



**CITY OF SCOTTSDALE  
BUDGET REVIEW COMMISSION**

**THURSDAY, MARCH 26, 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:** John Little, Acting City Manager  
Deborah Robberson, City Attorney  
Neal Shearer, Staff  
Scott McCarty, Assistant General Manager, Financial Services  
Craig Clifford, General Manager, Financial Services  
Sylvia Dlott, Staff  
Dan Worth, General Manager, Municipal Services  
Marshall Brown, Water Resource General Manager

**Call to Order/Roll Call**

Chair Schmitt called the Budget Review Commission meeting to order at 5:01 p.m. He offered each Commissioner the opportunity to provide an opening comment.

All Commissioners thanked staff for all of the information that has been provided.

Chair Schmitt announced that he has asked Commissioner Borowsky to research opportunities for the City to save money on energy costs. In addition, he requested that Commissioner Ecton do additional research on the bed tax and provide possible recommendations regarding its use.

## **New Business**

### **1. CAPITAL IMPROVEMENT PLAN – CRAIG CLIFFORD, FINANCIAL SERVICES GENERAL MANAGER / CFO**

Mr. Clifford indicated that the Commission was provided with a book of materials regarding the Capital Improvement Plan earlier this week, and announced all of those materials are available to the public on the City website. He gave a brief overview of the information provided. Mr. Clifford discussed the summary that was included in the Commission packet and reviewed one project to show how the summaries are organized. He indicated the summary includes all current City projects.

Commissioner Smith asked where on the summary an over- or under-spend on a project would be located. Mr. Clifford said state law does not allow overspending. If a project runs into problems, they are addressed incrementally through the year. They are brought forward to the City Council for contingency approval or transfer from another project or other resource. If a project is underspent, the residual funds go back towards those funding sources.

Commissioner Smith asked if the Council receives reports regarding the performance of projects. Mr. Clifford stated staff does report on the bond projects to the Citizens Bond Review Commission. Municipal Services Manager Dan Worth explained that this year, savings and used to adjust the current year funding authorizations in order to make more General Fund money available, in case it is needed.

In response to an inquiry by Chair Schmitt, Mr. Clifford explained if a bid is received which is lower than the anticipated expenditure, it would initially stay in the budget. At the end year if that particular project is still under budget, there may be an adjustment to that project budget in the following year.

Commissioner Ecton asked for clarification regarding contributions. Mr. Clifford explained developer impact fees are considered contributions. Additionally, the City receives funding through intergovernmental agreements with the City of Phoenix, the Department of Land, and some developers.

Mr. Clifford stated the total budget proposed for FY 2009/2010 includes approximately 285 projects. \$470 million is for carryover projects. \$99.2 million is budgeted for planned projects. He explained this is the piece of the five-year plan that has been discussed with the Council in prior years. Many of those funds are for maintenance projects that the City expects to fund on an annualized basis. There are no new planned projects in the 2009/2010 proposal. Staff is proposing a \$10 million contingency fund to cover planned projects. In addition, there are three discrete contingencies that are unfunded, which set a spending limit within the legal budget. These include a grant contingency, airport grant contingency, and a \$20 million water contingency.

Mr. Clifford noted that in the past, Scottsdale's revenues have exceeded expenditures for operational needs. He discussed the equation the City uses when building the budget. Funds for base services, annualized debt service, reserves, and pay-as-you-go capital projects are set aside. Estimated revenue is subtracted, historically giving a positive balance. Additional pay-as-you-go CIP projects are then funded with that positive balance. Surplus funds that are not used are set aside in an undesignated fund balance for potential earmark or use in a later year. Revenues are dropping due to the recession, and the pay-as-you-go revenue source for new projects is drying up. Thus, staff is not proposing any newly planned projects in the FY 2009/2010 budget. This leaves debt financing as the only cash source for projects, and Mr. Clifford explained the City has very limited debt authorization moving forward, as the Bond 2000 program is winding down.

The funding sources for the five-year planning period are as follows:

- 33% Bond Financing
  - General Obligation Bonds
  - Preserve Bonds
  - Municipal Property Corporation Bonds
- 66% PAYGO Revenues
  - Developer Contributions
  - Development Impact Fees
  - A portion of utility fees
  - Fleet
  - Transportation (dedicated sales tax)
  - The Preserve (dedicated sales tax)
  - Interest earnings

Commissioner Smith asked what five-year period these numbers cover. Mr. Clifford indicated this represents FY 2009/2010 going forward. He clarified that the annualized budget appropriation is not necessarily spent each year. Approximately 25 percent of what is being budgeted is actually spent in any given year.

Mr. Clifford provided a list of projects with an expected completion date in FY 2008/2009:

- Civic Center Mall West Restroom Renovations
- Downtown Restroom Renovations
- Arabian Library
- Vista Del Camino Yavapai Ball Field
- Lagoon Renovation
- Camelback Park
- Scottsdale Papago Streetscaping
- McDonald Drive Corridor Drainage Improvements

The projects with an expected completion date in FY 2009/2010:

- Appaloosa Library
- Gateway to the Preserve
- Scottsdale Center for the Performing Arts
- Soleri Bridge and Plaza
- Indian School Road Drinkwater to Pima Roadwork
- Indian Bend Road Scottsdale to Hayden & Cactus Road Pima to Frank Lloyd Wright Roadwork
- Scottsdale Road Frank Lloyd Wright to Thompson Peak Parkway Roadwork
- Gainey Ranch Water Treatment Plant Rehabilitation
- Central Arizona Project Water Treatment Expansion Project

In regard to the water projects, Commissioner Ecton noted there has been subsidence around the CAP canal, and asked if there is a contingency plan to deal with a major problem as the wells are drained. Water Resource General Manager Marshall Brown said various well projects are associated with the CAP planned expansion, which is putting water back in the ground. The groundwater level declines are thus being mitigated to take care of the land subsidence. In addition, the City is negotiating with Arizona American Water and other entities to get their surface water allocations moved into their service areas within the City.

Commissioner Ecton stated her understanding was that the EPA pushed the City into this situation, and asked whether it is possible the EPA will change its regulation. Mr. Brown said the south Scottsdale

area has a Superfund site that has various pumping requirements associated with the groundwater. The City is working with the EPA to try to ensure that the groundwater pumping required for the remedy does not make the problem worse.

Commissioner Berlese asked for clarification regarding safe yield. Mr. Brown said the City achieved safe yield in 2006, and maintained it in 2007 and 2008. Safe yield refers to the replacement of the water used, which is a state requirement.

Commissioner Borowsky asked if water levels are going down or up. Mr. Brown indicated the groundwater system in the City is relatively complicated, and there are areas being recharged where water levels are rebounding. Water levels are continuing to decline in the northernmost portions of the system, and that is projected to continue.

Chair Schmitt asked whether the City would need more capital for additional injection wells. Mr. Brown said the Scottsdale water system has two different types of injection wells, and money has been programmed into capital projects to replace some of those wells. In addition, an asset management is in place to replace those wells indefinitely. Changes have also been made to extend the life of those wells. Longer lasting deep, recharged aquifer storage and recovery wells have about a 50-year life expectancy and the money is in the financial plan, but no replacement costs are included at this time because replacement will not be required for 30 to 40 years.

Mr. Clifford said the projects expected to begin in FY 2009/2010 are as follows:

- El Dorado Park Fire Station
- Cactus Acres Fire Station 8
- Public Safety Radio System
- Scottsdale Road Preservation Streetscape Enhancement
- Pima Road Deer Valley to Pinnacle Peak Roadway Project
- Phase 4 Advanced Water Treatment Plant

Operating impacts on the General Fund in FY 2009/2010 are:

- Appaloosa Library
- District One Police Facility Projects
- Grayhawk Community Park - Phase 1
- CAP Water Treatment Plant Expansion

Mr. Clifford discussed the reductions and deferrals that were shared with City Council on January 20<sup>th</sup>, 2009. The bulk of the 34 General Fund projects addressed were maintenance-related. None were eliminated; however, only the highest priority maintenance issues will be completed. Costs for transportation were reduced to what was necessary to move a project forward. Similar reductions were taken for water, sewer, and aviation projections.

In regard to project deferrals, some construction projects that were going to be completed with PAYGO revenues such as fire stations and parks will be deferred. Since the revenue to move forward with these projects is not available, the construction portion of those projects will be deferred until such time as the economy improves and the City can use cash sources to go forward. The water and sewer projects being deferred are all related to growth. There has been a definite downturn in growth and construction projects, and the projects planned that were associated with that have been moved further out in the five-year planning.

Mr. Clifford stressed while reductions have been made, no projects have been eliminated. He listed the project reductions as follows:

- Facilities repair and maintenance
- Playground and pool equipment replacement
- Replacement of technology
- Bus stop improvements
- Traffic management program
- Intersection mobility enhancements

Project deferrals will be as follows:

- Desert Foothills Fire Station construction
- Detention facility consolidation
- Portable and vehicle radio replacements
- WestWorld additional & updated RV slots
- Preserve North Access Area
- Sewer Collection & Water Distribution System

Mr. Clifford said these reductions and deferrals helps the City adjust to the current revenue and economy. In addition, it freed up available cash and with that, staff is recommending a larger contingency for next year.

In regard to bonds, Mr. Clifford indicated there were seven different questions on the ballot in 2000, and the City is making substantial progress on all of them. The proposed FY 2009/2010 budget proposes issuing the final bonds to finish those projects, with the exception of the helicopter initiative.

The new Transportation Master Plan will require financing to complete the plan over the next several decades; however, many of the projects are slated for years five, six, and beyond. The Water / Sewer Master Plan that was updated and adopted by the Council a year ago will require financing in FY 2010/2011 in order to move some of those projects forward. Additional funding will be required in years five and six.

Strategic priorities should include transportation, water, sewer, and solid waste. The master plans look decades out in the future, but short term issues need to be addressed. Public outreach should be discussed, as well as PAYGO funding limitations. Funding sources and expenditure restrictions should also be considered. Construction timing and limitations need to be addressed, as well as revenue to support operating costs. Close attention should be paid to projects that expand the City's service capacity, and staffing costs need to be integrated into long-term financial planning. The debt service capacity and taxing threshold should be addressed.

Any consideration for new bond authorization must be in a fall election. The earliest could be held in November 2009, which would require a special election. Some considerations regarding debt service include different funding sources, such as a secondary property tax, sales taxes, bed taxes, and utility fees.

Mr. Clifford indicated rates and fees would be addressed at the next Commission meeting. The operating budget will be discussed in April. The Commission will discuss its thoughts and recommendations on April 30<sup>th</sup>, for presentation to the Council on May 5<sup>th</sup>. May 19<sup>th</sup> is scheduled for the tentative budget adoption, and June 2<sup>nd</sup> the final budget will be adopted. All of this material can be obtained on the City's website at [WWW.SCOTTSDALEAZ.GOV](http://WWW.SCOTTSDALEAZ.GOV) under the Budget Commission's link.

Commissioner Berlese asked if the detailed monthly financial reports regarding the CIP projects are available for review. Mr. Clifford said Financial Services' monthly financial update is available online. Mr. Worth said a report page for every active CIP project is available on the City's website.

Commissioner Borowsky asked for additional information regarding bond issuances over the past two to three years. Mr. Clifford said there have been none this year. There was a large issuance approximately two years ago of approximately \$120 million in general obligation bonds, in addition to approximately \$100 million for water and sewer.

Commissioner Borowsky asked if past excess PAYGO funds were reserved for future projects, or if they were spend in the current year to avoid bond financing. Mr. Clifford explained they are assigned to the specific projects; however, those projects may be planned over the course of a five-year period. The City is always watching cash flows and revenues to match the cash flow to current spending needs. At no time does the City move forward with a project if dedicated funding is not in place.

Commissioner Borowsky asked how much of PAYGO funds were reserved for the future, and whether some of the funds are still available. Mr. Clifford stated that they are, and some of the funds are paying for proposed projects.

Commissioner Borowsky asked for clarification regarding the amount of bond financing. Mr. Clifford stated typically 80 percent of projects are funded with financing; however, the City had PAYGO funds coming in while the bonds were being sold and projects were being finished, which has flipped the equation upside down with less bonds and more PAYGO. In order to move forward, the City will need more bonds in order to fund high dollar projects.

Chair Schmitt asked if the City has a five-year capital program in place for water, sewer, and transportation. Mr. Clifford explained the City has master plans in place that go out much further than that. Although the City has a five-year plan, the budget will only be adopting the first year.

In response to an inquiry by Commissioner Foster, Mr. Clifford indicated all of the 285 projects listed on the CIP will be paid for by bonds or PAYGO funds. A balanced budget was achieved by project reductions and deferrals. The final approved bonds will be issued to complete the projects.

Commissioner Foster asked for clarification regarding the bond process. Mr. Clifford said if the voters do not approve additional funding, the City must build infrastructure with PAYGO funds. Increased taxes could generate additional PAYGO funds.

Commissioner Foster asked how the City calculates the population density in order to build infrastructure like water and sewer. Mr. Clifford explained the City's master plan would generate most of that information. Water and sewer must build for peak demand, which is considered when adjusting the master plans.

Vice Chair Smith asked if the City has any reserves in place for the eventuality that the remaining bonds cannot be issued. Mr. Clifford said staff is estimating a beginning balance from all sources within the capital plan of approximately \$300 million. Many of the projects that the \$50 million in bonds would help fund are already underway, but the debt will not be issued until later.

In response to an inquiry by Commissioner Berlese, Mr. Worth explained the FY 2009/2010 budget does reflect current market conditions for construction. The City probably will achieve some savings, since current projects were budgeted two or three years ago when costs were higher. The Indian Bend Road and Pima Road projects are not just road widening projects; two lanes are being added, which requires a rebuild of the roadway in order to address some drainage issues. In addition, power lines are being placed underground, and wastewater infrastructure will be relocated in places.

Commissioner Foster suggested that citizens might not mind paying a little more in property taxes to fund some of these projects if the flood zones were changed where appropriate, eliminating the flood insurance requirement. Mr. Worth discussed the Granite Reef Wash, and indicated the completion of the project will reduce some citizens' need for flood insurance.

Vice Chair Smith asked for clarification regarding projects being completed in-house versus by third-party contracts. Mr. Worth explained that all staff time associated with executing a capital project gets charged to the capital budget. A reduction in those hours would not be reflected in the operating budget; rather, it would be reflected in the capital budget. Within the Capital Projects Management Division, staff is being assessed and changes made. There will be reductions in the number of positions, particularly in the project management group and construction administration group. The City is achieving some savings by eliminating outside consultants and doing that work in-house.

### **Chairman's Comments**

The Commission thanked staff for its presentation, indicating it was very easy to understand. In addition, staff was commended for recognizing the current economic conditions and recommending no significant capital improvements in the near future.

### **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