



**MINUTES
CITY OF SCOTTSDALE
BUDGET REVIEW COMMISSION**

THURSDAY, MARCH 19, 2009

**CITY HALL, KIVA FORUM
3939 NORTH DRINKWATER BLVD
SCOTTSDALE, AZ 85251**

PRESENT: Louis Schmitt, Chair
David N. Smith, Vice Chair
Eric Borowsky
Donna Reagan
Martha Ecton
Michael Foster
Bob Berlese

STAFF: Craig Clifford
Sylvia Dlott
Carolyn Jagger
John Little
Scott McCarty
Art Rullo

Call to Order/Roll Call

Chairman Smith called the Budget Review Commission meeting to order at 5:03 p.m.

Roll call was taken confirming the presence of Commissioners as noted above.

New Business

1. WELCOME AND INTRODUCTIONS – LOU SCHMITT, CHAIRMAN

Each Commissioner introduced him/herself and discussed their background and history with the City of Scottsdale.

2. PROCEDURES, RULES, AND REGULATIONS – LOU SCHMITT, CHAIRMAN

Chair Schmitt stated this Commission will be operating under the Open Meeting Law, and the proceedings will be televised.

Chair Schmitt appointed David Smith as Vice Chair due to his strong background in finance, both in the public and private sector.

3. CITY MANGER OVERVIEW – JOHN LITTLE, ACTING CITY MANAGER.

Acting City Manager John Little said staff is looking forward to assisting the Commission in its duties. The City is a values-based organization dedicated to providing continuity through the changes in City government. The current economic challenges are unprecedented, and staff is prepared to make difficult decisions. As stewards of the public trust and the taxpayers' money, staff has an obligation to be careful, strategic, deliberate, accurate, and fair. Scottsdale has always been a benchmark city, and this Commission has been charged with the duty of assisting City Council make some difficult financial choices.

City staff has worked diligently in the past year to address the budget shortfall of approximately \$45 million. Approximately \$18 million in program cuts and line item reductions have been taken, and positions have been eliminated through attrition. Costing methodologies have been applied in an attempt to ease the pressure on the General Fund, and some capital projects have been deferred. Staff has been evaluating consultant contracts to determine if some of this work could be completed in house, as well as examining projects for more cost-effective outsourcing.

As the City moves into the next fiscal year it faces more budget deficits and reductions in state shared revenues. Staff is working on establishing an organizational structure to better sustain the City into the future. With the Commission's help, the City will figure out how to maintain essential services for the citizens, as well as the special quality of life services that make Scottsdale a unique community.

The Commission will receive departmental presentations as they are constituted today. On April 7th, the Commission and the City Council will then be given a presentation regarding the proposed organizational chart, which will need to be more compressed and efficient. Consolidating departments, combining operations, and decreasing levels of management will accomplish this. This will be designed to create a sustainable organization that is less susceptible and less vulnerable to economic downturns in the future.

4. REVIEW FINANCIAL POLICIES – CRAIG CLIFFORD, FINANCIAL SERVICES GENERAL MANAGER / CITY TREASURER

Financial Services General Manager Craig Clifford stated the City has adopted a number of financial policies to help guide financial planning and management. They provide clear direction to staff concerning the diligence and care with which public funds are treated and managed. A number of these policies are brought before the City Council every year for review and re-adoption. This has kept crucial policies current and dynamic, and helps set the structure for financial management. These policies also send a good message to the credit rating agencies, and set the tone for the City's high bond ratings.

Financial policies are grouped in five key areas:

- Policies that address day in and day out operations.
- Policies addressing capital management and infrastructure.
- Policies regarding financial management and debt.
- Policies to protect the City's fiscal integrity in case of emergency.
- Financial reporting policies.

Mr. Clifford discussed recommended financial management practices that are embedded in many of these policies:

- Fund balance and reserve policies.
- Establishing or enhancing rainy day or budget stabilization reserves.
- Monthly economic revenue budget review and reporting.
- Multi-year financial forecasting.
- Contingency planning policies.
- Financial reporting and budget awards.

Mr. Clifford indicated he has included all of these policies in the Commission's packet for review.

These policies have allowed the City to reach a AAA bond rating by all three credit rating agencies. There is no single financial trend or indicator that represents the City's financial health; however, the closest example would be its credit rating. Since the City received the AAA rating in 2001, the debt issuances since that time have saved at least \$25 million. More bonds are expected to be issued over the next five to seven years, and the AAA rating may save the City another \$25 to \$30 million. AAA rated bonds are one to two basis points less in cost than the next level of rated bonds.

Mr. Clifford asked the Commission to review these financial policies and provide any feedback it may have. He noted all of these policies and documents are available online for citizens to review at www.scottsdaleaz.gov/boards/budgetcommission.asq.

Commissioner Smith asked if there are any particular issues the rating agencies have expressed concern about. Mr. Clifford said the credit rating agencies have always had a lot of questions about the City's water resources. If the City cannot show sufficient available water sources for growth and development, it sends a signal there are additional needs that may lead to additional debt. They also look for the willingness and ability of the citizens to support the City's budgets and bonds.

It is important the City stay diligent in order to keep its AAA rating, which will be very difficult in these financial times.

Commissioner Foster noted that a AAA rating gives the City a position of strength in negotiations. He asked whether the City has outstanding bonds that could be renegotiated to a lower rate, or called and reissued. Mr. Clifford indicated the City has enjoyed low market rates over the last five years, and a number of refinancings have been performed. At this time, there is nothing substantial to adjust. The City currently has approximately \$1 billion in outstanding debt; it is spread over many years and a lot of different issues. Total weighted average cost to capital for that combined debt is 4.3 percent.

5. REVENUE OVERVIEW – CRAIG CLIFFORD, FINANCIAL SERVICES GENERAL MANAGER / CITY TREASURER

Mr. Clifford said the total adopted budget for this fiscal year is \$1.4 billion. Those funds have different revenue sources and spending restrictions placed on them. Each functional group within the City is managed, and grouped for presentation purposes into three major categories:

- Operating Budget
- Capital Budget
- Contingency Budget (grants, trusts, special districts)

In the State of Arizona, legislation requires the City to have a balanced budget that cannot be exceeded. The legal budget is effectively the City's maximum spending limit. Out of the \$1.4 billion budget of authority, a good portion of the \$510.0M operating budget will be spent. In regard to the

capital budget, in some instances a budget is adopted for the full amount of a project, but on average only 20 to 25 percent of the capital budget is spent in any one year. Per state budget law, the budget lapses every year and must be re-adopted. Much of the budget allocated to grants and trusts are a contingency in case those revenues are received during the year; this allows the funds to be spent.

Separate funds are used in governmental accounting. Each fund is a fiscal accounting entity that is self-balancing. They are segregated for different purposes or specific spending requirements.

- Enterprise funds (utilities)
- Internal service funds (fleet, insurance)
- Debt service funds (voter authorized debt)
- Special revenue funds
 - Transportation funds (gasoline tax, HURF)
 - Preserve funds
- General Fund (sales tax, property tax, development fees, interest earnings, library/court fines)

Any revenues that change in relation to the general economy are said to be elastic, such as gasoline and sales taxes. Inelastic revenue would include utility fees and property taxes. The more diverse the sources of funds, the more recession-proof the City is. A share of the City's revenues is received from the state in the form of a portion of the state income and sales taxes. This agreement was made many years ago in exchange for the cities not imposing a city income tax. Cities share in about 15 percent of this revenue, allocated based upon population.

Mr. Clifford provided the Commission with a brief economic update, noting the Producer Price Index has increased; however, consumer confidence has declined to the lowest score on record in that index. Economists are forecasting a 4.6 contraction in the national economy over the next year. Consumer spending rose six-tenths of a percent in January, ending a six-month decline. Consumer bankruptcies were up 29 percent in January. Home prices were down 15 percent in the fourth quarter, which was the largest fall on record. Due to a moratorium on foreclosures by Fanny Mae and Freddie Mac, there were 10 percent fewer in January. The unemployment rate rose to 8.1 percent in January.

Mr. Clifford discussed the history of the City's elastic revenues, stating this year's is at -14 percent with a prediction of a very slow recovery.

Predictions for FY 2009/10 revenues are approximately \$247 million. Mr. Clifford provided a breakdown of revenue sources, noting the two largest sources are the most affected by the current economic downturn.

General Fund:

- State shared revenues are approximately 24 percent of the General Fund budget.
- Privilege Tax - \$84 million
- Franchise Fees
- Property Tax
- Charges for Services
- Development Fees
- Bed Tax

Transportation Fund:

- Dedicated sales tax
- HURF
- Shared revenues (lottery)
- General Fund subsidies

Enterprise Fund:

- Usage Fees
- Utilities

Mr. Clifford presented the Commission with a calendar of upcoming meetings, indicating he will review the Capital Improvement Plan at the next meeting. The following week he will review the rates, fees, and taxes. On April 7th, the City Manager will unveil the proposed budget and organizational changes. In subsequent weeks, staff will work with the Commission to review all of the operating budgets. On April 30th, the Commission will have an opportunity to discuss the issues and put together its report. The Commission will make their recommendations to the Council on May 5th.

In regard to property taxes, Commissioner Smith asked whether millage rates go up when property valuations go down to keep this as a constant number for the City. Mr. Clifford explained while the City would do that, it has not had to because there has been constant growth in Arizona. This year, the Scottsdale assessed valuation increased 1.6%. Values are still relatively strong in Scottsdale, and zero change is forecasted until further data is available from the assessor's office showing negative growth. If, for example, values did decrease 10 percent, the City would be in a position to change the rate both on the primary and secondary sides to ensure there is revenue to pay the debt. The City does have the right to change the rate applicable to the assessed valuations, as long as it stays within the levied limitations on the primary side. There cannot be more than a 2 percent increase, per state statute.

Commissioner Foster asked what percentage of sales taxes come from tourism or winter visitors versus the fixed population. Mr. Clifford said the Economic Vitality Office and the sales tax auditors have made some estimates as to what is attributable to local residents, businesses, surrounding areas, and out-of-state visitors. Between 20 to 30 percent of total sales and bed tax receipts are attributable to out-of-state visitors. Commissioner Foster stated since the City relies so much upon sales tax, perhaps it should allow the resorts to waive the bed tax during certain seasons to incent people to travel here. Mr. Clifford explained the voters put the bed tax in place, and 80 percent is being allocated to tourism development, which is the single largest industry in Scottsdale.

Commissioner Foster asked for clarification regarding the impact of the loss of automobile sales in the City. Mr. Clifford indicated the closure of auto dealers in the City has led to a loss of sales tax on the sale of automobiles. This is significant because automobiles are an expensive commodity.

Commissioner Foster asked how 2009/10 revenues compare to past years. Mr. Clifford stated that would be a difficult question to answer since each kind of revenue has different sources and different rates of growth.

Commissioner Foster asked if the City has any plan to reduce its debt in order to eliminate interest charges. Mr. Clifford said he will address the need for additional debt when he reviews the capital plan. The City saw massive residential growth in the 1990's. As a growing city, infrastructure and improvements are needed to support the population. The City's current debt is typical of a city in this stage of its maturation cycle.

Chairman's Comments

The Commissioners thanked staff for all of the information, indicating it was helpful and easy to follow.

Commissioner Ecton discussed the bed tax rate, noting it seems to be lower than in some cities. She stated it is important to maintain the tourism industry via advertising and other avenues.

Chair Schmitt said it is important to be patient and non-critical during these difficult discussions. Each Commissioner should bring their best ideas to the meetings for discussion.

Public Comment

None noted.

Adjournment

With no further business to discuss, the meeting was adjourned at 7:01 p.m.

Respectfully submitted,

A/V Tronics Inc., DBA AVTranz