT AND THE CONTRACTS PAYABLE AND THINGS LIKE THAT. THERE'S JUST NOT A LOT WE CAN DO ABOUT THIS. THIS IS AN AWFULLY BUSY CHART AND COLORFUL BUT IT'S DISPLAYING THE DEBT SERVICE PAYMENTS OUT OF GENERAL FUND BUT REDUCED BY WHATEVER AMOUNTS WE GET AS CONTRIBUTIONS FROM THIRD PARTIES. SO WE PAY FOR A LITTLE BIT FOR THE STADIUM OVER HERE BUT WE GET MONEY FROM THE STATE TOURISM COMMISSION. WE'RE FORECASTING WE'LL PAY MONEY FOR THE TONY NELSEN EQUESTRIAN CENTER BUT WE'LL GET BED TAX MONEY. I HAVE SHOWN ON HERE WITH THESE LITTLE BALLOONS OR CLOUDS OR WHATEVER --THEY MAY NOT SHOW UP WELL ON A TV SCREEN. SOME OF THE THINGS THAT HAVE BEEN THE MOVING PARTS ON THIS, THE TOP-MOST PART, THE LIGHT-BLUE COLOR. YOU SEE A CLOUD REMINDING US THAT THE REASON THAT ONE GREW IN SIZE IS BECAUSE BACK IN THAT TIME FRAME THERE WAS A FINANCING OF WHAT WE CALLED THE POLICE RADIOS. THEY WERE DONE WITH CERTIFICATE OF PARTICIPATION DEBT. YOU WILL SEE IN THE SECOND CLOUD DISPLAYED HERE THE ADVANTAGE OF THE SCOTTSDALE FASHION SQUARE GARAGE REFINANCING AND NOW, FINALLY, MANY MINUTES LATER, MR. MAYOR, WE COME BACK TO YOUR QUESTION OF WHEN WILL WE SEE THE ADVANTAGE OF THE REFINANCING WE DID. IT'S DISPLAYED IN THIS GRAPH. YOU SEE THE YELLOW-COLORED DEBT SERVICE, WHICH USED TO BE A PAYMENT TO SCOTTSDALE FASHION SQUARE, EQUAL TO THE FORMULA FOR SALES TAX COLLECTIONS. NOW IN FUTURE YEARS, IT WILL BE A DEBT SERVICE. AND YOU CAN SEE THAT THAT NUMBER IS SUBSTANTIALLY LOWER YEAR OVER YEAR. WE HAVE NOT SHOWN THE FORECAST FOR THIS YEAR. THAT NUMBER WOULD BE LOWER ON A FORECASTED YEAR-END BASIS. AND THEN FINALLY YOU SEE DOWN AT THE BOTTOM THE --WHERE I'VE DRAWN THE CIRCLE, THE INCREASE IN MPC DEBT THAT WILL BE OCCASIONED BY THE WESTWORLD COST OF CONSTRUCTION FINANCING AND, AGAIN, THAT'S AFTER RECOGNIZING THE BENEFITS OF THIRD-PARTY CONTRIBUTIONS, EITHER BED TAX OR USERS OR WHATEVER. SO THE GENERAL FUND WILL HAVE A NET INCREASE. THAT'S WHY WE NEED IMPROVED OPERATIONS AT WESTWORLD TO SOP UP THIS DEBT SURFACE. AND SO IN SUMMARY --

[Time: 01:17:04]

Mayor Lane: MR. SMITH. I'M SORRY. I APPRECIATE THE OTHER SIDE OF THE DEBT SERVICE ISSUE WITH THAT BORROWINGS FOR THAT RESTRUCTURED AND REFINANCED AGREEMENT. AND, OF COURSE, THERE STILL REMAINS THE QUESTION. I'M NOT SURE IF IT'S CLEAR IN HOW THIS WOULD BE IN THE '13/'14 BUDGET. WE'RE GOING TO SAVE ON AN INCREASING LEVEL OF THE DELTA BETWEEN WHAT WE WERE PAYING VERSUS WHAT WE'LL PAY ON THIS OF SOMEWHERE BETWEEN \$1.0 MILLION AND A \$1.5. MY QUESTION WAS IN THE '13/'14 BUDGET, HAVE WE FIGURED THAT NET RECEIPT OF SALES TAX IMPROVEMENT IN OUR FORECASTED NUMBERS?

David Smith: WE HAVE AND THIS IS WHERE YOU SEE IT DISPLAYED.

Mayor Lane: WELL, THIS DISPLAYS THE AMOUNT OF MONEY THAT'S BEING PAID FOR THE DEBT SERVICE.

David Smith: IT DOES, MR. MAYOR, BUT THE PRIOR YEARS, THE ONES I'LL CIRCLE HERE, WERE NOT DEBT SERVICE. THOSE WERE PAYMENTS OF SALES TAX REBATE TO SCOTTSDALE FASHION SQUARE.

Mayor Lane: SO THE GENERAL FUND IS SUPPORTED AT A HIGHER LEVEL AND WE'RE SEEING THIS CONTRIBUTION IS LESS NOW BY THAT \$1.0 MILLION, \$1.5 MILLION, WHATEVER IT MIGHT BE, THAT'S WHERE WE'RE PORTRAYING IT. NEXT QUESTION, ON THE ASU. WE RESTRUCTURED THAT. BUT THERE WAS SOME CALCULATION OF PAYMENT ON AN ANNUAL BASIS ON A CALCULATED AGREEMENT. IS THAT REFLECTED IN ANY REDUCTION IN THE DEBT SERVICE ON THAT INVESTMENT?

David Smith: I KNOW THE RESTRUCTURING YOU'RE DISCUSSING AND IT MAY BE BETTER TO HAVE CITY MANAGER TALK ABOUT THAT RESTRUCTURING. I THINK THE ANSWER WILL BE TO THE EXTENT WE'RE EXPECTING PROCEEDS FROM RENT SHARING, IT'S BEYOND THE TIME FRAME OF THIS.

Acting City Manager Dan Worth: MAYOR, I BELIEVE -- THIS IS FROM MEMORY, BUT I BELIEVE WE'RE LOOKING AT \$130,000 ANTICIPATED LEASE REVENUE FOR THE CALENDAR YEAR 2013.

Mayor Lane: I UNDERSTAND. THAT'S THE NUMBER I SEEM TO REMEMBER, \$130 OR \$140,000. BUT IT WOULD HAVE SOME EFFECT ON REDUCING THAT NUMBER AS WE GO OUT IN THE 2015/16, 16/17, 17/18. OKAY. THANK YOU VERY MUCH. COUNCILMAN LITTLEFIELD HAS A QUESTION.

[Time: 01:19:52]

Councilman Littlefield: ON THE ASU, DEBT SERVICE ANNUAL, WHAT IS THAT NUMBER? I SEE THE BAR BUT WHAT IS THE NUMBER?

David Smith: I'LL ASK MS. MCILROY IF SHE HAS THE ACTUAL NUMBER THERE.

Judy McIlroy: MAYOR AND MEMBERS OF THE COUNCIL, THE ANNUAL DEBT PAYMENT FOR ASU IS \$1.5 MILLION.

Councilman Littlefield: HOW MUCH?

Judy McIlroy: \$1.5 MILLION.

Councilman Littlefield: THANK YOU.

[Time: 01:20:27]

Mayor Lane: WITH THAT NUMBER, I MIGHT JUST SAY THAT IF IT'S IN THAT RANGE, IT WOULD BE SOMEWHERE IN THE AREA OF A 10% REDUCTION EACH YEAR ON THAT PAYMENT.

David Smith: THE FINAL SLIDE IN THIS PACKET --AND THEN YOU CAN GIVE US DIRECTION ON ANY ITEM THAT WE'VE DISCUSSED. BUT WE JUST SUMMARIZE THAT IF WE DO ACTUALLY ACHIEVE THE \$1.5 MILLION BY TAKING THE MAXIMUM OPTION INCREASES ON THE PROPERTY TAX --AND WE DISCUSSED THAT. \$0.5 MILLION WOULD BE THIS YEAR, 2% ALLOWANCE AND \$1.0 MILLION WOULD BE CATCHING UP THE TWO YEARS THAT WE WAIVED. IF WE TOOK THAT \$1.5 MILLION AND IF, IN THE SECOND BULLET, IF WE GO AHEAD AND IMPLEMENT THE LAST PHASE OF THE ADMINISTRATIVE SERVICES CHARGE REDUCTION TO THE ENTERPRISE FUNDS THAT WILL REDUCE REVENUES BY \$1.4 MILLION. AND, OF COURSE, IF WE PUT NOTHING IN FOR AUTHORIZED INCREASES ARE FOR ANY PAY FOR PERFORMANCE NEXT YEAR --THAT'S THE WAY THE SLIDE WAS PREPARED --AND IF WE TRANSFER THE MINIMUM THE AMOUNT TO CIP, THEN --ALL THIS IS SAYING THAT IF YOU TOOK ALL THE ASSUMPTIONS THAT I'VE LAID OUT HERE ON THESE SLIDES AND SHARED WITH YOU, WE WOULD HAVE A GENERAL FUND EXCESS, A POSITIVE BALANCE OF \$1.9 MILLION AVAILABLE TO COVER EVERYTHING ELSE. BUT EVERYTHING ELSE, OF COURSE, MAY INCLUDE A PAY FOR PERFORMANCE INCREASE. I MAY INCLUDE A VARIETY OF THINGS. THE DIVISIONS HAVE SUBMITTED REQUESTS TO THE CITY MANAGER. IN TOTAL, THERE WERE ABOUT \$7.0 MILLION. SOME OF THESE ARE UNAVOIDABLE. THEY'RE NOT JUST WANTS BUT NEEDS. THEY'RE INCREASES THAT ARE GOING TO BE UNAVOIDABLY INCURRED. THAT'S WHERE THE BUDGET STANDS. HAVING A POSITIVE NUMBER IS GOOD BUT WE'VE LEFT OUT BIG POSSIBILITIES. WE DIDN'T PUT ANYTHING IN FOR PAY INCREASE. AS I SAID AT THE OUTSET, THE PURPOSE OF THIS REVIEW IS TO LET YOU KNOW WHAT WE SEE AS THE LANDSCAPE AT THE MOMENT AND SOLICIT YOUR FEEDBACK AND YOUR DIRECTION AND THE CITY MANAGER, I'M SURE, WOULD BE HAPPY TO TAKE GUIDANCE.

Mayor Lane: THANK YOU, MR. SMITH. THANK YOU FOR THE PRESENTATION. WE DO HAVE SOME QUESTIONS HERE FROM THE COUNCIL. I'LL START WITH COUNCILMAN LITTLEFIELD.

Councilman Littlefield: WHAT ARE SOME OF THE THOSE UNAVOIDABLE INCREASES, SPECIFICALLY?

David Smith: I CAN TALK ABOUT A COUPLE JUST IN MY AREA. WE HAVE AN INCREASE IN THE AUDIT FEE, NOT A BIG NUMBER, BUT IT IS AN AUDIT FEE INCREASE.

Councilman Littlefield: TRY TO STAY WITH THE BIG ONES.

David Smith: LET ME HAVE THE CITY MANAGER ADDRESS THAT.

[Time: 01:24:00]

Dan Worth: I THINK THE UNAVOIDABLES DON'T INCLUDE A LOT OF BIG ONES, BUT WE HAVE SOME SOFTWARE LICENSING FEES AND ASSOCIATED MAINTENANCE ITEMS LIKE THAT. ONE ITEM IS THE COST

TO COMPLETE THE GENERAL PLAN REVISION PROCESS, WHICH, I THINK, WAS A TOTAL OF ABOUT \$100,000 INCREASE OVER WHAT HAD PREVIOUSLY BEEN BUDGETED. BUT THOSE HAVE TO DO ITEMS ARE FAIRLY MODEST.

Councilman Littlefield: I WAS CURIOUS, BECAUSE IF SOMETHING IS UNAVOIDABLE, THEN I'M WONDERING WHY YOU DIDN'T INCLUDE IT IN THE BUDGET AS A PROPOSED BUDGET. IF IT'S NOT DISCRETIONARY, WE DON'T HAVE A CHOICE, IT SHOULD BE IN THERE, SHOULDN'T?

David Smith: REALLY IT SHOULD. WE DIDN'T TALK ABOUT DIVISION SPENDING OTHER THAN WAGES AND SALARIES. ALL THE CONTRACTUAL SERVICES SPENDING ARE THE KIND OF THINGS THAT WILL BE ENCOMPASSED IN THE CATCH-ALL AT THE END.

Councilman Littlefield: HOW MUCH OF THE \$7.0 MILLION DO YOU THINK IS UNAVOIDABLE?

Dan Worth: MAYOR, COUNCIL LITTLEFIELD, WE'RE GOING THROUGH THE PROCESS OF DETERMINING WHAT'S UNAVOIDABLE. IT'S GOING TO BE BETWEEN A \$0.5 MILLION AND \$1.0 MILLION.

Councilman Littlefield: SO THE \$1.9 MILLION AVAILABLE IS ACTUALLY CLOSER TO 1.4 TO MAYBE .9?

Dan Worth: THAT'S CORRECT.

Councilman Littlefield: THE OTHER QUESTION I HAD IS NOT TO BE PICKY BUT YOU SAID THE DECEMBER SERVICE ON ASU WAS \$1.5 MILLION A YEAR. IF YOU LOOK AT THAT BAR GRAPH, IT LOOKS LIKE IT'S MORE THAN \$2.5 MILLION A YEAR. THAT'S THE NUMBER THAT STICKS IN MY MIND, WAS \$2.5 MILLION.

Judy McIlroy: MAYOR AND MEMBERS OF COUNCIL, THANK YOU. I WAS GOING TO ACTUALLY CLARIFY. LOOKING AT THE SCHEDULE THAT THE FINANCE DIRECTOR GAVE ME, WE HAD TWO ISSUANCES ONE IN 2004 AND ANOTHER IN 2006 FOR A TOTAL OF \$2.8 MILLION.

Councilman Littlefield: \$2.8 MILLION A YEAR, AGAINST WHICH WE HOPE TO GET BACK \$130,000?

Judy Milroy: CORRECT.

Councilman Littlefield: THANK YOU.

Mayor Lane: THANK YOU, COUNCILMAN. COUNCILMAN PHILLIPS.

[Time: 01:26:32]

Councilmember Phillips: THANK YOU, MAYOR. MR. SMITH, YOU KNOW, I HEARD THAT THIS -- OUR FORECAST IS FAVORABLE AND IT SEEMS GLOOMY WHEN WE END UP THAT IF WE RAISE TAXES AND IF WE DO THAT, WE'RE BARELY GOING TO SQUEAK BY. WE HAVE A BOND COMING UP IN NOVEMBER. IF THESE BOND INITIATIVES ARE PASSED, IS THAT GOING TO HELP US IN ANY OF US THIS THROUGH CONSTRUCTION THAT WILL GIVE US A MORE FAVORABLE FORECAST FOR NEXT YEAR?

David Smith: IT WILL --COUNCILMAN PHILLIPS, IT WILL NOT HELP THE GENERAL FUND. LATER YOU'RE GOING TO HAVE A PRESENTATION FROM DEREK EARLE AND HE'S GOING TO TALK ABOUT THE CAPITAL PROGRAM AND HE WILL TELL YOU THAT IT WILL HELP THE CAPITOL PROGRAM BUT IT WON'T HAVE A POSITIVE EFFECT ON THE GENERAL FUND.

[Time: 01:27:47]

Mayor Lane: THANK YOU, COUNCILMAN. YOU KNOW, WHEN WE WERE TALKING ABOUT WHAT ARE THE INCREASES THAT ARE UNAVOIDABLE, I'M LOOKING AT A COUPLE OF SHEETS THAT YOU'VE GOT HERE. WE'VE SEEN THESE IN THIS SAME FORMAT BEFORE. I THOUGHT I UNDERSTOOD IT TO BE THE COLUMN UNDER INTERNAL SERVICES CHARGES OF A \$3.2 MILLION TOTAL UNDER THAT CATEGORY OF THINGS, WHICH INCLUDED AN INCREASE OF 100,000 ON FLEET AND MAINTENANCE, RISK RATE SUBSIDY, WHICH IS A LACK THEREOF OF AN OFFSET, FLEET REPLACEMENT CHARGES OF \$400,000, PC REPLACEMENT, 100,000. THEN GOING DOWN TO DIRECT COMPENSATION. IT LOOKS TO ME THAT WE WERE TALKING ABOUT 1.8 ON THE DIRECT COMPENSATION. I DON'T KNOW WHETHER THAT'S -- IF THAT'S UNAVOIDABLE. I MEAN, I'M JUST WONDERING WHAT THAT IS EXACTLY. THAT'S UNFAVORABLE. RIGHT BELOW THAT IS THE LACK OF A 2% PERFORMANCE INCREASE THAT WE HAD IN THE PREVIOUS YEAR, THE 2.7 AND THE COMPENSATION ADJUSTMENT. AND THEN IT GOES DOWN WITH THE PENSION PLANS, HEALTHCARE AND TUITION. ARE THOSE THE UNAVOIDABLES?

David Smith: MR. MAYOR, MEMBERS OF COUNCIL, NO. THEY ARE UNAVOIDABLES BUT THEY'RE NOT PART OF THAT \$7.0 MILLION OF EXTRA REQUESTS.

Mayor Lane: I SEE.

David Smith: THEY'RE \$7.0 MILLION OVER AND ABOVE EVERYTHING I HAD ON MY SLIDES. IT MAY BE CONFUSING TO PEOPLE. I WANT TO GO BACK TO THE EMPLOYEE COMP AND BENEFIT SLIDE. YOU REFERENCED THAT TOP LINE, THE \$1.8 MILLION OF DIRECT COMPENSATION INCREASE. THAT'S UNAVOIDABLE BUT IT'S NOT WHAT WE MEANT WHEN WE SAID PART OF THE \$7.0 MILLION. THAT NUMBER IS REALLY BECAUSE OF THE 2% ACROSS THE BOARD INCREASE THAT YOU GAVE LAST YEAR AND NOW IT'S ROLLED IN FOR A FULL YEAR OF COST.

Mayor Lane: SO IT'S AN ADD TO STRUCTURAL CHANGE IN THAT COST CATEGORY?

David Smith: THAT IS CORRECT.

Mayor Lane: SO THESE ARE ESSENTIALLY UNAVOIDABLES BUT YOU'RE ALSO SAYING PART OF ALL OF \$7.0 MILLION ARE UNAVOIDABLES?

David Smith: AS THE CITY MANAGER SAID OF THE \$7.0 MILLION, HIS SPECULATION WAS MAYBE A MILLION WOULD BE UNAVOIDABLE AS WELL.

[Time: 01:30:50]

Mayor Lane: WELL, I DON'T HAVE A COMMENT HERE BUT I KNOW WE'RE LOOKING FOR SOME GUIDANCE IN THE DIRECTION WE MIGHT GO. I'D LIKE TO OPEN IT UP TO COUNCIL FOR THEIR

THOUGHTS ON THIS AND PARTICULARLY ON THE SUMMARY SHEET OF THE "IFS". I THINK IT'S IMPORTANT FOR US TO AT LEAST GIVE THE STAFF SOME DIRECTION AS TO WHAT BASIS THEY'RE TRYING TO BUILD THIS BUDGET ON. WE DO NOT HAVE A BUDGET IN FRONT OF US. THAT'S ONE THING WE SHOULD ALL UNDERSTAND. THIS IS SIMPLY FROM THE 50,000-FOOT LEVEL OF SOME INITIAL KEY POINTS AS IT'S EXPLAINED. BUT ONE THAT I THINK IS GOING TO BE A DIFFICULT ONE TO DEAL WITH FROM MY PERSPECTIVE IS THE IDEA OF TRYING TO CATCH UP ON THE 2% MAXIMUM ALLOWANCE THAT'S ALLOWED ON THE PROPERTY TAX INCREASE. YOU KNOW, IT'S BEEN A MATTER OF POLICY ON THE 1.4 WHEN I SAY THAT, ON THE FIRSHTHAND, WE'RE TALKING ABOUT ESSENTIALLY, I KNOW IT'S EXPRESSED IN DOLLARS AND CENTS, BUT TWO 2% INCREASES THAT WERE NOT ALLOWED IN PREVIOUS YEARS OR WE DID NOT TAKE THEM IN PREVIOUS YEARS BUT THE CURRENT YEAR. THAT MAKES UP THE \$1.5. I KNOW THE MATH ISN'T GREAT ON THIS ONE, BUT IT'S LOOKING AT LIKE A 6% INCREASE. AGAIN, THE MATH ISN'T PERFECT BECAUSE OF THE WAY I'M GOING ABOUT IT. BUT SOMEWHERE IN THAT RANGE IS WHAT WE'RE TALKING ABOUT WITH THE \$1.5 MILLION INCREASE IN IT.

David Smith: THAT'S CORRECT.

Mayor Lane: \$1.4 MILLION LESS ON THE GENERAL FUND. IT'S BEEN A MATTER OF POLICY. THERE'S PROBABLY AN OPPORTUNITY TO EXTEND IT, BUT TO STAY ON THE POLICY WHEN I SAY EXTEND IT, MAYBE DO SOMETHING DIFFERENT THAN THE FULL \$1.4 MILLION. THE NEXT ONE IS SIMPLY A ZERO, SO IT'S NOT AFFECTED ONE WAY OR ANOTHER OTHER THAN FOR A MATTER OF MANAGEMENT POLICY. THE \$2.3 MILLION IS TRANSFERRED TO CIP IS THE MINIMUM REQUEST. THAT CALCULATES TO 25%?

David Smith: YES. \$10.0 MILLION OR SO OF CONSTRUCTION SALES TAX TIMES 25%.

Mayor Lane: I WOULD ASK THE CITY MANAGER IN THIS CASE, WHAT KIND OF IMPACT, WE'RE GOING TO BE DEALING WITH A BOND ISSUANCE. ARE THERE ANY ITEMS CONTAINED WITHIN THE RECOMMENDED OR SUGGESTED BOND ISSUES THAT WOULD HAVE ANY MATERIAL EFFECT ON THE CIP?

[Time: 01:33:52]

Dan Worth: MAYOR, WE'RE GOING TO HAVE SOME SPECIFICS IN THE PRESENTATION THAT'S GOING TO FOLLOW THIS ONE. BUT THE SHORT ANSWER IS YES. WE'VE GOT SEVERAL PROJECTS CURRENTLY IN OUR FIVE-YEAR PLAN WITH GENERAL FUND FUNDING AND THEY'RE ON THE PROPOSED BOND LIST AS WELL. SO THAT COULD FREE UP SOME GENERAL FUND CIP MONEY.

Mayor Lane: SO THAT \$2.3 MILLION, I SUPPOSE, COULD BE IMPACTED IF SOME FAVORABLE ON THE BOND SIDE WERE TO AFFECT THIS?

Dan Worth: YES, MAYOR.

Mayor Lane: I KNOW YOU DON'T LIKE TO TALK ON THOSE TERMS BECAUSE OF THE PROTECTION THAT WE HAVE ON THE CIP.

Dan Worth: THE CALCULUS THAT GOES INTO THE 25% IS TO ESSENTIALLY HANDLE THOSE INVESTMENTS WE NEED TO MAKE IN EXISTING FACILITIES AND EQUIPMENT TO DO LIFE CYCLE REPLACEMENTS TO KEEP STUFF FROM FALLING APART. IT'S NOT AN INVESTMENT IN NEW EQUIPMENT OR FACILITIES. AS WE BUDGET THOSE THROUGH THE FIVE YEARS OF CIP, WE'RE SEEING TOTAL AMOUNTS, COMMUNICATIONS, INFRASTRUCTURE WHERE THE NEED IS \$4.0 TO \$5.0 MILLION. THE 2.3 IS NOT KEEPING UP WITH THAT RECURRING CAPITAL INVESTMENT NEED.

[Time: 01:35:30]

Mayor Lane: I UNDERSTAND THAT, DAN, AND I UNDERSTAND THE DISCRETION. I GUESS I WAS TRYING TO CIRCLE AROUND AS TO WHAT KIND OF IMPACT CERTAIN ITEMS WITHIN THE RECOMMENDED BOND ISSUES MIGHT IMPACT THE CIP FAVORABLY. I KNOW THERE'S SOME THINGS HANGING OUT THERE THAT MAY NOT BE FUNDED WITHOUT THOSE ISSUES. I'LL HOLD ON UNTIL WE GET TO THE SECOND STAGE OF THE CAPITAL SIDE, SO IF I WERE JUST TO GET PAST THAT ONE AND THEN WE TALK ABOUT THE \$1.9 MILLION AVAILABLE IN THE GENERAL FUND TO COVER ALL NOT-IN-BUDGET REQUESTS FROM THE DIVISIONS INCLUDING SOME ONE-TIME EXPENSES THAT MAY QUALIFY FOR USE OF THE RESERVED FUND BALANCE. IS THAT \$1.9 MILLION, THEN, TO COVER NOT IN-BUDGET REQUESTS FROM THE DIVISIONS, IS THAT IN THE CURRENT YEAR OR THE 13/14?

David Smith: THAT WOULD BE THE BALANCE REMAINING IN 13/14.

Mayor Lane: THEN WE WOULD HAVE 1.9 TO OFFSET AGAINST THE \$7.0 MILLION.

David Smith: CORRECT.

Mayor Lane: OR SOME PORTION THEREOF.

David Smith: AND I THINK AS WAS POINTED OUT IN THE \$7.0 MILLION, IF SOME OF THEM ARE UNAVOIDABLE, WE PROBABLY SHOULD HAVE A SLIDE FOR THOSE. WE DON'T KNOW THEM YET. WE SHOULD HAVE A SLIDE FOR THOSE AND SAY IT'S ANOTHER \$0.5 MILLION OR \$1.0 MILLION OF UNAVOIDABLE INCREASES, SO REALLY WHAT YOU HAVE LEFT IS SOMEWHERE BETWEEN \$0.9 AND \$1.4 MILLION, USING THOSE NUMBERS.

Mayor Lane: AND, MR. SMITH, YOU SAID EARLIER THAT ON THE BASIS OF THE SOME OF THE RESTRUCTURED, REFINANCED, RENEGOTIATED, RESETTLED AMOUNTS, WE HAVE SOME ONE-TIME PAYMENTS OF \$0.5 MILLION ON SALES TAX WE HAD PAID TO THE STATE IN ERROR AND GOING TO RECOVER THAT. WE'VE GOT A MILLION DOLLARS ON AN ANNUAL BASIS THAT WE WILL SEE AT A NET INCREASE FROM RECEIPTS FROM SALES TAX DUE TO THE RESTRUCTURING OF THAT AGREEMENT WE TALKED ABOUT. THERE'S SOME OTHER THINGS WHERE WE HAVE, ON AN ANNUAL BASIS, ARE GOING TO RECOVER. IT MAY INCLUDE, BUT IT WON'T UNTIL 2014 THE ASU THING. I GUESS, WHAT I'M MOST CONCERNED ABOUT AND I KNOW I ASKED THIS QUESTION BEFORE. I WANT TO BE CLEAR. ARE THOSE ITEMS, THOSE THAT ARE CARRIED OVER YEAR AFTER YEAR AFTER YEAR, ARE THEY REFLECTED ALREADY IN WHAT YOU HAVE FORECASTED FOR THE SALES TAX?

David Smith: THE ANSWER IS YES. THEY'RE FORECAST IN THIS, THE BOTTOM LINE HERE IS WE'VE GOT \$1.9 MILLION, AS WE SAY ON THIS SLIDE, AT THE END OF THE EVERYTHING WE KNOW RIGHT NOW. WE DO KNOW ABOUT THAT RESTRUCTURING. SO THAT HAS BEEN INCLUDED.

Mayor Lane: WHEN WE LOOK AT THE FORECAST OF '13/'14, THOSE NUMBERS INCLUDE THE REVISED NUMBERS?

David Smith: THEY INCLUDE THE NUMBERS. I WANT TO BE CAREFUL. WE UNDERSTAND THAT THE SALES TAX NUMBERS DIDN'T CHANGE BY THAT AGREEMENT. WE ALWAYS GOT THE SALES TAX.

Mayor Lane: I UNDERSTAND THAT BUT THE RECEIPTS THAT WE RECEIVED. I MEAN, BEFORE IT WAS ALL GONE --100% WAS GOING ONE WAY AND FOR PURPOSES OF ILLUSTRATION, 80% OF IT IS GOING TO PAY DEBT. SO THERE'S A DELTA THERE. I KNOW THOSE NUMBERS ARE NOT ACCURATE, BUT THERE'S A DELTA OF THE ABOUT A MILLION DOLLARS A YEAR. I WANT TO CONFIRM THAT WHEN WE BRING THIS ALL DOWN, WE'RE LOOKING AT THE SALES TAX AND FORECAST OF '13/'14 AND WE HAVE THAT THOSE INCREASES IN THE RECEIVED SALES TAX, NOT PAID OUT, GO INTO THE GENERAL FUND THAT THEY'RE INCLUDED IN THIS THESE NUMBERS?

David Smith: ALL THE SALES TAX ARE IN THOSE NUMBERS.

Mayor Lane: INCLUSIVE OF ANY SAVINGS THAT WE HAVE FACILITATED.

David Smith: I'VE PUT BACK UP THIS SLIDE THAT TALKS ABOUT THE NET DEBT SERVICE.

Mayor Lane: IT MEANS IT'S NOT COMING OUT OF THE GENERAL FUND, WHICH MEANS --

David Smith: THAT IS CORRECT.

Mayor Lane: --WE HAVE GOT IT THERE? YOU'RE BASICALLY SAYING WE'VE ALWAYS SHOWED THE GROSS NUMBERS?

David Smith: EXACTLY, MR. MAYOR.

Mayor Lane: ALL RIGHT. THAT ANSWERS THAT. THANK YOU. THAT CONFIRMS THE FACT OF WHAT WE'VE GOT. AND THANK YOU VERY MUCH. COUNCILMAN ROBBINS?

[Time: 01:40:19]

Councilman Robbins: THANK YOU, MAYOR. I'LL KIND OF GO DOWN THE LIST, I GUESS, GIVE SOME DIRECTION. I'M STILL ON THE SAME TRACK AS FAR AS INCREASING THE PROPERTY TAX. I WOULD SAY NO TO THAT. I UNDERSTAND THAT'S A BIG ASSUMPTION YOU HAVE. ESPECIALLY IN LIGHT OF IF YOUR GOING TO GO TO A BOND ISSUANCE, IT'S KIND OF A DOUBLE WHAMMY. I THINK THAT WOULD HURT THAT EFFORT. SECONDLY, I WOULD BE IN FAVOR OF MAYBE CARRYING THAT ENTERPRISE FUND, ADMINISTRATIVE SERVICES CHARGE OUT AND SPLITTING THAT IN HALF OR THIRDS SO WE CAN PRODUCE THAT EXPENSE, CONTINUE ON THE SAME THOUGHT PROCESS AND IN THEORY BUT MAYBE SLIT IT UP OVER THE NEXT TWO TO THREE YEARS. AND THEN THE PAY FOR PERFORMANCE, I KNOW

STAFF IS WORKING ON THAT AS FAR AS A PLAN FOR ACTION FOR THAT. SO I WOULD THINK --IT DEPENDS ON THE NUMBERS THAT COME THROUGH, BUT I THINK WE SHOULD HAVE SOMETHING IN THERE. AND THEN I'M IN FAVOR OF THE POLICY OF THE 25% OF CONSTRUCTION OF SALES TAX RECEIPTS AND I'D LIKE TO SEE THINGS DONE WITH UNRESERVED FUND BALANCE LIKE WE DID LAST YEAR WITH THE \$3.0 MILLION. MAYBE WE HAVE ANOTHER MILLION WE CAN ADD TO THAT ONE-TIME PROJECTS THAT THE CITIZENS SEE AND KNOW, WE'RE DOING TENNIS COURTS, BASKETBALL, PARKING, THOSE KIND OF THINGS PEOPLE USE. I THOUGHT THAT WAS A GREAT PROGRAM. IF WE HAVE SOMETHING SIMILAR TO THAT, I WOULD BE IN FAVOR OF THAT AS WELL. SO THAT'S MY THOUGHTS ON WHERE WE ARE CURRENTLY. WE'LL KNOW WHAT'S UNAVOIDABLE WHEN WE HAVE MORE STAFF INPUT FOR THAT BOTTOM NUMBER THERE. THANK YOU.

Mayor Lane: THANK YOU, COUNCILMAN. COUNCILMEMBER KORTE.

[Time: 01:42:42]

Councilmember Korte: THANK YOU, MAYOR. CERTAINLY TONIGHT'S PRESENTATION IS FULL OF WHAT IFS. AND I COMPLETELY UNDERSTAND THAT. AND AS WE GO THROUGH LOCAL SALES TAX WHAT IFS AND FORECAST, I'M CONCERNED ABOUT THE AUTO SALES AND MAINTENANCE FORECAST INCREASING 11, 14, 15% AS WE GO THROUGH FISCAL YEAR '14/'15. THESE ARE HUGE NUMBERS. I WOULD LOVE TO SEE THAT BUT I'M CONCERNED ABOUT THAT. BUT GOING BACK TO THE SUMMARY, YOU'RE LOOKING FOR SOME GUIDANCE ON THE WHAT IFS. I THINK THAT WE NEED TO HAVE A CONVERSATION AROUND THE \$1.5 MILLION, THE 2% ALLOWANCE AND THE \$1.0 MILLION FOR WAIVERS OF THE PAST TWO YEARS REGARDING THE PROPERTY TAXES. WE LOOK AT OUR TOTAL BUDGET AND THINKING THAT WE'RE LOOKING AT \$1.9 MILLION AS FLUFF. THAT'S PRETTY SKINNY. AND I KNOW THAT WE ARE LOOKING AT NEEDING SOME FUND BALANCES TO COVER THOSE UNAVOIDABLE INCREASES. I AM IN FAVOR OF THE DIALOGUE IN LOOKING AT SPLITTING OUT THE GENERAL FUND, THE REDUCTION IN ADMINISTRATIVE SERVICES AND ENTERPRISE FUNDS. FOR US TO NOT BUDGET ANY PAY FOR PERFORMANCE PROGRAM, I THINK IT'S TAKING A STEP BACKWARDS AS FAR AS OUR STAFF AND TREATING OUR EMPLOYEES FOR THE CITY RESPECTFULLY. THE CIP TRANSFER, THE \$2.3 MILLION, I THINK, IS A SOLID REQUIREMENT. I THINK IT'S A SOLID POLICY THAT WE NEED TO STAY WITH. AND I GUESS THAT'S ABOUT IT. THANK YOU.

Mayor Lane: THANK YOU COUNCILWOMAN KORTE. COUNCILMAN LITTLEFIELD.

[Time: 01:45:16]

Councilman Littlefield: WELL, MY ESTEEMED COLLEAGUE COUNCILMAN ROBBINS BRINGS UP AN EXCELLENT POINT, WHICH IS, I THINK, OVER THE LAST TWO YEARS, SCOTTSDALE VOTERS DEMONSTRATED THEY HAVE LITTLE TO NO APPETITE TO INCREASE PROPERTY TAXES. THEY DUMPED OUR BOND ISSUE. THEY DUMPED THE SCHOOL DISTRICT LAST TIME. THERE'S NOT A LOT OF APPETITE OUT THERE FOR THOSE FOLKS TO SEE THEIR PROPERTY TAX INCREASE. I'M THINKING THE \$1.5 MILLION UP THERE HAS GOT ONE FOOT IN THE GRAVE AND ONE FOOT ON THE BANANA PEEL. SO JUST RIGHT THERE, IF YOU TAKE THAT AND THE \$0.4 MILLION IN MINIMUM UNAVOIDABLE, BASED ON YOUR ESTIMATE, YOU'RE ALREADY AT ZERO RIGHT THERE. AND THEN THE OTHER PROBLEM IS THAT IF WE DO HOLD THE BOND ELECTION, IT HAS TO BE HELD IN NOVEMBER. IT CAN'T BE HOLD ANY OTHER TIME, LEGALLY. WE'LL HAVE TO APPROVE THE NEXT BUDGET BEFORE WE HAVE ANY IDEA IF ANY BOND ISSUE, SHOULD WE DECIDE TO PUT IT ON THE BALLOT, WILL BE APPROVED. SO WE'RE GOING TO HAVE

TO DO THIS BUDGET WITH THE ASSUMPTION THAT WE MAY HAVE NOTHING. THAT WAS A GOOD CALL, DENNIS. YOU WERE RIGHT.

Mayor Lane: THANK YOU, COUNCILMAN. VICE MAYOR KLAPP.

[Time: 01:47:04]

Vice Mayor Klapp: ON THE FIRST ITEM, I WOULD NOT WANT TO RECAPTURE THE \$1.0 MILLION WE DID NOT RECEIVE THE LAST TWO YEARS, BECAUSE THAT WASN'T THE SPIRIT OF THE WAY WE VOTED IT WHEN WE DIDN'T ALLOW IT OVER THE LAST TWO YEARS. I'M WILLING TO CONSIDER THE 2% FOR THIS YEAR, BUT I'M NOT, AT THIS POINT, COMMITTING TO IT, BUT I'M WILLING TO TALK ABOUT IT. AS FAR AS THE NEXT ITEM, I WOULD LIKE TO SEE THAT \$1.4 MILLION SPREAD OVER THE NEXT TWO YEARS TO REDUCE THE IMPACT SOMEWHAT IN THIS COMING YEAR'S BUDGET. REGARDING ANY KIND OF PAY PROGRAM FOR NEXT YEAR, ONE THING THAT COMES TO MIND IS WHEN WE IMPLEMENTED THE COMPENSATION PLAN A FEW WEEKS AGO, THERE WAS MONEY LEFT THAT WE THOUGHT WE WERE GOING TO SPEND WHEN WE APPROVED IT BACK IN MAY OR WHATEVER THE DATE WAS. SO I WOULD LIKE FOR US TO TAKE THAT AMOUNT AND PUT IT INTO A PLAN FOR SOME KIND OF A PAY -- AN INCREASED PAY PLAN, NOT ACROSS THE BOARD, BUT LOOK AT CERTAIN POSITIONS THAT MAY NEED PAY INCREASES. I LEAVE THAT UP TO THE CITY MANAGER. I'M SAYING THERE'S \$200,000 LEFT OVER THAT WE SHOULD RECOGNIZE WAS NOT USED FOR PAY THIS LAST YEAR, SO PERHAPS WE CAN APPLY IT TO NEXT YEAR. I WOULD AGREE WITH THE \$2.3 MILLION TO BE TRANSFERRED TO THE CIP AND OBVIOUSLY THE BUDGET DISCUSSIONS CONTINUE AND WE'LL HAVE MORE LIGHT SHED ON THINGS THAT NEED TO BE BUDGETED AND THAT WILL IMPACT MY FEELINGS ABOUT THE 2% INCREASE FOR PROPERTY TAXES FOR NEXT YEAR. SO THIS WAS A HELPFUL DISCUSSION. AS WE'VE MENTIONED, THERE'S MONEY THAT WILL BE LEFT OVER IN THE UNRESERVED FUND BALANCE THAT CAN BE APPLIED AS WELL TO SOME OF THINGS COMING ALONG. I HOPE WE CAN USE THOSE IN THE MOST JUDICIOUS WAYS POSSIBLE.

[Time: 01:49:39]

Mayor Lane: THANK YOU, VICE MAYOR. I JUST WANT TO REITERATE THAT I THINK THE FIRST IF THAT WE'VE GOT HERE, I DO NOT BELIEVE WE SHOULD BE ATTEMPTING TO -- CERTAINLY NOT TO CATCH UP. I'M, FRANKLY, HESITANT ABOUT CONSIDERING THE 2%. I WOULD BE OPPOSED TO IT AS THIS POINT IN TIME AND WOULD LIKE TO LEAVE THAT GUIDANCE WITH THAT POSITION. I THINK THAT THE NEXT CHARGE, THE NEXT ITEM, AS I MENTIONED EARLIER, AND FRANKLY, THE NOW-COUNCILMAN ROBBINS, HAS MADE THE POINT OF A SPLIT ON THAT. I THINK THAT IS SOMETHING WE DEFINITELY SHOULD DO TO TRY TO DO THE RIGHT THING AS FAR AS THAT'S CONCERN BUT TO MITIGATE SOME OF THE IMPACT RIGHT NOW. THE \$2.3 MILLION, 25%, I KNOW THAT MAKES EVERYBODY EDGY WHEN WE TALK ABOUT WHERE ELSE WE GET IT. HOPE WE'RE IN A POSITION TO HAVE SOME ACCUMULATED ONE-TIME MONIES THAT WE MIGHT BE ABLE TO SUPPLEMENT THAT. LEAVING IT AT 2% RIGHT NOW, I'VE GOT NO DIFFICULTY WITH. THE THIRD IF, THERE'S SOMETHING WE NEED TO CONSIDER, SAVINGS OF \$200,000, WHICH MIGHT BE REFLECTED IN A LESS OF A STRUCTURAL CHANGE. THE OTHER IS --I DON'T KNOW EXACTLY WHETHER WE HAVE AN AVENUE HERE OR NOT. BUT IF WE'RE ABLE TO -- I KNOW THIS IS SOMETHING WE'RE STRUGGLING WITH. ONE WAY OR THE OTHER, THE CITY END UP --I'M JUST USING A ROUNDED NUMBER, IN JUST THE ONE INSTANCE, OF A MILLION DOLLARS WORTH OF ADDITIONAL MONEY TO SPEND. IT'S SAVINGS BECAUSE OF A LESSON OF EXPENDITURES FROM IT. ONE WAY OR

ANOTHER, THERE'S A MILLION DOLLARS. I DON'T KNOW WHERE THAT FALLS OUT IN THIS DEAL, EXCEPT THAT SOMEWHERE IN IT --I'M NOT SURE IT'S IN WHAT WE HAVE HERE TODAY IN THE DEBT SERVICE ELEMENT THAT SHOULD COME DOWN --ACTUALLY, I TAKE THAT BACK. GOING FROM CONTRACTUAL PAYMENT TO A SET SERVICE ISSUE BUT THE NET HAS BEEN REDUCED BY A MILLION DOLLARS A YEAR. I WANT TO BE COMFORTABLE THAT IT'S IN HERE. IF IT'S NOT, I WOULD LOVE TO SEE IT PLUGGED IN HERE TO MAKE SURE WE HAVE A STRUCTURAL CHANGE IN OUR REVENUE CYCLE.

David Smith: MR. MAYOR, MEMBERS OF COUNCIL, IT IS IN THERE. I WISH IT WEREN'T. IF I DIDN'T HAVE THAT SAVINGS, WHAT I WOULD HAVE ON SLIDE INSTEAD OF 1.9 LEFT OVER, I WOULD ON HAVE .9. THE REASON WHY I SAY THAT IS BECAUSE BACK ON THE PREVIOUS SLIDE --AND I CIRCLED HERE IN THE MIDDLE OF THE SLIDE, THE RELEVANT DATA, THE YELLOW BLOCK, IF YOU WILL, IN THE BAR CHARTS, YOU CAN SEE THAT THE YELLOW BLOCK IN THE CURRENT YEAR, THE ONE ON THE LEFT THAT I'VE DRAWN THE CIRCLE AROUND, IS PROBABLY \$3.0 MILLION IN SIZE. THAT WAS THE CONTRACT PAYABLE REFUND TO THE SCOTTSDALE FASHION SQUARE PEOPLE FOR THE REFUND OF SALES TAX. THE NEXT YEAR, THE BLOCK IS STILL COLORED YELLOW, BUT IT'S NOT A SALES TAX REFUND. NOW THIS IS THE DEBT SERVICE I'LL PAY AND THAT BLOCK IS ONLY \$2.0 MILLION IN SIZE.

[Time 01:53:17]

Mayor Lane: AND, BELIEVE ME --I'M NOT LOST IN THIS AREA. I UNDERSTAND EXACTLY IT'S REALLY JUST A MATTER --I'M PRESUMING AND TRUSTING THE FACT THAT IT'S IN THERE AND ALREADY FIGURED IN THE NUMBERS OF ACTUAL SALES TAX RECEIPTS WE WOULD ANTICIPATE, THE GENERAL FUNDS THAT WOULD BE AVAILABLE, NO MATTER HOW IT HAPPENS THAT IT'S IN HERE.

David Smith: IT'S PART OF WHY WE HAVE 1.9 ON THIS PAGE.

Mayor Lane: OKAY. I TRUST. THAT IT'S HARD FROM WHAT WE HAVE HERE TO SEE WHERE THAT FALLS OUT LIKE THAT. I TRUST WHAT YOU'RE SAYING. SO GETTING PAST THAT, I KNOW IT'S BEEN A STRUGGLE FOR ME. GETTING PAST THAT ONE, SOMEHOW OR ANOTHER, IF WE END UP WITH UNALLOCATED RESERVES --AND THIS IS WHERE I WAS GOING WITH REGARD TO THE THIRD IF, WHETHER OR NOT WE STAY AWAY FROM NECESSARILY A STRUCTURAL INCREASE BUT CONSIDER SOME KIND OF ONE-TIME MERIT PAYMENT OUT OF AVAILABLE UNALLOCATED RESERVE FUNDS. I THINK THAT MIGHT BE A WAY TO ADDRESS THAT ISSUE AND CONSIDER THAT AS A NOTE IF IT BECOMES AVAILABILITY OF FUNDS AND THAT \$200,000 THAT THE VICE MAYOR WAS REFERRING TO.

David Smith: MR. MAYOR WE WILL BE COMING BACK LATER IN THE YEAR AND WE WILL TAKE DIRECTION FROM YOU AT THAT TIME OF HOW YOU WANT TO CHOP UP THAT PIE. LAST YEAR YOU SPENT \$3.0 MILLION AS A SPECIAL CONTRIBUTION TO CIP, MUCH APPRECIATED BY MR. EARLE. YOU ALSO SPENT A COUPLE OF MILLION DOLLARS OR SO DOING ONE-TIME MAINTENANCE BOTH ON FACILITIES THE AS WELL AND PARKS AND RECREATION. YOU'LL HAVE THAT OPPORTUNITY AGAIN.

Mayor Lane: ABSOLUTELY. MAYBE ADDING TO THAT LIST, THAT ONE IF THAT WE'RE TALKING ABOUT THERE, THAT COMPENSATION ISSUE, THINK WE'VE HAD A GOOD PRECIPITATION AND THANK YOU VERY MUCH EVERYONE WHO HAS CONTRIBUTED TO THIS AND ALL OF WHAT THE COUNCILMEMBERS HAVE SAID. I THINK THE DIRECTION, IF I WERE TO SUMMARIZE IT, I THINK THAT THE FIRST IS PROBABLY A NONSTARTER. I THINK WE'RE NOT LOOKING AT ANY KIND OF CATCH UP. IN ANY CASE, I

WOULD SAY LEAVE THAT OFF. I THINK ON THE SECOND, I THINK CALCULATING THE 50 % ALLOCATION IS PROBABLY A REASONABLE AMOUNT TO GO. FOR RIGHT NOW, I WOULD LEAVE THE THIRD AS IT IS WITH THE POSSIBILITY OF SOME CONSIDERATION IN THE END RESULT. THEN, THE OF COURSE, THE CONSTRUCTION OR THE CIP, THE 25% OF THE CONSTRUCTION SALES TAX, I THINK IT'S SETTLED THAT THAT STAYS IN PLACE AS IS AND SEE HOW IT ALL COMES DOWN. IS THAT --IS THAT APPROPRIATE, DAN, AND DAVID, WHAT WE'RE LOOKING FOR AT THIS STAGE?

[Time: 01:56:41]

Dan Worth: MAYOR, ABSOLUTELY. THAT GIVES US A GOOD FRAME WORK TO WORK ON. WE'RE GOING TO TAKE A LOOK AT REFINING SOME OF THESE ESTIMATES AS WE GO FORWARD AND CLARIFYING THE \$7.0 MILLION WORTH OF REQUESTS AND WE'VE GOT WHAT WE NEED TO PUT TOGETHER A PACKAGE TO BRING BACK NEXT MONTH.

Mayor Lane: ALL RIGHT. THANK YOU, MR. WORTH, AND THANK YOU, MR. SMITH. MR. EARLE, WE'RE READY FOR YOU.

**ITEM 20 – PROPOSED FISCAL YEAR 2013/14 KEY CAPITAL BUDGET ISSUES**

[Time: 01:57:10]

Acting Public Works Executive Director Derek Earle: THANK YOU MAYOR. MY VOICE MAY BE A LITTLE ROUGH THIS EVENING, SO IF I QUIT HALFWAY THROUGH THERE WILL PROBABLY BE A GOOD REASON FOR IT. WHAT I WOULD LIKE TO DO IS REALLY KIND OF ECHO THE SAME CONVERSATION THAT TREASURER SMITH HAD WITH YOU CONCERNING THE CAPITAL IMPROVEMENT PROGRAM AND FOCUS ON SOME OF THE KEY ISSUES AS WE ARE FORMULATING THE CAPITAL PROGRAM FOR THE COMING YEAR, OF COURSE WE DO PLAN ON A FIVE-YEAR HORIZON.

Mayor Lane: I'M SORRY, FOR THE RECORD I SHOULD PROBABLY ANNOUNCE THAT WE HAVE MOVED OFF OF THE ITEM 19 AND WE ARE NOW ON ITEM 20 WHICH IS NOW THE PROPOSED FISCAL YEAR 2013/14 KEY CAPITAL BUDGET ISSUES. JUST FOR THE RECORD WE ARE NOW ON ANOTHER ITEM. PARDON THE INTERRUPTION.

Derek Earle: I BELIEVE THAT MAKES US OFFICIAL NOW. SO MOVING FORWARD, ONE OF THE FIRST SLIDES THAT I WOULD LIKE TO TALK ABOUT. WHAT WE ARE GOING TO BE DOING, IS DIALING DOWN INTO A LITTLE MORE DETAIL ON THE CAPITAL PROGRAM REALLY PRIMARILY ON ONE PART OF IT BUT I WANTED TO GIVE AN OVERVIEW OF THE OVERALL CAPITAL PROGRAM TO BEGIN WITH. THIS IS ACTUALLY ONE OF MY FAVORITE CHARTS FROM THE TREASURER'S OFFICE. THIS IS ACTUALLY A PIE CHART INDICATING THE OVERALL CAPITAL ASSETS OWNED BY THE CITY OF SCOTTSDALE. IT IS KIND OF INTERESTING TO LOOK AT THE BREAKDOWN WHEN YOU LOOK AT ALL OF THE ASSETS THAT ARE OWNED, EVERYTHING FROM THE THINGS YOU WOULD EXPECT LIKE THE STREETS, THE BUILDINGS, THE WATER SYSTEM, THINGS THAT YOU MIGHT NOT BE AS FAMILIAR WITH FOR EXAMPLE, OBVIOUSLY YOU KNOW ABOUT THE PRESERVE AND NON-PRESERVED LAND, ETC. THE REASON I PUT THIS SLIDE UP HERE IS THE PRIMARY SOURCE OF CREATING THESE ASSETS FOR THE CITY REALLY COMES FROM TWO THINGS. ONE IS CONTRIBUTIONS FROM DEVELOPERS WHO WILL GO OUT AND DEVELOP THE COMMUNITIES, THE MASTER PLANNED COMMUNITIES, RESIDENTIAL NEIGHBORHOODS AND THEN

THEY WILL DEDICATE ALL OF THOSE ROADWAYS, WATER LINES, ETC. STORM SEWERS, WHATEVER WITHIN THAT COMMUNITY TO THE CITY AND THAT THEN BECOMES A CITY ASSET. THE REST OF THESE ARE ACTUALLY CONSTRUCTED THROUGH THE CAPITAL PROGRAM AND THOSE ARE REALLY THE TWO PRIMARY SOURCES FOR CAPITAL ASSETS FOR THE CITY. ON AN INTERESTING NOTE, IF YOU LOOK ACROSS THIS PIE CHART FROM ABOUT THIS AREA DOWN ABOVE THIS RED LINE, THOSE ASSETS ARE DEPRECIABLE ASSETS. MOST PEOPLE IN BUSINESS UNDERSTAND THE NATURE OF DEPRECIATION. THE NUMBERS THAT ARE INDICATED HERE ARE ACTUALLY THE NET DEPRECIATED VALUE OF THOSE ASSETS, SO THESE ARE NOT THE VALUE OF THOSE ASSETS AS THEY WERE CONSTRUCTED, THAT'S WITH CURRENTLY NET OF ACCUMULATED DEPRECIATION ON THESE ASSETS. SO THOSE ARE WHAT ARE GOING TO BE OUR FOCUS FOR ON MOVING FORWARD. JUST A QUICK UPDATE ON WHERE WE ARE YEAR-TO-DATE WE ARE ABOUT HALF WAY THROUGH THE FISCAL YEAR ON THE CURRENT CIP. YOU SEE SOME OF THE PROJECTS THAT HAVE BEEN COMPLETED RECENTLY OR OVER THE LAST SIX TO NINE MONTHS. I THINK WHAT'S ALMOST AS IMPORTANT AS YOU LOOK AT THE CAPITAL PROGRAM IS WHAT IS NOT ON THIS LIST. IT IS ALWAYS EASY TO COME UP AND THROW THE SIGNATURE PROJECTS THAT YOU HAVE SEEN, AND WE SAW A LOT OF YOU OUT AT THE TOM THUMBS' TRAILHEAD OPENING AND SOME OF THESE OTHER PROJECTS, BUT FOR EVERY ONE OF THESE THERE ARE FIVE OR SIX OTHER SMALLER PROJECTS WHETHER IT'S REPLACING A CURVE RAMP, UPGRADING A WATER LINE, IMPROVING A PUMP STATION THAT CONSTITUTES A CAPITAL PROJECT AS WELL. WE THINK A LOT IN THE SUPERLATIVE IN THE BIG, FANCY, EXPENSIVE PROJECTS BUT THE VAST MAJORITY OF THE CAPITAL PROGRAM IS REALLY FOCUSED ON THE DAY-TO-DAY ASSETS OF THE CITY, MAINTAINING THOSE ASSETS, PURCHASING NEW ASSETS IF NECESSARY OR REPLACING THEM. SOME PROJECTS THAT ARE UNDER WAY, AND AGAIN THIS GOES BACK TO THE LIST OF SUPERLATIVES, SOME VERY LARGE PROJECTS THAT ARE CURRENTLY UNDER CONSTRUCTION. MOST OF THESE OBVIOUSLY YOU ARE FAMILIAR WITH SOME YOU MAY NOT BE AS FAMILIAR WITH BUT THESE HAVE ALL STARTED TO COMMENCE IN THIS FISCAL YEAR. I WON'T SPEND A LOT OF TIME ON THESE; I BELIEVE YOU MAY BE FAIRLY FAMILIAR WITH THE PROJECTS.

NOW AS WE START DIALING DOWN A LITTLE BIT INTO THE CAPITAL IMPROVEMENT PROGRAM, ONE OF THE FOCUSES IS REALLY ON WHERE, BASICALLY HOW IS THE BUDGET SPENT? WHAT ARE THE PROGRAMS THAT IT GOES TO SUPPORT? WHAT ARE THE CAPITAL PROGRAMS? THIS IS ONE BREAKDOWN WHEN YOU LOOK AT THIS PIECHART IS THE ACTUAL BREAKDOWN OF OUR INTERIM, OR PRELIMINARY PROPOSED CIP BUDGET FOR THE NEXT YEAR. THIS IS HOW IT IS BROKEN DOWN BY ACCOUNTING FUND WITHIN THE CITY AND THIS IS THE CLOSEST EQUIVALENT TO DEPARTMENTAL BREAKDOWNS. STARTING, FOR EXAMPLE IN THIS AREA, YOU WILL SEE THE WATER AND WASTEWATER, THAT IS THE ENTERPRISE FUND, THESE ARE ALL CAPITAL PROJECTS ASSOCIATED WITH WATER AND WASTEWATER. THESE ARE GENERALLY SUPPORTED THROUGH WATER RATES AND SEWER RATES. OF COURSE THE ENTERPRISE FUND CAN ISSUE BONDS AGAINST THOSE WATER AND SEWER RATES TO FUND ANY OF THEIR MAJOR CAPITAL IMPROVEMENTS. BUT, AGAIN, WE WON'T BE FOCUSING ON THIS CONVERSATION AS MUCH ON THIS PIECE OF THE CIP. AVIATION, THE NEXT ONE, IS PRIMARILY FUNDED THROUGH GRANTS, THROUGH FAA GRANTS, VIRTUALLY 100% OF IT. THERE IS A SMALL AMOUNT THAT AVIATION CONTRIBUTES, BUT THE VAST MAJORITY OF THE AVIATION CAPITAL FUND IS FUNDED BY THE FAA.

MOVING ON AROUND, AND THIS ACTUALLY WORKS OUT QUITE WELL GOING COUNTERCLOCKWISE, TRANSPORTATION. ALL OF THE ROADWAYS IN THE CITY – THOSE ARE PRIMARILY FUNDED THROUGH THE TRANSPORTATION CITIES, TRANSPORTATION SALES TAX, MAG PROP 400 FUNDING AND, ON

OCCASION, GENERAL OBLIGATION BONDS AND, AGAIN, WHEN WE GET AROUND TO THE GENERAL FUND YOU WILL SEE WHY I AM REALLY MOVING AROUND THESE QUICKLY AND WILL FOCUS ON THE GENERAL FUND.

THE PRESERVE, AS YOU KNOW, WAS FUNDED BY THE TWO PRESERVE SALES TAXES THAT WERE APPROVED BY VOTERS TO PURCHASE LAND AND SOME OF THE CAPITAL IMPROVEMENTS FOR THE PRESERVE. BED TAX SUPPORTS, OF COURSE, SOME OF OUR ECONOMIC DEVELOPMENT PROJECTS THAT WE ARE VERY WELL AWARE OF. IT WILL BE SUPPORTING THE EQUESTRIAN CENTER, IT'S GOING TO SUPPORT THE TOURNAMENT PLAYERS' CLUB EXPANSION WHICH YOU ARE WELL AWARE OF. I WILL SKIP A FEW OF THE SMALLER SLICES, THOSE HAVE PARTICULAR FUNDS. MORE IMPORTANTLY WHAT I WOULD LIKE TO TAKE A LOOK AT IS THIS PIE WEDGE RIGHT HERE AND THIS IS WHERE A LOT OF THE CONVERSATION WITH THE TREASURER CENTERED PREVIOUSLY WHEN WE WERE TALKING ABOUT THE CAPITAL PROGRAM. IF YOU LOOK AT THE PROJECTS THAT ARE FUNDED OUT OF THIS SLICE OF PIE, AND THIS IS ABOUT 15-16% OF THE OVERALL CAPITAL BUDGET, IN THE LITTLE WINDOW THAT JUST POPPED UP, THESE ARE THE CITY IMPROVEMENTS THAT ARE GENERALLY FUNDED OUT OF THIS PIECE OF IT: LIBRARY IMPROVEMENTS; ANY NEIGHBORHOOD OR COMMUNITY IMPROVEMENTS THROUGH THE PLANNING DEPARTMENT; ALL OF OUR PARKS; A MAJORITY OF OUR FIRE AND POLICE ARE FUNDED THROUGH THIS; MUNICIPAL FACILITIES THAT WOULD INCLUDE SUCH THINGS AS WESTWORLD; STORMWATER IMPROVEMENTS – STORMWATER HAS NO DEDICATED FUND. IT DOES GET A SMALL AMOUNT THROUGH A COLLECTED IN LIEU FEE BUT A VAST MAJORITY OF ANY STORMWATER IMPROVEMENTS ARE THROUGH THE GENERAL FUND; ANY TECHNOLOGY IMPROVEMENTS. ANY GENERAL CITY FACILITIES ARE FUNDED THROUGH THE GENERAL FUND AND, AGAIN, AS I MENTIONED, THAT'S THROUGH THIS ONE PIECE AND WILL FOCUS PRIMARILY FOR THE REST OF THE PRESENTATION ON THIS ONE PIECE OF THE CIP.

THERE ARE SEVERAL POLICIES, BY NATURE POLICIES, RELATING TO THE CAPITAL PROGRAM AND CAPITAL MANAGEMENT. I CHOSE THESE TWO JUST AS A REMINDER, AS A MATTER OF FACT ACTUALLY #18 WAS JUST TALKED ABOUT PREVIOUSLY, AND THAT IS A POLICY THAT ANY OPERATING SURPLUS IS NOT NEEDED TO RESTORE CONTINGENCY OR COVER UNFORSEEN SHORTFALLS IN THE BUDGET, BUT IN NO CASE LESS THAN 25% OF THE CONSTRUCTION SALES TAX AMOUNT WILL BE FUNDED TO THE CIP FROM THE GENERAL FUND AND THIS IS VERY CONSISTENT WITH THE DISCUSSION YOU JUST HAD. THE SECOND PIECE IS A LITTLE BIT MORE FOCUSED ON HOW IT IS PAID FOR. IT IS PAY-AS-YOU GO CAPITAL IMPROVEMENT FINANCING SHOULD BE A MINIMUM OF 25% OF ALL CAPITAL IMPROVEMENT PROJECTS. NOW THIS DOES EXCLUDE OF COURSE PRESERVE AND ENTERPRISE. MORE IMPORTANTLY, THOSE THAT HAVE BEEN AROUND THE CITY FOR A LONG TIME HAVE HEARD OF PAY-GO OR PAY-AS-YOU-GO OR SWEEPING OF GENERAL FUND BALANCES INTO THE CIP THIS IS A SLIGHTLY DIFFERENT DEFINITION BY FINANCIAL POLICY. PAY AS YOU GO AS DEFINED BY POLICY INCLUDES ANY FUNDING OUTSIDE OF DEBT ISSUANCE. SO THIS WOULD BE PRIMARILY ANY FUND BALANCE SWEEPS, THIS WOULD BE ANY GENERAL FUND SWEEPS, THIS WOULD BE DEVELOPER CONTRIBUTIONS, CONTRIBUTIONS FROM THIRD PARTIES, GRANTS, ETC. IT IS CONSIDERED PAY-AS-YOU-GO FUNDING. AT OUR LAST CHECK IN THE LAST FISCAL YEAR WE WERE ABOUT 38% PAY AS YOU GO FUNDING SO WE DO NEED THIS POLICY.

[Time: 02:05:46]

THIS IS A REPEAT OF THE CHART YOU SAW IN TREASURER SMITH'S PRESENTATION SO I WON'T SPEND A LOT OF TIME ON IT. HOWEVER, THE MOST IMPORTANT THING TO LOOK AT IS THE FUNDING STREAM THAT'S REPRESENTED GOING FORWARD. THIS IS THE PROJECTION ON JUST THE 25% CONSTRUCTION SALES TAX. AS THE CITY MANAGER HAD MENTIONED BEFORE, WE GET ANNUAL REQUESTS OF ABOUT \$4 TO \$4.5 MILLION JUST FOR WHAT WE CALL LIFE CYCLE REPLACEMENT OF EQUIPMENT AND FIXTURES OF THE CITY. SO THIS LEVEL OF FUNDING GOING FORWARD IS WHAT WE'RE GOING TO BE PLANNING FOR. THIS IS ALSO THERE WERE SOME QUESTIONS ABOUT THE BOND PROGRAM, HOW THIS COULD IMPACT IT AND I'LL GET TO THAT IN JUST A MINUTE, BECAUSE I'VE GOT SOMETHING THAT WOULD BE A LITTLE BIT BETTER FEEDBACK ON THAT.

SO THE PROPOSED CIP FOR THIS NEXT FISCAL YEAR, AND REMEMBER THE PROJECTS YOU'RE SEEING HERE, ARE BEING RECOMMENDED AS ADDITIONS TO THE CAPITAL IMPROVEMENT PLAN FOR THE FIVE YEAR PERIOD. SO YOU'LL SEE AFTER EACH OF THESE YOU'LL SEE IN PARENTHESES A FISCAL YEAR ADDITION IN THE AMOUNT THAT WOULD BE ADDED.

SCOTTSDALE STADIUM IMPROVEMENTS, A FACILITY THAT IS WELL USED AND WELL LOVED BY MANY PEOPLE, DOES HAVE SOME CAPITAL IMPROVEMENT NEEDS NECESSARY. PRIMARILY, WE'VE GOT TO REPLACE ABOUT 1300 SEATS WITHIN THE ARENA, OR WITHIN THE STADIUM, THAT HAVE DETERIORATED DUE TO SUNLIGHT AND WE HAVE A SIGNIFICANT DRAINAGE PROBLEM THAT WE'RE ANXIOUS TO SOLVE IN THE FIELD WHICH HONESTLY ANY TIME WE GET A HEAVY DOWNPOUR, AND IT'S HAPPENED 3 OR 4 TIMES IN THE LAST 5 OR 6 YEARS, ACTUALLY FLOODS ALL OF THE LOWER LEVELS AND WE WOULD LIKE TO GET THIS REPAIRED ONCE AND FOR ALL.

THE WESTWORLD EVENT AREA IS FOCUSED PRIMARILY ON THE OPEN AREAS OF WESTWORLD, PRIMARILY THE LARGE PAVING AREAS, TO IMPROVE THE PAVING AREAS, REGRADE SOME OF THOSE AREAS, TO IMPROVE THE ABILITY TO SET UP FACILITIES AND TENTS FOR USERS OF THE PROPERTY, TO ENHANCE SOME OF THE ELECTRICAL DISTRIBUTION IN THE AREA, TO REALLY HELP COMPLEMENT THE WORK THAT'S GOING ON WITH THE EQUESTRIAN CENTER.

A SMALLER PROJECT, THE CITY ATTORNEY'S E-DISCOVERY SYSTEM - MOST OF US THAT HAVE WORKED AT THE CITY AT ONE TIME OR ANOTHER HAVE GOTTEN A CALL FROM THE CITY ATTORNEY AND SAID THAT WE HAVE A PUBLIC RECORDS REQUEST, WE HAVE A LAWSUIT, WE HAVE A DISCOVERY REQUEST, AND THIS WILL ASSIST THE CITY ATTORNEY IN A MUCH MORE EFFICIENT MANNER IN BEING ABLE TO SATISFY THOSE REQUESTS THAT ARE MADE.

THE SIS BUILDING, THIS IS THE SPECIAL INVESTIGATIONS BUILDING, WHICH WAS PURCHASED I BELIEVE IT WAS 12 TO 18 MONTHS AGO, THIS IS THE COMPLETION OF THE BUILDING AND THE FINISH OUT SO THE POLICE DEPARTMENT CAN MAKE A MOVEMENT INTO THAT FACILITY. THIS NEXT CATEGORY JUST SAYS RICO PROJECTS AS A WHOLE. I'M NOT GOING INTO A LOT OF DETAIL ABOUT RACKETEERING AND INFLUENCE CORRUPTION FUNDING BECAUSE I AM NOT AN EXPERT AT IT, BUT THIS IS MONEY THAT'S AUTHORIZED BY THE FEDERAL GOVERNMENT. I BELIEVE THESE ARE TAKINGS OF PROPERTY THROUGH DURING ARRESTS. THIS FUNDING HAS A VERY EXTREME RESTRICTION ON IT. IT CAN ONLY BE USED FOR VERY SPECIFIC PURPOSES. THERE IS A MILLION, MILLION SIX WORTH OF PROJECTS THAT THE POLICE DEPARTMENT IS PROPOSING UTILIZING RICO FUNDS. WHAT THESE FUNDS CAN'T DO IS COVER THE ADMINISTRATIVE COSTS OF THE PROJECT. SO THE REQUEST HERE IS A SMALL AMOUNT FOR ADMINISTRATIVE COST OF ADMINISTERING A MUCH LARGER GRANT BEING PROVIDED TO THE CITY.

[Time: 02:08:54]

AS MR. WORTH MENTIONED PREVIOUSLY, AND HAVE I MENTIONED AGAIN, WE HAVE PROBLEMATIC ACCOUNTS THESE ARE THE DAY IN DAY OUT LIFE CYCLE REPLACEMENTS. THIS IS THE AIR CONDITIONER THAT'S REPLACED BECAUSE IT'S BROKEN OUT. THIS IS THE COMPUTER SYSTEMS THAT NEED TO BE UPGRADED BECAUSE THEY NO LONGER RUN THE PREVIOUS SOFTWARE. POLICE RADIO SYSTEMS WEAR OUT AND THERE IS AN ONGOING REPLACEMENT, REGULAR REPLACEMENT PROGRAM. THIS IS OVER A PERIOD OF TIME. CRIME LAB EQUIPMENT, WHICH IS EXTREMELY SENSITIVE, IS REPLACED ON A VERY REGULAR BASIS YOU SEE THESE SOME IN THE OUT YEARS AND AGAIN SAME THING CITY CABLE AUDIO VIDEO REPLACEMENT. THE MAJORITY OF THESE YOU SEE ON THE OUT YEARS.

THESE PROPOSED PROJECTS ADD A NET OF ABOUT \$9.0 MILLION. SO THE QUESTION IS WHAT DOES THAT DO TO THE CASH FLOW FOR THE CIP OVER THE TIME PERIOD WE'RE PLANNING SO THIS IS A FIVE YEAR HORIZON. THIS IS AN INTERESTING CHART THAT WE HAVE BEEN WORKING WITH FINANCING ON AND TO INTERPRET THIS OBVIOUSLY YOU SEE THE GREEN BAR AT THE FAR RIGHT SIDE IT'S AN INDICATION SOMETHING NOT QUITE RIGHT. THIS IS THE FIVE YEAR CASH FLOW PROJECTIONS FOR THE CIP. IF YOU TAKE THE GREEN BAR, THE GREEN BAR IS ACTUALLY THE ENDING CASH BALANCE, IT'S THE MONEY YOU HAVE IN THE BANK FOR THE CIP AND GENERAL FUND AT THE END OF THE FISCAL YEAR. AND THIS IS THE FISCAL YEAR BREAKDOWN. IF YOU LOOK AT THE ORANGE BAR, THE ORANGE BAR ARE COMMITMENTS AGAINST OR BASICALLY UNSPENT AMOUNTS AGAINST THE GENERAL FUND CIP BALANCE. SO WHAT YOU SEE HERE WITH THE ORANGE BAR BEING HIGHER THAN THE GREEN BAR IS THERE ARE MORE DEMANDS ON THE GENERAL FUND CIP THAN THERE IS CASH IN THE BANK RIGHT NOW. OBVIOUSLY THAT'S THE PROBLEM. WE RECOGNIZE THAT WE ARE NOT GOING TO OVER SPEND THE BANKING ACCOUNT.

WHEN WE LOOK AT THE CIP AS A WHOLE, IT'S MERELY \$15.0 MILLION-DOLLAR DEFICIT AT THE END OF THE FISCAL YEAR. THERE'S SOME REALLY GOOD REASONS FOR THIS. IS THIS REALLY A TRUE CASH DEFICIT WE'LL GET TO THAT ON THE NEXT SLIDE? WHAT THIS ASSUMES IS THAT ALL OF THE OUTSTANDING PROJECTS THAT TAKE SEVERAL YEARS TO BUILD, ALL OF THE MONEY BECOMES DUE ON THAT FIFTH YEAR. BASICALLY YOU'RE SAYING WE'LL ROLL THE MONEY ALONG YEAR BY YEAR SOME OF THESE PROJECTS TAKE OVER A YEAR TO BUILD SO WE CASH FLOW PLAN THAT. BECAUSE OF CIP PLANNING WE GET TO THE FIFTH YEAR AND IT ALL DUMPS INTO THAT LAST YEAR. THAT'S ONE OF THE PRIMARY REASONS IT LOOKS LIKE IT GOES MAJOR NEGATIVE.

SO HOW DO WE TAKE CARE OF THIS IN THE LONG RUN? THERE'S A COUPLE OF WAYS WE'RE PROPOSING. FIRST OF ALL, WE ARE CLOSING OUT BOND 2000. WE DO HAVE BELIEVE IT OR NOT ON TWO OF THE FIRE STATIONS WE CONSTRUCTED FIRE STATIONS 1 AND 6 THE TWO MOST RECENT ONES WE OPENED. IT DOES APPEAR WE'RE GOING TO COME UNDER BUDGET ON THOSE. THOSE WERE FUNDED BY BOND 2000 PROCEEDS. SO THOSE EXCESS BOND 2000 PROCEEDS CAN BE REPROGRAMMED. IN ADDITION WE HAVE GARNERED OVER TIME AN AMOUNT OF INTEREST PROCEEDS FROM BONDS 2000 THAT ARE ALSO AVAILABLE TO APPLY TO A PROJECT. OUR PROPOSAL IS TO APPLY THE BOND 2000 PROCEEDS WHEN YOU DO THE NUMBERS, IT'S ONE AND A QUARTER MILLION DOLLARS, TO THE FIRE STATION 13 LAND PURCHASES. IT IS TOTALLY CONSISTENT WITH THE BOND 2000 PROGRAM WE ANTICIPATE IT BEING SPENT THIS NEXT YEAR WHICH IS ALSO A GOOD STORY BECAUSE THE BOND 2000 PROCEEDS NEED TO BE SPENT WITHIN A REASONABLE AMOUNT OF

TIME FROM WHEN THEY ARE ISSUED. BECAUSE OF THE FACT WE REDUCED THE CAPITAL BUDGET BECAUSE OF LAND VALUES THIS WILL HAVE A NET POSITIVE IMPACT OF \$2.0 MILLION ON THE GENERAL FUND. THIS WILL BE A SEPARATE COUNCIL ACTION BETWEEN NOW AND THE FISCAL YEAR. IT WILL BE A SEPARATE ACTION.

[Time: 02:13:20]

NOW FOR THE REST OF THE DEFICIT THAT'S IN THE GENERAL FUND CIP. THE FIVE PROJECTS THAT YOU SEE LISTED IN THIS AREA ARE REALLY THE REASON WE SHOW A DEFICIT IN THE CIP. THESE FIVE PROJECTS INDICATE FUNDING FROM THE GENERAL FUND THEY ARE DRAINAGE PROJECTS IN THE CROSSROADS EAST AREA. THIS IS THE UNDEVELOPED PROPERTY BOTH NORTH AND SOUTH OF THE 101 BETWEEN SCOTTSDALE ROAD STRETCHING OVER TO PIMA ROAD. THESE ARE COMMITMENTS TO THE STATE LAND DEPARTMENT THROUGH DEVELOPMENT AGREEMENTS FOR CITY FUNDING OF REGIONAL DRAINAGE STRUCTURE. THIS ISN'T LOCAL DRAINAGE. THIS IS REGIONAL CASE STRUCTURE. AS A RESULT THIS IS AT THE BOTTOM OF THE WATERSHED. THESE ARE COMMITMENTS AGAINST THE GENERAL FUND CIP TOTALING OVER \$13.0 MILLION THAT HAVE MANY DIFFERENT FUNDING SOURCES. AND MAYOR AND COUNCILMAN PHILLIPS THIS IS PLAYING EXACTLY TO THE QUESTIONS YOU HAD ASKED.

THESE ARE CURRENTLY PROPOSED IN THE GENERAL OBLIGATION BOND PROGRAM AS WELL. SO THEY ARE ACTUALLY DUPLICATED. THEY ARE SHOWING IN THE CIP GENERAL FUNDING BUT THEY ARE ALSO SHOWING IN OUR GENERAL OBLIGATION BOND. IF THE GENERAL OBLIGATION BOND IS PASSED IT WOULD SUPPLANT THE GENERAL FUND FUNDING. IF THAT HAPPENS, YOUR FIVE YEAR CIP CASH FLOW PROJECTION LOOKS ESSENTIALLY LIKE THIS WHICH IS IN ESSENCE A BALANCED BUDGET OVER THE FIVE YEARS. SO IT REALLY COMES DOWN TO ABOUT FIVE KEY PROJECTS IN THE CIP THAT HAVE BEEN HELD THERE AS PLACE HOLDERS BECAUSE OF A LONG TERM COMMITMENT, BUT YET WE'RE NOT SURE IF THEY WILL HIT IN THE NEXT FIVE YEARS OR TEN YEARS. THERE ARE OTHER POSSIBLE FUNDING SOURCES WE HAVEN'T FULLY INVESTIGATED WHETHER FLOOD CONTROL DISTRICT COULD CONTRIBUTE. WHICH COULD CONTRIBUTE ANYWHERE FROM 50 TO 70%. WE TALK ABOUT THE GENERAL OBLIGATION BOND PROGRAM. WE ALSO HAVE THE ABILITY TO COLLECT SOME IN LIEU FEES THE FUTURE DEVELOPERS OF CROSSROADS EAST WHICH ALSO OFFSET SOME OF THE COSTS. WE BELIEVE REALLY HOLDING THESE IN THE GENERAL FUND CIP IS NOT CRITICAL AND THAT ALL IT DOES IS EXAGGERATE A FINANCIAL MISMATCH OR FINANCIAL IMBALANCE FROM THE CIP WHEN THE REALITY IS THE CIP IS BALANCED.

WITH ALL OF THAT SAID, AND LOOKING AT THE PROJECTS, THERE ARE PROJECTS THAT AS WE DEVELOP THE CIP PROPOSAL THAT CONTINUE TO REMAIN UNFUNDED BECAUSE WE HAVE LIMITATIONS ON THE AMOUNT OF CONTRIBUTIONS TO THE CIP. THIS IS JUST A SAMPLING OF THE TYPES OF PROJECTS THAT ARE HIGH PRIORITY PROJECTS. THESE ARE NOT ON THE GENERAL FUND BUT THESE ARE PROJECTS THAT HAVE THE FOCUS OF DEPARTMENTS LONG TERM. IF THERE WERE EXCESS FUNDING AVAILABLE, THESE ARE THE TYPES OF PROJECTS THAT WOULD IMMEDIATELY BE TARGETED WITH ANY EXCESS FUNDING IN THE CIP.

IN CONCLUSION I DON'T HAVE QUITE THE SAME LAUNDRY LIST THAT TREASURER SMITH HAD TO GO THROUGH AND THE YES/NOS BUT I'M ABSOLUTELY OPEN TO ANY QUESTIONS CONCERNS FEEDBACK OR YOUR THOUGHTS ON ANY OF THE POINTS PUT HERE. THE FIRST WAS MENTIONED BRIEFLY MAYOR I THINK YOU MENTIONED ABOUT THE TRANSACTION TAX LEGISLATION AND HOW THAT COULD HAVE

A SIGNIFICANT IMPACT ON THE CONSTRUCTION SALES TAX CONTRIBUTION \$2.5 MILLION A YEAR TO THE GENERAL FUND CIP. THAT'S WITHIN OUR CONTROL TO THE EXTENT WE'RE ABLE TO WORK WITH THE LEGISLATURE AND GET IT MODIFIED. MORE IMPORTANTLY LOOKING FORWARD I THINK THESE ARE ALL DISCUSSIONS WE'VE ALREADY HAD TONIGHT GENERAL FUND CONTRIBUTIONS TO THE CIP. I SENSE THAT THERE WAS A SUGGESTION TO KEEP MOVING FORWARD WITH THE ONGOING CONSTRUCTION SALES TAX, THE 25% TO THE CIP PER POLICY. COUNCIL WILL WANT TO CONSIDER WHEN IT FINALIZES THE OPERATING BUDGET WHETHER OR NOT ANY GENERAL FUND BALANCES SHOULD BE PUSHED TO THE CIP. THE ADDITION OF THE PRIORITY PROJECTS WHICH WE IDENTIFIED THERE IS THE FIRST YEAR IN 4 YEARS WHERE WE'VE ACTUALLY COME FORWARD WITH NEW PROJECTS OTHER THAN OUR VERY BASE LEVEL PROBLEMATIC ACCOUNTS. FINALLY, THE RESOLUTION OF THE FIVE-YEAR DEFICIT AND THE GENERAL FUND CIP. THE ALTERNATE FUNDING SOURCES WE'RE VERY COMFORTABLE THAT EITHER THROUGH THE GENERAL OBLIGATION BOND IN LIEU FEES OR FUTURE FLOOD CONTROL DISTRICT CONTRIBUTIONS THAT THE GENERAL FUND IMPACT IS LITTLE OR NONEXISTENT AS THOSE PROJECTS. SO WITH THAT I'M AVAILABLE FOR ANY QUESTIONS OR COMMENTS OR FEEDBACK. THANK YOU.

[Time: 02:17:50]

Mayor Lane: THANK YOU, MR. EARLE, VERY COMPREHENSIVE AND I DO HAVE A LITTLE BIT OF A FOLLOW-UP QUESTION ON SOMETHING WE TALKED ABOUT ON THE OTHER SIDE ON THE OPERATIONS SIDE BUT IT DOES IMPACT THE POLICY OF 25% OF THE CONSTRUCTION SALES TAX AND ACTUALLY GOES TO COUNCILWOMAN MILHAVEN'S COMMENT ABOUT HOW THAT IS ESTIMATED AND FRANKLY THE TIMING OF IT. WE DO KNOW THE CONSTRUCTION SALES TAX PROVIDED WE CAN KEEP THE LAW THE SAME. KICKS IN AT THE POINT OF TRANSFER FROM THE CONTRACTOR TO DEVELOPER, THE ULTIMATE OWNER. I DON'T KNOW WHAT WE WORK WITH, BUT IT WAS COUNCILWOMAN KORTE THAT SAID SOMETHING ABOUT THE FACT THAT SHE WAS CONCERNED ABOUT THE EXTENT OF INCREASES WE WERE PROJECTING FOR AUTO SALES AND REPAIRS, BUT AUTO SALES BEING THE PRIMARY COMPONENT OF THAT NUMBER. IT SEEMS TO REFLECT THE COMPLETION OF TWO MAJOR NEW CAR DEALERSHIPS. I KNOW THERE'S OTHERS TOO THERE'S MAJOR ONES LEXUS DEALER SOUTH OF 101 ON THE EAST SIDE OF SCOTTSDALE ROAD IN OUR TERRITORY AND OF COURSE THE ONE UP HERE NORTH OF CAMELBACK, THE MERCEDES DEALERSHIP. BOTH, ONE HAS JUST STARTED THIS IS BY THEIR OWN ASSERTION, ONE THE MERCEDES DEALERSHIP IS MEANT TO START OR AT LEAST PULL PERMITS I THINK BY AT LEAST APRIL AND A COMPLETION DATE THIS YEAR. AND THE LEXUS DEALERSHIP THEY ARE ANTICIPATING COMPLETION BY THE END OF JUNE. AND BY THE LOOKS OF EVERYTHING IT LOOKS LIKE THEY ARE WELL ON THEIR WAY TO DOING THAT. IT'S A LONG WINDED WAY TO ASK HOW ARE WE PUTTING THOSE NUMBERS TOGETHER THEY WILL HAVE A SIGNIFICANT IMPACT ON THE CONSTRUCTION SALES TAX. I DON'T KNOW IF THEY ARE INTO THE '13/14 NUMBERS OR NOT. I'M WONDERING IF WE CAN'T LOOK HARD AT THOSE NUMBERS NOT TO BE AGGRESSIVE IN ANY ASSUMPTIONS, BUT TO MAKE SURE WE'RE SINGING FROM THE SAME SHEET OF MUSIC. WHEN WE LOOK AT THE AUTO SALES TAX, YOU KNOW, REALLY GOING UP IN DOUBLE DIGITS I THINK THAT'S REFLECTIVE OF THOSE INVESTMENTS ON THE PART OF THOSE BUSINESSES, BUT NOT SHOWING ANYTHING. WELL, PRESUMABLY WE'RE SORT OF DROPPING OFF ON THE OTHER SIDE OF THE CONSTRUCTION SALES TAX. SO I DON'T KNOW IF THERE'S AN ANSWER TO IT RIGHT NOW BUT I WOULD CERTAINLY WANT TO MAKE SURE WE'RE LOOKING AT IT FROM THE SAME BASIC FRAMEWORK THAT WE'VE GOT OUR NUMBERS CONSISTENT ON THE SALES TAX SIDE OF CONSTRUCTION AS WELL AS RETAIL IN THAT CATEGORY.

[Time: 02:20:28]

Derek Earle: MAYOR I THINK WE'LL TAKE THAT AS A NOTATION. WE FOLLOW THE LEAD OF THE TREASURER TO GENERATE WHAT THOSE PROJECTIONS ARE ON AN ANNUAL BASIS. I'M NOT SURE IF THERE ARE ANY RESPONSES OR IF THEY WOULD LIKE TO GET BACK WITH THAT INFORMATION.

Mayor Lane: THIS ISN'T A CHALLENGE TO THE PROCESS YOU'RE GOING THROUGH THE ANALYSIS. JUST AS I LOOK AT WHAT SEEMS TO BE A LITTLE BIT OF AN INCONSISTENCY TO MAKE SURE WE'RE ON THE SAME TRACK. AND I KNOW THE TIMING IS DIFFERENT ON BOTH OF THEM. THANK YOU VERY MUCH FOR THE PRESENTATION. COUNCILMAN PHILLIPS HAS A COMMENT OR QUESTION.

[Time: 02:21:07]

Councilmember Phillips: THANK YOU, MAYOR. CAN YOU GET BACK TO THE ONE WITH THE FLOOD CONTROL MITIGATION ON THE STATE TRUST LAND? YOU SAID IT WAS ALSO INCLUDED IN THE PROPOSED BOND COMING UP. IS THIS SOMETHING THAT IS MANDATED BY THE STATE WE HAVE TO DO WITHIN A CERTAIN TIME FRAME?

Derek Earle: THESE ARE CAPITAL IMPROVEMENT PROJECTS. NO THEY ARE NOT MANDATED BY THE STATE. THESE WILL BE DONE IN CONCERT WITH THE STATE THE DEVELOPMENT OF THE STATE LAND PROPERTY AS IS NECESSARY TO PROVIDE OUR SHARE OF THE REGIONAL PROTECTION, WHETHER THEIR TIMING IS NEXT YEAR OR FIVE YEARS, TEN YEARS.

Councilmember Phillips: THERE'S NO URGENCY ON THIS, THERE IS NOT A PENALTY FOR NOT DOING THIS.

Derek Earle: THAT'S CORRECT.

Councilmember Phillips: DO WE GET REIMBURSED LATER FROM THE STATE OR THE DEVELOPERS FOR PUTTING ALL THIS MONEY INTO THIS INFRASTRUCTURE?

Derek Earle: YES. THE PROJECTS WILL BE PHASED OVER A PERIOD OF TIME. THE PROJECTS WILL BE BUILT OVER A PERIOD OF TIME. THE AMOUNTS YOU'RE LOOKING AT REPRESENT OUR SHARE OF THE REGIONAL DRAINAGE PROJECTS. THEY DON'T REPRESENT 100% OF THE COST. SOME OF THE OTHER WAYS I TALKED ABOUT FOR EXAMPLE THE DEVELOPER CONTRIBUTIONS WILL HAVE TO GO IN TO HELP SUPPLEMENT THE REST OF THE FUNDING FOR THESE PROJECTS. THE PIECE THAT WE DEMONSTRATE HERE IS THE PIECE WE BELIEVE WE HAVE RESPONSIBILITY FOR.

Councilmember Phillips: SO THE URGENCY IN THESE PROJECTS IS BASICALLY GET THIS LAND READY SO SOME DEVELOPER CAN COME IN AND BUILD ON IT.

Derek Earle: WE'RE NOT REALLY TRYING TO IMPLY ANY URGENCY ON THESE PROJECTS. THERE IS NO URGENCY ON THESE PROJECTS. THAT'S ACTUALLY THE REASON WHY WE'RE SUGGESTING THESE ARE LESS CRITICAL AS FAR AS THE GENERAL FUND CIP. THEY ARE IMPORTANT BECAUSE THEY REPRESENT A

GENERAL DEVELOPMENT AGREEMENT OBLIGATION WITH THE STATE LAND DEPARTMENT ON THE CROSSROADS USE PROPERTY. SO THEY ARE IMPORTANT BUT AS FAR AS URGENT RIGHT NOW.

Councilmember Phillips: IT'S NOT HOLDING UP ANY DEVELOPMENT.

Derek Earle: THAT'S CORRECT.

Mayor Lane: THANK YOU, COUNCILMAN. WITH THAT I THINK WE'RE CONCLUDED. THANK YOU VERY MUCH.

Derek Earle: THANK YOU.

### **ITEM 21 – MONTHLY FINANCIAL UPDATE**

[Time: 02:23:18]

Mayor Lane: MOVE ON TO OUR NEXT ITEM OF BUSINESS WHICH IS ITEM 21 THAT IS THE MONTHLY FINANCIAL UPDATE.

Accounting Director Joyce Gilbride: MAYOR LANE AND MEMBERS OF THE CITY COUNCIL, THIS IS THE MONTHLY FINANCIAL UPDATE, AS OF DECEMBER 31st 2012. BEGINNING WITH GENERAL FUND OPERATING SOURCES THE 1% GENERAL PURPOSE SALES TAX AT THE END OF SIX MONTHS CONTINUES TO LAG ABOUT 2% BELOW OUR FORECAST COMING IN AT \$40.4 MILLION VERSUS A BUDGET OF \$41.0 MILLION. HOWEVER YEAR OVER YEAR, WE DO HAVE ABOUT A 4% INCREASE.

WHEN YOU LOOK AT THE \$39.0 MILLION FISCAL YEAR-TO-DATE IN 11-12 VERSUS THE \$40.4 MILLION IN 2013. HOWEVER, WE ANTICIPATED BUILDING OUR BUDGET 5% OVER THE PRIOR FISCAL YEAR SO WE STILL HAVE NOT ACHIEVED THAT. THE .1% PUBLIC SAFETY TAX IS COMING IN AT \$3.9 MILLION, AGAIN A 2% UNFAVORABLE VARIANCE TO OUR BUDGET OF \$4.0 MILLION.

UNDER STATE SHARED REVENUES, THE SALES TAX IS AT \$8.4 MILLION VERSUS A BUDGET OF \$8.6 MILLION. FOR AN UNFAVORABLE VARIANCE OF 2%. HOWEVER, THIS IS DUE TO TIMING WE DON'T ANTICIPATE A CHANGE TO OUR FORECAST. STATE SHARED REVENUE IS FLAT WITH OUR BUDGET AT \$11.1 MILLION. AND AUTO LIEU TAX IS AT \$3.2 MILLION VERSUS A BUDGET OF \$3.7 MILLION. WE DO KNOW WE ONLY RECEIVED ABOUT HALF OF OUR ALLOCATION IN THE MONTH OF DECEMBER. HOWEVER THEY DID CATCH UP, THE STATE DID CATCH UP IN JANUARY, BUT WE'RE STILL LAGGING ABOUT ONE MONTH ON THAT REVENUE.

PROPERTY TAXES ARE AT \$13.5 MILLION VERSUS A BUDGET OF \$12.5 MILLION THIS SHOWS AN 8% FAVORABLE VARIANCE. HOWEVER AGAIN IT'S JUST DUE TO TIMING. FRANCHISE FEES AND IN LIEU TAXES ARE AT \$5.6 MILLION VERSUS A BUDGET OF \$5.3 MILLION THAT'S DUE TO SOME HIGHER UTILITY FRANCHISE FEE PAYMENTS WE'VE RECEIVED. UNDER OTHER REVENUES, LICENSE PERMITS AND FEES ARE AT \$3.2 MILLION VERSUS A BUDGET OF \$3.3 MILLION. THAT UNFAVORABLE VARIANCE IS OCCURRING PRIMARILY IN THE WEST WORLD FEE REVENUE. THEY ARE DOWN ABOUT 33% FISCAL YEAR-TO-DATE. THAT IS BEING CAUSED BY FOUR EVENTS THAT THEY ANTICIPATED WOULD REBOOK THIS FALL BUT DID NOT. AND TWO EVENTS THAT WERE SMALLER THAN ANTICIPATED.

UNDER FINES AND FORFEITURES WE'RE AT \$3.3 MILLION VERSUS A BUDGET OF \$3.4 MILLION. THIS UNFAVORABLE VARIANCE IS OCCURRING IN OUR COURT FINES AND IT'S DUE TO DECREASED CRIMINAL CITATIONS THAT HAVE BEEN ISSUED. MISCELLANEOUS REVENUES ARE UP AT \$3.0 MILLION VERSUS A BUDGET OF 2.5. SOME OF THAT IS INTERGOVERNMENTAL REVENUE THAT WE RECEIVE SOME IS RENT REVENUE. IT IS HARD TO PREDICT HOW THOSE WILL COME IN BUT WE ARE EXCEEDING OUR BUDGET AT THIS POINT.

[Time: 02:26:46]

BUILDING PERMITS AGAIN CONTINUE TO EXCEED BUDGET AT \$5.6 MILLION VERSUS A BUDGET OF \$3.9 MILLION. FOR A 43% FAVORABLE VARIANCE AT THIS POINT. JUST TO KIND OF ADD TO SOME OF THE COMMENTS THAT HAVE BEEN MADE ON THE SALES TAX SIDE OF THIS, IF A COMMERCIAL PROJECT OR A SINGLE FAMILY HOME IS BEING BUILT FOR SPECULATIVE PURPOSES WE DON'T RECEIVE THAT SALES TAX UNTIL THAT ACTUALLY TRANSFERS AS THE MAYOR HAS INDICATED. ON A COMMERCIAL PROJECT THAT COULD BE AS MUCH AS 2 YEARS ON A SINGLE FAMILY RESIDENCE IN SCOTTSDALE IT'S TYPICAL THAT IT COULD BE ABOUT A YEAR. SO THAT COULD BE ALSO THE REASON FOR THAT LAG.

[Time: 02:27:29]

Mayor Lane: THANK YOU. WE DO HAVE A QUESTION FROM COUNCILMAN PHILLIPS.

Councilmember Phillips: THANK YOU MAYOR. IS THAT TRANSFER WHEN THEY GET THE CFO OR TRANSFER THE OWNERSHIP?

Joyce Gilbride: IT'S ACTUALLY TRANSFER OF OWNERSHIP IT'S THE SELLER WHO'S SUBJECT TO THE SALES TAX. SO WHEN THEY RECEIVE THOSE GROSS RECEIPTS THEY ARE REPORTABLE IN TAXES DUE AT THAT TIME. SO IT COULD BE A WHILE.

INTEREST EARNINGS ARE FLAT WITH OUR FORECAST AT \$0.6 MILLION. INDIRECT COST ALLOCATIONS ARE \$3.5 MILLION. TRANSFERS IN ARE SLIGHTLY HIGHER AT \$5.1 MILLION VERSUS A BUDGET OF \$4.8 MILLION. THIS IS DUE PRIMARILY TO THE IN LIEU FRANCHISE FEES FROM THE ENTERPRISE FUNDS THAT ARE HIGHER THAN ANTICIPATED. IN TOTAL OPERATING SOURCES FOR THE GENERAL FUND AT THE END OF SIX MONTHS ARE \$110.4 MILLION VERSUS A BUDGET OF \$108.3 MILLION. FOR A FAVORABLE VARIANCE OF \$2.1 MILLION OR 2%.

LOOKING AT THE 1% SALES TAX COLLECTIONS BY CATEGORY THE SMALL AND LARGE RETAIL STORES CONTINUE TO LAG BEHIND OUR FORECAST. BOTH SHOWING AN UNFAVORABLE VARIANCE OF \$0.2 MILLION. MISCELLANEOUS GOODS AND SERVICES IS UP SLIGHTLY AT \$2.6 MILLION. GROCERY AND CONVENIENCE IS EQUAL TO OUR BUDGET AT \$2.9 MILLION. AUTO SALES AND MAINTENANCE CONTINUES TO EXCEED OUR FORECAST COMING IN AT \$5.1 MILLION VERSUS A BUDGET OF \$5.0 MILLION. UNDER TOURISM AND ENTERTAINMENT THE HOTEL LODGING AND MISCELLANEOUS SALES ARE BASICALLY FLAT WITH OUR BUDGET AT \$1.6 MILLION AS WELL AS EQUAL TO THE PRIOR FISCAL YEAR.

RESTAURANTS AND BARS ARE AT \$3.4 MILLION VERSUS THE BUDGET OF \$3.5 MILLION. AND UNDER THE BUSINESS CATEGORY AGAIN THE CONSTRUCTION IS AT \$4.2 MILLION ABOUT 10% UNDER OUR FORECAST AT \$4.7 MILLION. RENTALS ARE AT \$6.0 MILLION SLIGHTLY HIGHER THAN OUR FORECAST OF \$5.9 MILLION. UTILITIES LICENSE AND PENALTIES ARE ESSENTIALLY FLAT WITH THE BUDGET. SO IN TOTAL AT THE END OF 6 MONTHS OUR 1% SALES TAX COLLECTIONS ARE AT \$40.4 MILLION VERSUS A BUDGET OF \$41.0 MILLION FOR AN UNFAVORABLE VARIANCE OF \$0.6 MILLION OR 2%.

THIS CHART SHOWS THE YEAR-OVER-YEAR CHANGE IN THE 1% SALES TAX COLLECTION BY MONTH AND FOR THE MONTH OF DECEMBER 2012 WE WERE ABOUT 5.2% OVER OUR DECEMBER 2011 COLLECTIONS. AGAIN OUR GOAL IS TO HAVE A 5% OVERALL INCREASE IN OUR SALES TAX REVENUES THIS YEAR. BUT WE DO HAVE A LITTLE SNEAK PEEK AT JANUARY WHICH REALLY ISN'T CHANGING AS MUCH. UNFORTUNATELY WE'RE STILL AROUND THAT 4% LEVEL FISCAL YEAR-TO-DATE.

[Time: 02:30:38]

MOVING TO GENERAL FUND OPERATING USES BY CATEGORY TOTAL PERSONNEL SERVICES ARE AT \$78.9 MILLION VERSUS A BUDGET OF 78.6. AGAIN THIS UNFAVORABLE VARIANCE IS PRIMARILY IN THE OVERTIME LINE-ITEM SHOWING \$0.6 MILLION. ABOUT 95% OF THAT IS ATTRIBUTABLE TO PUBLIC SAFETY POLICE AND WE'VE GOT A SMALL VARIANCE IN FIRE AND COMMUNITY SERVICES AS WELL. THE CITY TREASURER WILL BE GIVING A SEPARATE PRESENTATION TO CLARIFY THE OVERTIME BUDGETS SALARY SAVINGS HOW THOSE AFFECT OUR BUDGET THIS YEAR. UNDER THE CAPITAL COMMODITIES AND CONTRACTUAL WE'RE AT \$27.5 MILLION VERSUS A BUDGET OF \$29.4 MILLION FOR A FAVORABLE VARIANCE OF \$1.9 MILLION. THIS IS OCCURRING PRIMARILY IN CONTRACTUAL SERVICES FOR THE MONTH OF DECEMBER WE DID NOT HAVE A CHARGE FOR OUR JAIL SERVICES CONTRACT IN THE POLICE DEPARTMENT OR THE SECURITY CONTRACT IN THE POLICE DEPARTMENT. WE HAVE SAVINGS IN OUR FLEET MAINTENANCE AND UTILITIES SO OVERALL OUR CONTRACTUAL COULD BE DUE TO TIMING BUT SO FAR SO GOOD THIS YEAR.

DEBT SERVICE AND CONTRACTS ARE AT \$2.7 MILLION VERSUS A BUDGET OF 3.4. AGAIN THERE IS DUE TO LOWER THAN ANTICIPATED CONTRACTUAL PAYMENT MADE IN NOVEMBER. AND TRANSFERS OUT ARE FLAT AT \$3.0 MILLION. SO IN TOTAL OPERATING USES FOR THE GENERAL FUND AT MIDPOINT IN THE FISCAL YEAR ARE AT \$112.2 MILLION VERSUS A BUDGET OF \$114.4 MILLION FAVORABLE VARIANCE OF \$2.2 MILLION OR 2%.

OPERATING USES BY DIVISION MAYOR AND COUNCIL AND CHARTER OFFICERS SHOW A FAVORABLE VARIANCE OF \$0.4 MILLION HALF OF THAT IS OCCURRING IN THE CITY ATTORNEY'S OFFICE AND CITY CLERK'S OFFICE IN THEIR CONTRACTUAL LINE ITEMS. COMMUNITY SERVICES SHOWS A FAVORABLE VARIANCE OF \$0.5 MILLION. THEY ARE SHOWING SALARY SAVINGS IN THEIR PART TIME WAGES AND ALSO SOME COMMODITY SAVINGS. PUBLIC SAFETY FIRE IS ALSO EXPERIENCING SOME SAVINGS IN THEIR PERSONNEL SERVICES. PUBLIC SAFETY POLICE THE UNFAVORABLE VARIANCE OF \$0.1 MILLION IS THE COMBINATION OF SAVINGS IN THEIR CONTRACTUAL LINE ITEMS COMBINED WITH THEIR OVERAGE IN THE OVERTIME CATEGORY. PUBLIC WORKS HAS A FAVORABLE VARIANCE OF \$0.6 MILLION AGAIN A LOT OF THIS IS DUE TO SOME OF OUR LARGER CONTRACTS AND UTILITIES. SO OVERALL OPERATING EXPENSES AGAIN ARE AT \$106.4 MILLION VERSUS A BUDGET OF \$108.0 MILLION FOR A FAVORABLE VARIANCE OF \$1.6 MILLION.

SINCE WE ARE AT OUR MIDPOINT FISCAL YEAR WE THOUGHT WE WOULD PROVIDE YOU WITH SOME ADDITIONAL INFORMATION ON OUR WATER RESOURCES AREA. TO DATE THROUGH DECEMBER 31st WATER SERVICE CHARGES ARE AT \$51.9 MILLION VERSUS BUDGET OF \$47.6 MILLION. THERE ARE 3 FACTORS AFFECTING THIS FAVORABLE VARIANCE THAT'S THE NEW RATE STRUCTURES THAT WENT INTO AFFECT JULY 1st. ALSO DEMAND FOR WATER IS UP SO OUR DELIVERIES HAVE INCREASED. AND THEN THE MIX OF ACCOUNTS BETWEEN THE DIFFERENT TIERS WAS NOT AS ANTICIPATED. WATER RECLAMATION CHARGES ARE \$17.7 MILLION VERSUS A BUDGET OF \$17.1 MILLION FOR A FAVORABLE VARIANCE OF 4%. NON-POTABLE WATER CHARGES THESE ARE WATER THAT'S PROVIDED TO THE GOLF COURSES AGAIN THAT DEMAND IS UP SHOWING REFLECTED IN THE \$6.2 MILLION ACTUAL REVENUES VERSUS A BUDGET OF \$5.6 MILLION. INTEREST EARNINGS SLIGHTLY UP AT \$0.4 MILLION. MISCELLANEOUS REVENUE SLIGHTLY DOWN AT \$0.6 MILLION AND TRANSFERS IN ARE FLAT AT \$0.5 MILLION. OVERALL WATER RESOURCES AT THE END OF 6 MONTHS TOTAL OPERATING SOURCES ARE \$77.3 MILLION VERSUS A BUDGET OF \$71.9 MILLION FOR A FAVORABLE VARIANCE OF \$5.4 MILLION OR 8%.

[Time: 02:35:08]

Mayor Lane: IF I MIGHT, AT MID YEAR I APPRECIATE BEING ABLE TO A LOOK AT WATER RESOURCES, PARTICULARLY IN VIEW OF THE CHANGE IN THE RATES WHICH WERE AGREED TO AND SET OUT FOR A NUMBER OF REASONS BUT ONE OF THE OBJECTIVES WAS TO REMAIN REVENUE NEUTRAL. I DON'T KNOW THERE'S SOME MOTIVATIONAL FACTORS THE WAY IT WAS TIERED AND IT'S CONSUMPTION, BUT IS IT AT A POINT WE SHOULD BE LOOKING AT WHAT WE MIGHT BE DOING AS FAR AS THE EXCESSIVE FEES BEING ACCUMULATED HERE? I DON'T KNOW WHO MIGHT WANT TO RESPOND TO THAT, BUT BRIAN? WE DON'T WANT TO GYRATE AROUND ON DIFFERENT RATES EVERY TIME SOMETHING POPS UP DIFFERENT, BUT ARE WE SEEING A TREND HERE WHERE WE'RE RECOVERING FAR MORE THAN WE ANTICIPATED WHEN HE WE PUT THESE RATES TOGETHER? I KNOW YOU WEREN'T HERE WHEN WE PUT THESE RATES TOGETHER THERE WAS QUITE A BIT OF TURMOIL BECAUSE OF SOME OF OUR CONSUMERS WERE NOT PARTICULARLY HAPPY WITH THE IDEA THEY WERE GETTING PUT INTO A CATEGORY WHERE THEY WERE GOING TO BE PAYING AT HIGHER RATES THAN THEY HAD FOR PREVIOUSLY. SO I'M WONDERING HAS IT NOT HAD THE DESIRED EFFECT OF REDUCING THEIR CONSUMPTION OR IS IT SOMETHING ELSE.

[Time: 02:36:35]

Executive Director Water Resources Brian Biesemeyer: I'M NOT SURE WE HAVE ENOUGH DATA TO SAY THAT CONSUMPTION. IT'S HAD THE AFFECT. WE DID PROGRAM SOME ELASTICITY IN THIS RATE ASSUMPTION THAT THE TIERED EFFECT WOULD DECREASE THE PRODUCTION OR DECREASE THE CONSUMPTION OF SOME CONSUMERS BUT IT'S PRETTY HARD TO SAY WITH ONLY SIX MONTHS AND WHEN THOSE RATES WENT INTO EFFECT BECAUSE SOME OF THE SUMMER CONSUMPTION ALREADY OCCURRED WHEN THOSE RATES WENT INTO EFFECT. I THINK IT'S A LITTLE PREMATURE TO JUDGE THAT AT THIS POINT IN TIME PARTICULARLY WITH WEATHER PATTERNS AND SO MANY DIFFERENT THINGS FACTORING INTO THAT. OBVIOUSLY IT'S NOT WHAT WE PREDICTED IT'S A LITTLE PREMATURE I WOULD LIKE TO SEE MORE DATA BEFORE YOU CAN MAKE THAT ASSUMPTION.

Mayor Lane: I THINK THAT'S PROBABLY A REASONABLE WAY TO GO OBVIOUSLY AT SIX MONTHS. BUT WE TRY TO KEEP TRACK OF THESE THINGS AS LONG AS WE'RE LOOKING AT IT EVALUATING AS WE GO

ALONG. IT'S AN IMPORTANT THING TO MEASURE. THERE'S TWO SIDES OF IT ONE IS WE INCREASED IT ON ONE SIDE TO REDUCE CONSUMPTION AND MAYBE THAT DIDN'T HAPPEN. THE OTHER SIDE OF IT IS WE MAY NOT HAVE LOWERED THE LOWER USERS ENOUGH TO OFFSET WHAT WE WERE GOING TO GET ON THE OTHER END. CERTAINLY BOTH WOULD BE BENEFICIAL FOR OUR CONSUMERS. FOR THOSE SMALL HOUSEHOLDS THAT ARE CONSERVING AND USING LESS WATER I THINK WE REDUCED THEIR RATES BUT MAYBE THERE'S SOMETHING TO BE LOOKED AT THERE. I JUST MENTION IT BECAUSE OBVIOUSLY WE HAVE THIS RESULT. WE'RE NOT LOOKING TO PILE ON INCREASED FEES. WE'RE TRYING TO BE FAIR IN OUR RATE, FOR OUR RATE BASED PAYERS. THANK YOU VERY MUCH. VICE MAYOR KLAPP.

[Time: 02:38:20]

Vice Mayor Klapp: I HAVE A QUESTION. IF WE ANTICIPATED RAISING THE RATES THIS YEAR WHY IS THE BUDGETED AMOUNT FOR WATER SERVICE CHARGES LESS THAN LAST YEAR BUDGETED 47.6 BUT THE ACTUAL LAST YEAR 49.9?

Brian Biesemeyer: MAYOR AND COUNCIL, I'LL DEFER TO STAFF ON THIS ONE.

Enterprise Finance Manager Gina Kirklin: MAYOR AND MEMBERS OF COUNCIL THE NUMBER THAT YOU'RE LOOKING AT THE 49.9 WAS ACTUAL. THOSE WERE DETERMINED AFTER THE BUDGET WAS SET AT 47.6. IS THAT YOUR QUESTION?

Vice Mayor Klapp: WELL, KIND OF. THE BUDGET WAS 47.6 BUT THE ACTUAL IN 10/11 WAS 49.9. AND IN 11/12 WAS 49.9 YOU WOULD BELIEVE THAT THE BUDGET WOULD HAVE BEEN HIGHER THAN 47.6 BASED ON OUR EXPERIENCE AND THE FACT THAT OUR WATER RATES WERE GOING UP. SO DID WE UNDER BUDGET IT IS THE QUESTION?

Gina Kirklin: MAYOR AND MEMBERS OF COUNCIL WE DO DESEASONALIZE SOME OF THIS DATA IN ORDER TO SET THE BUDGET THEREFORE WE TRY TO ELIMINATE SOME OF THOSE PEAKS AND VALLEYS AND TEMPERATURE AND RAIN SO THERE IS AN IMPACT THERE. ADDITIONALLY WHEN WE SET THE NEW STRUCTURE IN PLACE IT WAS SUPPOSED TO BE REVENUE NEUTRAL IN THAT WE LOWERED THE RATES FOR THE MODEST OR LOWER WATER USERS AND WE SHIFTED THOSE COSTS TO THE HIGHER WATER USERS. WE HAVE NOT SEEN A REDUCTION IN WATER USE FROM THOSE HIGHER WATER USERS THAT'S WHY WE'RE SEEING MORE REVENUE AT THIS TIME.

Vice Mayor Klapp: OKAY THANK YOU.

[Time: 02:40:08]

Mayor Lane: THANK YOU VICE MAYOR. I PROBABLY OVERLOOKED ONE OF THE ADDITIONAL FACTORS THAT JOYCE YOU DID MENTION THAT'S INCREASE IN ACTUAL WATER DELIVERED. I DON'T KNOW WHAT PERCENTAGE OF THAT OF THIS INCREASE IS ASSOCIATED WITH JUST SIMPLY GREATER CONSUMPTION ON THE OVERALL THAN THE RATES. SO IT TAKES A LITTLE BIT AWAY FROM MY CONCERN ABOUT THE RATES SINCE YOU UNDOUBTEDLY ARE SELLING MORE WATER AS WELL. BUT I DON'T KNOW WHAT PERCENTAGE OF THAT IS DUE TO THIS INCREASE.

Brian Biesemeyer: MAYOR AND MEMBERS OF COUNCIL THAT'S A FAIRLY SMALL AMOUNT. IN THE GOLF COURSES THAT'S NOT TRUE. THERE'S CERTAINLY A LOT MORE CONSUMPTION ON THE GOLF COURSE. ON OUR REGULAR CUSTOMER BASE IT'S A MODEST INCREASE IN THAT. BUT AGAIN I WOULD ARGUE THERE ARE SOME WEATHER PATTERNS SOME OTHER THINGS IN EFFECT WOULD USE SOME MORE TIME. CERTAINLY AS WE LOOK AT THIS WE COME TO YOU IN ABOUT A MONTH'S TIME WITH SOME PROJECTIONS ON RATES AND STUFF WE'LL TAKE THAT INTO EFFECT.

Mayor Lane: THANKS BRIAN. JOYCE IF YOU WANT TO PROCEED.

Joyce Gilbride: MOVING TO USES FOR THE WATER RESOURCES AREA PERSONNEL SERVICES ARE AT \$8.6 MILLION VERSUS A BUDGET OF \$8.7 MILLION FOR A FAVORABLE VARIANCE OF 2%. CONTRACTUAL COMMODITIES AND CAPITAL OUTLAY \$21.4 MILLION VERSUS A BUDGET OF \$22.5 MILLION FAVORABLE VARIANCE OF 5%. TOTAL OPERATING EXPENSES AT THE END OF DECEMBER \$30.0 MILLION VERSUS A BUDGET OF \$31.3 MILLION FOR A FAVORABLE VARIANCE OF \$1.3 MILLION. DEBT SERVICE AND CONTRACTS WERE EQUAL TO FORECASTED 8.2 AND FRANCHISE FEES WERE SLIGHTLY HIGHER THE EXPENSE SIDE AT \$ 3.7 WHICH WE SAW ON THE REVENUE SIDE TO THE GENERAL FUND INCREASED AND SINCE THOSE FEES ARE BASED ON REVENUE IT'S A PERCENTAGE OF REVENUE THAT'S WHY WE'RE SEEING AN INCREASE IN THAT COST \$3.7 MILLION VERSUS A BUDGET OF 3.5.

INDIRECT AND DIRECT CHARGES ARE EQUAL TO OUR BUDGET AT \$2.7 MILLION. SO IN TOTAL OPERATING USES FOR WATER RESOURCES AT MIDPOINT IN THE FISCAL YEAR ARE \$44.6 MILLION VERSUS A BUDGET OF \$45.6 MILLION FOR A FAVORABLE VARIANCE OF \$1.1 MILLION OR 2%.

THIS WILL SLIDE KIND OF TOUCHES ON WHAT MR. EARLE HAD ADDRESSED EARLIER IS GIVING YOU A SNAPSHOT OF WHERE OUR CIP EXPENDITURES ARE THROUGH DECEMBER 31<sup>ST</sup>. WE HAVE IT BROKEN OUT BY FUND. YOU CAN SEE PROBABLY THE BIGGEST OR MOST SIGNIFICANT DIFFERENCE HERE IS THE TONY NELSSON EQUESTRIAN CENTER 12 MONTHS TO DATE 17,873,000. CURRENTLY FOR THE SIX MONTHS OF THE FISCAL YEAR 4,660,000.

[Time: 02:43:07]

TRANSPORTATION HAS VARIOUS STREET PROJECTS UNDERWAY AND AS WELL AS FLEET AND AVIATION. PRIMARILY WHAT I WANTED TO POINT OUT IS AT THIS POINT IN THE FISCAL YEAR WE'RE ABOUT WHERE WE WERE AT THE 6 MONTH POINT WE'RE ABOUT AT THE SAME SPOT WE WERE LAST YEAR. HOWEVER 12 MONTHS TO DATE YOU CAN SEE WE'RE A LITTLE BIT HIGHER, AND THAT'S DUE PRIMARILY TO THE EXPENDITURES FOR THE TONY NELSSON EQUESTRIAN CENTER. I WANT TO POINT OUT THE LAND ACQUISITIONS THAT HAVE TAKEN PLACE. \$88.4 MILLION SO FAR THIS FISCAL YEAR FOR THE PAST SIX MONTHS IN TOTAL FOR 12 MONTHS \$178.7 MILLION. AND THIS JUST SUMMARIZES OUR GENERAL FUND RESULTS. FISCAL YEAR-TO-DATE SHOWS OUR CHANGE IN FUND BALANCE OF \$1.8 MILLION AND I BELIEVE AT THIS POINT THE CITY TREASURER DAVID SMITH WILL BE GIVING A PRESENTATION ON OUR OVERTIME BUDGET AND SALARY SAVINGS.

[Time: 02:44:20]

City Treasurer David Smith: MR. MAYOR MEMBERS OF COUNCIL I WANTED TO APPEND TO OUR MONTHLY FINANCIAL REPORT JUST A BRIEF DISCUSSION OF SOMETHING THAT WAS RAISED AS A

QUESTION LAST TIME ON OVERTIME AND VACANCY SAVINGS AND HOW WE DO THE CITYWIDE BUDGET AND ISSUES LIKE THAT. AND SO IF I MAY I WANT TO SLIDE THROUGH ABOUT 5 OR 6 SLIDES TO SHOW YOU HOW WE DO THAT. BUT AS A PREAMBLE LET ME SAY NOT TO RAISE THE QUESTION OF OVERTIME I WANT TO GIVE YOU SOME REASSURANCE THE SPOT LIGHT SHINED ON THIS AFTER 3 OR 4 MONTHS HAD A VERY GOOD AFFECT. CITY MANAGER AND THE DIRECTOR OF PUBLIC SAFETY PUT THEIR HEADS TOGETHER WE HAVE MUCH BETTER OVERTIME RESULTS THAN WE HAD IN THE FIRST FEW MONTHS. ORDER OF MAGNITUDE WHEN WE WERE LOOKING AT THIS IN THE POLICE DEPARTMENT THE OVERTIME BUDGET IN AUGUST FOR JUST TWO CATEGORIES CRITICAL SERVICES AND EXTENDED DUTIES WAS SOMETHING LIKE \$480,000. THOSE TWO CATEGORIES THE MOST RECENT MONTH WAS DOWN FROM \$480,000 TO \$140,000. SO REALLY MADE A CONCENTRATED EFFORT AND WITH COMFORTABLE SUCCESS TO SHOW FOR IT.

BUT THE QUESTION WAS RAISED HOW DOES OVERTIME GET AFFECTED BY VACANCY SAVINGS? HOW DO WE BUDGET FOR VACANCY SAVINGS AND THOSE ISSUES? AT THE RISK OF OVERLOADING YOU WITH NUMBERS I WANT TO GO THROUGH A BRIEF DISCUSSION OF THAT. THE ADOPTED BUDGET, ANY ADOPTED BUDGET THAT WE'VE DONE FOR SEVERAL YEARS INCLUDES SEVERAL ITEMS THAT ARE BUDGETED ON A CITYWIDE BASIS BECAUSE WE DON'T KNOW WHERE TO ALLOCATE THOSE SAVINGS OR THOSE EXPENSES AT THE TIME. THE ONE WE'RE GOING TO TALK ABOUT TONIGHT IS THE ONE I'VE DISPLAYED AT THE TOP OF THIS SLIDE AND THAT'S THE EXPECTED VACANCY SAVINGS. HOW MUCH SALARY ARE WE GOING TO SAVE WHEN A PERSON LEAVES AND TAKES A WHILE TO FIND A REPLACEMENT? IT'S A FAIRLY ELABORATE SYSTEM THAT WE USE TO COME UP WITH THE NUMBER AND THE NUMBER IN THIS YEAR'S BUDGET IS \$3.3 MILLION, BUT I CAN TELL YOU IN A THUMBNAIL SKETCH HOW IT'S DONE AND AS A THUMBNAIL YOU HAVE 1930 FULL TIME EMPLOYEES IN THE GENERAL FUND. IF YOU ASSUME YOU'RE GOING TO HAVE 6% TURNOVER, IF YOU ASSUME IT'S GOING TO TAKE 6 MONTHS TO FIND A REPLACEMENT, IF YOU ASSUME THAT THE AVERAGE EMPLOYEE MAKES \$60,000 ANNUAL SALARY. A TIMES B TIMES C TIMES D GIVES YOU \$3.3 MILLION DOLLARS. THAT'S ABOUT AS COMPLICATED AS IT IS, BUT WHEN WE DO THE BUDGET WE DON'T KNOW WHAT DIVISION TO ATTRIBUTE THOSE SAVINGS TOO. WE DON'T KNOW WHERE THE PEOPLE ARE GOING TO LEAVE. SO WE BUDGET IT AT A CITYWIDE BASIS. THERE ARE SEVERAL OTHER THINGS WE BUDGET ON A CITYWIDE BASIS. THEY ARE ENUMERATED DOWN BELOW. HOW MUCH WE'RE GOING TO PAY IN VACATION LEAVE, MEDICAL LEAVE, HEALTHCARE AND WHAT PEOPLE MIGRATE FROM ONE PLAN TO ANOTHER AND OF COURSE SOME OF THE COMPENSATION THINGS LIKE YOU ALL DISCUSSED LAST WEEK, THE 105 ADJUSTMENT. ALL THESE THINGS ARE DONE ON A CITYWIDE BASIS.

[Time: 02:47:53]

SO WHEN WE MARCH THROUGH TIME WE HAVE THESE CITYWIDE ADJUSTMENTS AND THEN WE ASK EACH DIVISION TO DO THEIR OWN PERSONAL DEPARTMENTAL BUDGET. AND WHAT I'VE DISPLAYED HERE FOR PUBLIC SAFETY IN PARTICULAR THE POLICE DEPARTMENT IS JUST HOW THEY HAVE DONE THEIR SALARIES AND THEIR OVERTIME FOR THIS FISCAL YEAR. THEY BUDGETED A FULL COMPLEMENT OF EMPLOYEES, 667 FULL TIME EQUIVALENT EMPLOYEES, BUDGETED THEY WOULD BE HERE FOR THE FULL YEAR 2,080 HOURS MAKING \$31 AN HOUR THEY PUT IN A BUDGET OF \$43.5 MILLION DOLLARS. THEY DO NOT BUDGET ANYTHING FOR VACANCIES BECAUSE WE, AGAIN WE DID THAT IN A CITYWIDE BASIS. THEY BUDGET OVERTIME HOURS SOME OF THEM ARE PAID IN STRAIGHT TIME BECAUSE SOME OVERTIME IS NOT PAID TIME AND-A-HALF. AND IMPORTANTLY THEY BUDGET \$800,000 OR SO, THE ITEM I'VE POINTED TO HERE, AND THAT'S WHAT THEY THINK THEY WILL NEED TO COVER THE PEOPLE

THAT ARE ON VACANCIES THAT DO LEAVE BUT WHICH WE HAVE TO PROVIDE 24/7 COVERAGE FOR. SO IF YOU HAD A MILLION DOLLARS WORTH OF PAYROLL WALK OUT THE DOOR FOR A FEW MONTHS YOU'RE GOING TO HAVE A \$1.5 MILLION DOLLARS OF OVERTIME TO COVER THOSE POSITIONS. SO THAT'S ONE COMPONENT OF OVERTIME AND THEN THE REST OF IT, THE BULK OF THE OVERTIME IS JUST WHAT THEY SPEND FOR HOLIDAYS, SPECIAL EVENTS AND ALL THE OTHER THINGS THAT TAKE OVERTIME PAY. BUT THEIR BUDGET IS \$47.7 MILLION WITHOUT ANY ALLOWANCE FOR VACANCIES THAT'S THE WAY IT'S DONE. IF YOU LOOK AT THEIR 47.7 AS A TOTAL BUDGET FOR SALARIES AND OVERTIME AND THEN LOOK AT EVERYBODY'S BUDGET SALARY AND OVERTIME ALL THE OTHER DEPARTMENTS ADD THE TWO TOGETHER SUBTRACT \$3.3 MILLION OF VACANCIES WE DON'T KNOW WHERE THEY ARE GOING TO OCCUR THAT'S THE TOTAL SALARY AND OVERTIME BUDGET 116.8. WE DON'T CHANGE THAT BUDGET, ONCE YOU ADOPT IT IT'S YOUR BUDGET ONLY YOU CAN CHANGE IT. 116.8. YOU'LL SEE THE NUMBER REPEAT ITSELF TIME AND AGAIN.

AS YOU MARCH THROUGH THE YEAR, AND LET'S ASSUME FOR THE MOMENT WE DID THE FULL YEAR, WHAT WOULD HAPPEN ON THE POLICE DEPARTMENT BUDGET? WHAT ACTUALLY HAPPENS IS THAT PEOPLE DO LEAVE. THEY RETIRE, THEY TAKE ANOTHER JOB, WHATEVER. AND SO YOU END UP WITH IN THIS HYPOTHETICAL CASE A MILLION DOLLARS OF VACANCIES. NOW WE KNOW WHERE THE VACANCIES HAVE OCCURRED. WE DIDN'T KNOW BEFORE BUT NOW WE DO. AND WHEN WE KNOW WHERE THE VACANCIES ARE OCCURRING, THEN WE CAN GO BACK AND APPLY THE VACANCY SAVINGS IN AN EQUAL AMOUNT. YOU CAN'T DO IT UNTIL YOU KNOW WHERE THE VACANCIES ARE OCCURRING, BUT WHEN YOU DO IT, OR WHEN YOU KNOW THEN YOU CAN APPLY. YOU CAN DISTRIBUTE THE CITYWIDE VACANCY SAVINGS OR A PORTION OF IT. WHEN THESE MILLION DOLLARS WORTH OF PAYROLL WALK OUT THE DOOR NOT ALL OF THEM ARE 24/7 POSITIONS NOT ALL OF THEM REQUIRE REPLACEMENT EVERY MOMENT THESE PEOPLE ARE GONE. AND SO YOU CAN SEE DOWN HERE HYPOTHETICALLY THE DEPARTMENT WOULD HAVE SPENT \$800,000 FOR THE 24/7 VACANCIES. NOW WHAT THAT MEANS IF YOUR PAYROLL IS DOWN A MILLION DOLLARS, MAYBE HALF THOSE PEOPLE YOU ACTUALLY HAVE TO HAVE SOMEBODY THERE DOING TO THE JOB AND YOU'RE GOING TO PAY THEM TIME AND-A-HALF AND TIME AND-A-HALF TIMES 5 HUNDRED THOUSAND THAT'S 750 ROUNDS TO \$800,000. SO IN THIS CASE THE DEPARTMENTAL BUDGET, IT USED TO BE 47.7 NOW IT'S 46.7, BUT THERE'S NO VARIANCE BECAUSE THEY HAVE STOPPED UP THE VACANCY SAVINGS BUDGETED AT THE CITYWIDE LEVEL. WHEN YOU LOOK AT THEM IN CONJUNCTION WITH EVERYBODY ELSE, THEY WOULD HAVE HAD A MILLION DOLLARS IN VACANCIES AND THEY WOULD HAVE HAD AN ALLOCATION OF \$1.0 MILLION OF THE VACANCY SAVINGS BUDGETED CITYWIDE. EVERYBODY ELSE WOULD HAVE \$2.3 MILLION AND THEY WOULD HAVE ALLOCATION, AND AT THAT POINT YOU HAVE ALLOCATED THE WHOLE VACANCY SAVINGS ACCORDING TO WHERE THE VACANCIES OCCURRED.

[Time: 02:52:29]

IMPORTANT TO REMEMBER FROM THIS SLIDE, WE HAVE NOT CHANGED THE BUDGET. THE BUDGET IS STILL \$116.8 MILLION. ALL WE'VE DONE IS ALLOCATE THE VACANCY SAVINGS ACCORDING TO WHERE WE KNOW THOSE VACANCY SAVINGS ARE OCCURRING. THIS IS WHAT WOULD HAPPEN IN A PERFECT WORLD OF A FULL YEAR'S PERFORMANCE. NOW ROLL FORWARD TO SOME ACTUAL NUMBERS AND THESE JIVE WITH WHAT MS. GILBRIDE GAVE YOU BEFORE. SHE TOLD YOU YEAR-TO-DATE WE HAVE A HALF A MILLION DOLLAR UNFAVORABLE VARIANCE CITYWIDE ON THE 2 LINE LEVELS OF SALARIES, WAGES AND OVERTIME. THIS SLIDE IS TELLING YOU WHAT DEPARTMENT OR WHERE THERE CAME FROM, 800,000 IS COMING FROM THE POLICE DEPARTMENT AND 300,000 THE OTHER DIRECTION

POSITIVE IS COMING FROM THE OTHER DEPARTMENTS. AND AT THIS POINT WE'VE ALLOCATED \$1.8 MILLION OF THE VACANCY SAVINGS. WE'RE STILL HOLDING \$1.5 MILLION, NOT KNOWING YET WHERE WE'RE GOING TO HAVE TO ALLOCATE IT.

AND WHAT WE WERE TRYING TO ALERT COUNCIL TO BEFORE WAS THAT AT THE OF MONTH POINT IF YOU LOOK AT JUST THE POLICE BUDGET, YOU WOULD OBSERVE THE FOLLOWING. THEY HAVE HAD \$500,000 OF VACANCIES AND WE HAVE THEREFORE ALLOCATED TO THEM 500,000 OF THE VACANCY SAVINGS. THAT'S A WASH. THEY HAVE ALSO HAD DUE TO AN ACCOUNTING DIFFERENCE THEY HAVE HAD \$200,000 THAT THEY RECOGNIZED IN SALARIES FOR SOME OF THE STRAIGHT TIME OVERTIME, IF THAT TERM MEANS ANYTHING, IT'S BUDGETED DOWN HERE SO THE TWO NUMBERS ARE A WASH. HALF A MILLION WASHES WITH A HALF MILLION, \$200,000 WASHES WITH \$200,000. AND WHAT ARE YOU LEFT WITH? YOU'RE LEFT WITH THIS NUMBER AT THE BOTTOM AN \$800,000 OVERAGE IN OVERTIME. NOT CAUSED BY VACANCY SAVINGS, NOT CAUSED BY ALLOCATION AND CERTAINLY NOT CAUSED BY CHANGING THE BUDGET. IT'S 800,000 OVER AND THE CATEGORIES OF OVERTIME THAT ARE OTHER THAN A CAUSE BY VACANCY SAVINGS. THAT'S THE SHORTEST TUTORIAL I CAN GIVE YOU ON CITYWIDE BUDGETING AND HOW IT CASCADES DOWN TO THE VARIOUS DIVISIONS AND DEPARTMENTS ACCORDING TO WHEN WE KNOW WHEN IT IS OCCURRING. AND AS I TOLD YOU IT'S NOT TO RAISE AGAIN THE FLAG ON OVERTIME BECAUSE THERE'S BEEN TREMENDOUS PROGRESS MADE ON THAT IN JUST THE PAST FEW MONTHS. BUT IF THIS CLEARED ANYTHING UP AND MADE IT EASIER TO UNDERSTAND THAT'S GREAT AND IF IT DIDN'T I APOLOGIZE. THAT'S THE END OF THE PRESENTATION.

Mayor Lane: THANK YOU, MR. SMITH. IT APPARENTLY HAS ANSWERED THE QUESTIONS THAT WERE RAISED AND I THINK DID AN EXCELLENT JOB WITH IT. THANK YOU SO VERY MUCH. DOES THAT COMPLETE THEN OUR MONTHLY FINANCIAL UPDATE? OKAY. WELL THANK YOU MISS GILBRIDE AND THANK YOU MR. SMITH ADD TO THAT MONTHLY FINANCIAL UPDATE.

#### **ADJOURNMENT**

[Time: 02:56:06]

Mayor Lane: I WOULD ACCEPT A MOTION TO ADJOURN. IT'S BEEN MADE AND SECONDED. ALL THOSE IN FAVOR OF ADJOURNMENT WE ARE ADJOURNED. THANK YOU VERY MUCH EVERYONE.