

AS APPROVED OCTOBER 22, 2009



**CITY OF SCOTTSDALE
BUDGET REVIEW COMMISSION
REGULAR MEETING**

THURSDAY, APRIL 30, 2009

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

PRESENT: Louis Schmitt, Chairman
David Smith, Vice Chairman
Michael Foster, Commissioner
Bob Berlese, Commissioner
Eric Borowsky, Commissioner
Martha Ecton, Commissioner
Donna Reagan, Commissioner

STAFF: Scott McCarty, Financial Services General Manager
John Little, City Manager
Sylvia Dlott, Sr. Budget Analyst
Monica Staats, Sr. Budget Analyst
Judy mcilroy Sr. Budget Analyst
Neal Shearer, Assistant City Manager
Deborah Robberson, City Attorney
Janet Cornell, Court Administrator, City Court
Dan Worth, Municipal Services General Manager
Marshall Brown, Water Resource General Manager
Brent Duran, CVB
Rita Hamilton, Library Director

Call to Order

Chair Schmitt called the Budget Review Commission meeting to order at 5:00 p.m.

Roll Call

A formal roll call was conducted, confirming the presence of Commissioners as noted above.

Commissioner Comments

City Manager John Little informed the Commissioner staff is present to assist with this process. This is the opportunity for the Commission to develop the framework for its report to the Mayor and City Council.

Staff's goal is to design, critically evaluate, and present a balanced budget for FY 2009/2010. Key objectives are:

- Reduce expenditures
- Create new sustainable models for service delivery and management
- Maintain core services and service levels
- Do no harm to the City's bond rating

Key strategies in achieving these goals:

- Transfer of \$9 million from the CIP to the General Fund
- Generation of \$3 million from reorganization
- Save \$4 million in salaries from proposed wage reductions

Outcomes of this proposed budget:

- No new taxes
- Smallest utility increase since 2005
- Protection of core services, while reducing staff by over 200
- Successfully balance employee sacrifice with maintaining morale and improving productivity
- No capital projects eliminated

Chair Schmitt indicated that each Commissioner's submissions were reviewed, and the topics and issues were captured into five broad categories for discussion:

- Financial policies
- Revenue forecast
- Taxes and Fees
- Capital improvement program
- Operating budget and other issues

Chair Schmitt stated he would like to have a free-form discussion, and proposed that the Commission discuss and debate each issue and then determine whether is a consensus and/or majority or minority position to recommend to the Council.

The Commission indicated it was comfortable with that recommendation.

New Business

1. BUDGET REVIEW COMMISSION RECOMMENDATIONS – LOUIS SCHMITT, CHAIR

Discussion, consideration and possible adoption of recommendations to the City Council regarding the City's budget, including, but not limited to, the operating budget; the capital budget; revenue forecast, taxes and fees; and financial policies.

The Commission reviewed their topics and issues as follows:

Financial Policies

AAA Bond Rating

Chair Schmitt said he believes it is important for the City to maintain its AAA bond rating.

Vice Chair Smith stated the bond rating is a symbol of its financial strength and the good management of the City.

Commissioner Ecton indicated the City's future is based on this rating, and agreed it is important to maintain it as a sign of fiscal responsibility.

Commissioner Reagan agreed it is very important to maintain the AAA bond rating.

Commissioner Borowsky stated the City should maintain the AAA bonding to save money.

Commissioner Berlese said the City is one of a handful of municipalities in the United States that enjoys a AAA rating, and it comes back tenfold in interest rates.

Vice Chair Foster indicated that he strongly supports the AAA bond rating.

The Commission unanimously agreed to recommend that the AAA Bond rating be maintained.

Monthly Financial Reports

Commissioner Borowsky said it would be important for the Commission to review monthly financial reports in order to monitor performance. Financial Services General Manager Scott McCarty said the City's monthly financial report is posted to the website each month.

Commissioner Berlese recommended that the Commission receive hard copies of the City's monthly financial reports in its packets.

Commissioner Reagan asked for clarification regarding providing monthly reports to the City Council in the past. Commissioner Berlese recalled that in the past, the Council

was provided with trending reports. These reports included any issues staff felt was important to bring to the Council's attention.

Vice Chair Smith said the submissions from Commissioners indicated that the monthly reporting of financials should be more robust than it is now. He suggested the Commission recommend that a monthly presentation on the financial condition of the City be presented to the Council in order to provide a forum for public discussion.

Commissioner Foster indicated his support for monthly reporting, and requested that an explanation for any variances from the budget be included.

The Commission reached a consensus that this issue needs elevation by agendaizing a monthly financial report with a presentation by the CFO on the City Council's agenda.

Mr. Little said it is the intention of the Executive Committee to have a full review of the monthly financial statement to discuss what managerial and administrative actions should be taken in order to make appropriate adjustments through the year.

Prohibit use of restricted funds for any purpose other than originally intended

Commissioner Ecton said City contracts with 501(c)(6) organizations should be audited on an annual basis, in order to ensure funds are used as the City intended.

Commissioner Borowsky indicated if contracts are not being followed, audits should be performed. Most funds have restrictions; however, when facing deficits, further restrictions should not be placed on these funds.

Chair Schmitt agreed that management needs flexibility during difficult times.

Vice Chair Smith stated the less restriction on funds the better.

Mr. McCarty said many restricted funds are legally restricted, and the City diligently applies those rules and regulations. The General Fund is where all non-restricted funds reside. The City may make decisions internally about how those funds are saved, but that is not a true restriction.

Commissioner Berlese asked if internal controls are in place as far as oversight on restricted funds. Mr. McCarty stated there are several methods of oversight such as internal and external audits.

The Commission agreed they have no recommendations for the Council regarding this issue.

Prepare annual evidence of compliance with Fiscal Policy 14

Vice Chair Smith indicated he believes the City should periodically review activities being contracted to determine if they are still relevant, and whether they should be handled internally.

Mr. Little clarified that the City does comply with the policy as part of building the budget each year. Departments are obligated to conduct an analysis of programs that could be either contracted out or done in house.

Mr. McCarty noted that Policy 14 is incorporated into internal audits, where appropriate.

The Commission agreed they have no recommendations for the Council regarding this issue.

Revenue Forecast, Taxes and Fees

Commissioner Ecton discussed a recent bill in the legislature to stop shared revenue, and expressed concern regarding possibly losing it in the future.

Commissioner Reagan said she believes the City will be required to make adjustments throughout the year as shortfalls are observed.

Commissioner Borowsky said staff has done the best job possible in forecasting revenue; however, forecasts often cannot be relied upon and the City must be prepared to react if revenues start slipping beyond target levels.

Commissioner Berlese suggested that reductions be prioritized so everyone knows what they are facing if revenue forecasts are inaccurate.

Chair Schmitt discussed revenue shortfalls in private enterprise; he believes the City's revenue forecast is optimistic and that he foresees significant problems.

Mr. McCarty said staff has put their best foot forward with practices that have yielded good results in the past. He agreed the focus should be on a monthly measurement of financial trends and corrective action, if necessary.

The Commission agreed to recommend to the Council that staff has done the best job in forecasting; however, monthly adjustments may be necessary if the forecast proves incorrect.

Bed Tax

Commissioner Ecton discussed the Bed Tax system, its history in the City, and how it works. She recommended a 2 percent increase in the Scottsdale Bed Tax, providing an additional \$5.4 million in revenue, which could be used for tourism marketing, developing activities, research, visitor-related capital projects, Desert Discovery Center, Museum of the West, and Cactus League facilities. She indicated the distribution should remain at 80 percent to the TDC and 20 percent to the General Fund. The 80 percent distribution should be allocated annually using a pre-determined formula that would provide a solid base for CVB marketing, capital project contributions, special events, and economic carryover. Any proposed tax rate increase, allocation categories and percentages would need to be agreed upon by the City Council and affected stakeholders and an ordinance written to ensure funding is distributed accordingly.

Brent DeRaad said many times larger cities will allocate a higher percentage of the bed tax toward their convention centers.

Vice Chair Smith expressed concern about raising the Bed Tax to 5 percent, when surrounding cities are only charging 3 percent. He indicated he would like to ensure that some of the additional funds would be committed to capital projects.

Commissioner Ecton clarified that the TDC feels that this increase is needed to keep the City a prime destination.

The Commission agreed to recommend a 2 percent Bed Tax increase to the City Council.

Property Tax

Mr. McCarty stated the City could not increase the property tax rate. That is a function of the assessed value, which is set by the County. This discussion is regarding a 2 percent revenue increase over the prior year.

Commissioner Borowsky said the County Assessor lowered the assessed rates by 16.1 percent, and the limited cash value was lowered by 7.7 percent. The actual tax is a complicated formula of both of those values, and one of the items is tax rate. He pointed out that if the Assessor lowers assessed value and the tax rate stays the same, there's a possibility that revenues will drop.

Mr. McCarty indicated it has been the practice of the Council to always take the 2 percent each year in order to not get behind. It is a 2 percent annual limit, and if not taken, it is lost forever.

The Commission agreed by a majority to recommend the City take the full 2 percent revenue increase. Commissioner Foster dissented.

Sales Tax

Commissioner Borowsky said he believes the Commission should recommend a tenth of a percent sales tax increase to the City Council, which would generate approximately \$8 million in revenue. This could be voted upon if a special election is held in November.

Commissioner Berlese asked how Scottsdale compares with other valley cities in regard to sales tax rates. Commissioner Borowsky noted that Phoenix is at 8.34 percent. Scottsdale is currently point four-tenths of a percent under Phoenix.

Mr. McCarty said Chandler and Gilbert currently have the lowest rates at 1.5 percent. Scottsdale and Paradise Valley are at 1.65 percent.

Chair Schmitt said this revenue would make the CIP whole and could help balance the budget.

Commissioner Foster indicated he would find it much easier to support this tax than a property tax.

Commissioner Ecton expressed concern that two tax items on one ballot will cause both of them to lose.

Mr. McCarty noted the State is also considering an increase in the state sales tax.

Vice Chair Smith stated he believes this should be a last resort for the City.

The Commission agreed by consensus to present this as an option for the City Council to decide upon.

Rental Units Tax

Commissioner Reagan clarified that property owners are currently taxed for three or more units. She suggested giving them one exemption, which is more in line with surrounding cities.

The Commission agreed by consensus to recommend to City Council that property owners be given one exemption before being charged the Rental Units Tax.

Past Due City Court Fines

Mr. McCarty clarified that the \$26 million in past due fines has three parts: \$12 million is owed to the City, \$9 million is owed to the State, and \$5 million would be owed to the collection agency for collecting those fines.

Court Administrator Janet Cornell said the entire collection program would be moved to the State Centralized Collection Program in September, as directed by the Arizona Supreme Court. The success ratio in collecting these fines is comparable with other courts.

Commissioner Berlese asked if there is a point where fines are declared uncollectable. Ms. Cornell said they are not taken off the books; however, the realistically collectible amount is trued up with the Finance Department every year.

The Commission agreed by consensus that they support the court's collection activities.

Fees for miscellaneous City programs

Commissioner Ecton said she does not feel that Parks and Recreation should decrease their fees.

Commissioner Borowsky said it would be shortsighted to ask WestWorld to break even on its own, since it brings in tourists, sales tax, et cetera. He suggested these may be staff items, rather than Commission items. Several Commissioners agreed.

Vice Chair Smith said looking into the minutiae of the management of the City is beyond the scope of this Commission.

The Committee agreed by consensus that this issue should be decided by City Council.

Utility Fee Increases

Commissioner Reagan said she would like to see rates increase at a steady rate, rather than doing a larger increase in the future to catch up.

Commissioner Ecton stated Chandler's utility rate increase would be 13 percent next year because they delayed small increases.

Water Resources General Manager Marshall Brown pointed out that the City does not currently have a plan to increase rates next year to offset the Option B decrease. Water Resources reduced its budget by \$4.5 million, and the lower rate proposed for water and wastewater results in about \$3 million less revenue.

The Commission agreed by consensus to recommend City Council approve Option B as proposed by staff.

Court Fees

Commissioner Reagan noted that court fees have not been increased for 16 years, and suggested they be increased to \$15.

Ms. Cornell stated the Court Enhancement Fee is subject to the surcharges assessed by the state. The current fee is \$10, which goes to the City Court's Court Enhancement Fund. \$8 goes to the state for the surcharges. Staff has proposed that the fee be increased to \$12.50, making the grand total assessed on a litigant \$23.00. If the fee were increased to \$15, the grand total assessed on a litigant would be \$27.60, which would put the court at the leading edge of courts in the Valley.

Vice Chair Smith said he believes this fee should be at the highest rate.

The Commission agreed by consensus to recommend that Council increase the Court Enhancement Fee to \$15.

In regard to the Court Default Fee, Ms. Reagan noted that the average Default Fee at other Valley courts is \$50, and recommended this fee be increased to \$40. Ms. Cornell said the City would be within the market range if the fee were increased to \$40. This fee is not subject to the state surcharge assessment.

The Commission agreed by consensus to recommend that Council increase the Court Default Fee to \$50.

Institute Taxes or Fees

Mr. Little explained the City Council previously approved a budget reflecting enhanced municipal services in the Downtown area like street sweeping and landscaping as part of revitalization efforts. This has been set as a standard level of service since that time.

Chair Schmitt said these extra services are important to tourism, which would be taken care of by the increased Bed Tax.

Commissioner Berlese indicated he would like to review the cost of enhanced services in the Downtown area at a future meeting. Mr. Little stated staff has those costs available, and will share them with the Commission when they are ready to review them.

Commissioner Ecton said there are 40,000 to 50,000 visitors Downtown each weekend, and the enhanced services are necessary for cleanup.

The Commission had no recommendations for the Council on this item.

Capital Budget

No New Projects

Chair Schmitt said some priority projects would be delayed if another \$9 million were taken out of the CIP to make the current budget.

Commissioner Ecton said the City is just now catching up from the 2001/2001 economic downturn, especially regarding road projects. She asked if this would cause another catch-up period. Municipal Services General Manager Dan Worth explained no new road projects will begin, but maintenance will take place and be paid for out of the operational budget.

Chair Schmitt asked if road maintenance has been deferred in the proposed budget, or if they are ongoing as scheduled. Mr. Worth said in the current budget year, \$1.7 million was reduced out of the \$9.2 million budget line for contracted pavement maintenance projects. This has caused some projects to be pushed into FY 2009/2010; in addition, some pavement overlays will be replaced with a less expensive treatment, which will deteriorate more rapidly.

Chair Schmitt said in the end, this causes the City to spend more money than it saved.

Commissioner Borowsky asked for clarification regarding CIP fund transfers. Mr. Worth explained an updated assessment of the CIP was presented to City Council in November. The \$10 million transfer planned in the adopted budget from the General Fund to the CIP was not necessary.

Chair Schmitt stated he is uncomfortable with deferring maintenance.

Vice Chair Smith noted these expenses are in the operating budget, not the capital budget.

Mr. Worth indicated similar deferrals were made in the pavement maintenance program in 2002, and increased expenditures were necessary 6, 7, and 8 years later, costing approximately \$2 million to catch up.

Commissioner Berlese said the Pima Road Deer Valley to Pinnacle Peak and Scottsdale Road Preservation Streetscape Enhancement total almost \$50 million. He asked whether those projects could be phased in order to save money, returning the funds to the General Fund to be used for other purposes.

Mr. Worth said the Pima Road project is funded by Prop. 400 funding and the voter-approved Bond 2000 funding. Only \$1 million of the project budget will come from sales tax revenue within the City. The City would not be able to reutilize these funds. The Scottsdale Road Streetscape Enhancement project is funded from Bond 2000 funds.

The Commission had no recommendation for the City Council regarding this item.

Excess Property

Chair Schmitt asked whether the City has a person who is responsible for the sale of excess property. Mr. Little said the Real Estate Division is responsible for putting out RFPs on these properties. The City tends to keep property for future use.

Chair Schmitt asked if an assessment of surplus property has been done in the last 18 months. Mr. Worth said an ongoing assessment is in process.

The Commission agreed by consensus to recommend that the City Council follow up on this item at a later date.

Review of Preserve Expansion Plan

Mr. Borowsky said the adopted budget indicated the Preserve Privilege Tax Special Revenue Fund should have a \$30 million reserve at the end of FY 2008/2009, which is only currently at \$20 million. The debt service is going up at a significant rate, while the fund balance is going down, even though a lot of sales tax money is being collected for the Preserve.

Mr. McCarty said a couple of strategies are at play with this fund. It is important to remember this is a dedicated sales tax to buy Preserve land. It is anticipated that the \$10.6 million in the CIP Fund line item will be used for a cash purchase of some land. That number varies by year based on the size and location of the land. The other portion of this fund has to do with debt service and when the City chooses to issue new debt based upon buying significant pieces of land.

Commissioner Borowsky expressed concern regarding the sales tax keeping up with the debt service, and that debt service will start exceeding revenues.

Mr. McCarty emphasized this has to do with the City's strategies relative to whether it purchases land with a check versus via a bond issue. Decisions are made based on the circumstances.

The Commission had no recommendations for the City Council regarding this item.

Pay As You Go

Mr. McCarty explained the City is not eliminating PAYGO in this year's budget. The minimum policy requirement of taking 25 percent of the construction sales tax and placing it in the general government CIP will continue. 67 percent of the entire \$600 million capital budget is PAYGO financing, which will be used to fund those projects.

Commissioner Ecton said City Council received over 200 letters from citizens in the area of East Shea who were distressed about the Palomino Library. She recommended considering \$10 to \$14 million in bonds for a new Palomino Library if a new bond election is held.

Vice Chair Smith said it is not within the Commission's purview to discuss specific project allocations. They are strategic decisions made in consultation between staff and the City Council.

Commissioner Berlese expressed concern regarding the division of the cost sharing with the school district.

Director of Scottsdale Libraries Rita Hamilton explained that agreement was made 10 years ago, where the school district agreed to pay for 69 percent of three positions. This was their typical school library cost at that time. They provided the land, built the building, and pay for utilities and maintenance. The City pays for staffing and other operational costs.

Commissioner Berlese asked for clarification regarding library placement, and whether there are plans to locate a new standalone library that would be fully funded and staffed by the City.

Ms. Hamilton said a facilities needs plan is completed to determine library placement.

The Commission had no recommendations for City Council regarding this item.

Operating Budget

Employee Expense

Insure compensation is commensurate with duties and responsibilities

Vice Chair Smith said there should be a periodic assessment that is shared with Council about the compensation programs. In addition, an articulated policy should be in place clarifying where the City stands in regard to compensation.

The Commission had no recommendations for the City Council on this item.

Proposed Adjustment

Chair Schmitt said as a general management practice, he does not like the idea of a flat 2 percent cut.

Vice Chair Smith agreed that across the board salary adjustments do little to remedy intrinsic problems in the system, and penalized the good and the bad. He indicated he recognizes that staff had to respond very quickly to the budget situation, but urged any actions taken in the future be more strategic, focused, and address either overstaffing or overcompensation problems in particular areas.

Commissioner Ecton agreed that across the board cuts are not fair to high achievers.

Commissioner Foster said the only way to mitigate this is to utilize performance rewards so that those who are willing to put forth the extra effort can adjust for the 2 percent loss.

Commissioner Reagan said merit pay and superior performance awards could keep employee morale and motivation up. She indicated she would vote against taking away all merit and performance awards.

Commissioner Borowsky said this should be deferred to the City Manager and department managers. Staff has made tough decisions, and the alternative would be reducing staff even further. In the future, this should be discussed with the City Council.

Commissioner Berlese said the City has never done an across the board pay reduction. The 2 percent pay reduction has saved the City \$8 million and approximately 200 jobs. He agreed that a superior performance award is necessary to motivate staff, and suggested that be put back into the pay plan.

Vice Chair Smith said if additional pay cuts are necessary in the future, it should be more strategic.

The Commission agreed by consensus to ask the City Council to consider reinstating the superior performance awards.

Overtime Pay

Commissioner Berlese suggested a contingency be set up for overtime that departments can draw on in case of emergency. This would provide a safety net without fear of running short in their budget.

Mr. McCarty said from a management standpoint that is a practice that could be well served; however, from a budget standpoint they would wind up budgeting the same amount.

Mr. Little noted that the police department bases overtime forecasts on the actual requirements of the work and how long specific tasks take.

The Commission had no recommendations for the City Council on this item.

Group Insurance

Commissioner Reagan noted that the City Council requested the Commission review rate changes for January 1st, 2010.

Vice Chair Smith stated he feels the group insurance rates should be increased based on the reports provided to the Commission. He stated he does not believe a 10 percent employee share of premium costs is justified compared to other businesses.

Mr. McCarty said because the City is self-insured, all out-of-pocket costs are not part of the 10 percent cost split. When co-pays, co-insurance, and premiums are added in, employees pay approximately 28 percent of the total cost of the healthcare bill.

Vice Chair Schmitt asked for information regarding surrounding cities and the State, ranking the City and giving absolute differences. Mr. McCarty said staff would put that information together for the Commission's future debate of this issue. This will be agendaized for discussion sometime this summer. Chair Schmitt asked that the Commission be provided with this information by August 1st.

The Commission had no recommendations for the City Council on this issue at this time.

Retirement

Chair Schmitt indicated he is a State Employee retiree, and would not participate in this discussion to avoid a conflict of interest.

Vice Chair Smith noted that this is an assignment for the Commission to review at a future time. The Arizona State Retirement Fund is currently in a difficult situation due to large portfolio losses, and the City should have dialogue with the State to try to anticipate future requirements.

Commissioner Berlese asked the City Attorney to provide an opinion regarding this matter to the Commission. City Attorney Deborah Robberson said she would supply that to the Commission, which could be used as a starting point for future discussions.

The Commission does not currently have a recommendation for City Council regarding this item.

Transfer of Employees to Special Funds

Commissioner Berlese expressed concern regarding transferring court employees' salaries to the Court Enhancement Fund; at some point in time the funds being collected will not be sufficient to support 15 positions and the CIP. The positions will need to be transferred back to the General Fund so that the CIP will not be affected.

Mr. McCarty stated those additional employees would only be paid for out of that fund for the next two years.

The Commission had no recommendations for City Council on this item.

Use of \$9 million transfer from the CIP

Commissioner Foster said he does not have a problem with the movement of the funds.

Commissioner Berlese said the \$9 million originated from the General Fund; therefore, he does not have an issue with the transfer.

Mr. McCarty said the funds were unprogrammed and it is simply a return of money to the General Fund.

In response to an inquiry by Chair Schmitt, Mr. McCarty said the \$7.3 million is in the operating budget, and the Commission could recommend transferring an equivalent amount to make the street overlay program whole out of the Transportation Fund CIP.

Chair Schmitt said he would like to propose that reprogramming in order to avoid unnecessary future costs.

Commissioner Foster indicated the slower economy could reduce traffic, and asked whether this would allow for deferring street maintenance. Mr. Worth said he does not believe traffic counts will change appreciably.

Commissioner Berlese said every maintenance department and transportation department in the Valley has cut back on their preventative maintenance. He expressed concern that trying to play catch-up later will have a significant impact, especially if the economy does not improve.

Chair Schmitt stated pavement preservation should have a higher priority than pavement or island beautification, and the Commission agreed by consensus.

Commissioner Borowsky asked for clarification regarding the Transportation Fund Deficit Elimination Transfer budget item. Mr. McCarty said this is in the Transportation Operating Fund where the City is required to record the State monies received that are restricted for transportation costs. Since expenses to operate the transportation system

exceed revenues, money is transferred in from the General Fund to net that line item out to zero every year.

Use of \$3 million of General Fund unreserved funds

Mr. McCarty explained this \$3 million is one of the sources the City would use to balance the FY 2009/2010 General Fund budget.

Reserve Funds Generally

Commissioner Borowsky asked if the Police Tow Fund is a fund set up by the City. He requested information regarding how many unique funds the City has, and whether they could be merged into one fund for the City to use.

Mr. McCarty said the Tow Fund is restricted by State statute. The City has a few funds like this, but they are also restricted and accounted for outside of the General Fund.

Identification of \$3 million dividend from the reorganization

Chair Schmitt asked whether the City Manager is working on a list of projects.

Mr. Little said divisions are making specific efforts to produce the \$3 million dividend. However, the divisions are not formally formed until the City Council approves the restructuring proposal. At that point the executive leadership of the City knows that is a real number.

Interest Income

Commissioner Borowsky noted interest reserves have gone down, and asked for clarification regarding that issue. Mr. McCarty said all local governments are restricted as to what they can and cannot invest in, in order to protect the public's money. The City has approximately \$500 million invested on a daily basis, which has been fairly constant over the past few years. The reason for the reduced income earnings is due to market conditions.

Vice Chair Smith suggested this topic be deferred until staff can provide more detailed information to the Commission.

Commissioner Borowsky asked if there is anything the City can do to yield more of a return. Mr. McCarty stated the total portfolio is currently at approximately 3 percent.

Recommended overall expense reductions

Chair Schmitt said he foresees significant operating deficits in July or August due to the economy.

Vice Chair Smith agreed, stating there are systemic changes occurring in the revenue base of the City. He expressed concern regarding the expense projections, and many contingencies have been stripped from the proposed budget. He indicated the way to

earn and keep a AAA bond rating is to demonstrate financial integrity and discipline, and this is not a budget that demonstrates financial discipline. He said significant strategic reductions must be made in the budget immediately.

Chair Schmitt stated the proposed budget operates a \$9.5 to \$10 negative run rate. This year deficits will be covered with the CIP. The negative run rate can only be eliminated by changing the structure of the business.

Commissioner Borowsky expressed concern that this budget starts by using reserves to balance the budget. He stated while some savings can be made through operating expense reductions, some of it would also have to come out of employees. He asked whether the Commission wants to make that recommendation at this point, or wait for the results of a study regarding how other cities manage their municipalities with fewer employees.

Vice Chair Smith said this is a \$20 million reduction, \$10 million now, and \$10 million over the course of the year as other strategic opportunities are identified. He indicated the \$10 million negative run rate equates to a 4 percent deviation in revenues, which is not a very wide margin of error to have as a cushion.

Commissioner Berlese noted that the City has a new City Manager, a new CFO, and a new organizational structure. He said staff members are professional, highly paid individuals who are capable of bringing in a balanced budget. He stated this proposal would result in a significant reduction in workforce and service level decreases.

Commissioner Foster asked what services would suffer that could cause citizen inconveniences. Commissioner Berlese suggested responding to citizen requests for assistance could be delayed, service levels at pools and libraries could be lowered, and building inspections and code enforcement could also suffer lower service levels, among others.

Commissioner Berlese asked that the new organizational alignment be given time to work as it should before working to reduce the operating budget further.

Commissioner Reagan agreed the new organization should be given a chance. She said she would not vote to recommend looking for an immediate \$10 million operating budget reductions.

Commissioner Ecton said many citizens think some of the City's amenities are entitlements. She suggested asking each department to recommend further cuts.

Chair Schmitt said he is seeing very high revenue reductions in the business community. The City has \$10 million available it can choose to spend now or later. If it is spent now and the revenue forecasts come in below projections, the cushion has already been spent. He expressed concern that the City does not have a "Plan B".

Vice Chair Smith reiterated the proposed budget is not a balanced budget because it is borrowing \$9 million from one fund, \$3 million from another fund, and is looking for \$3 million in unidentified savings from a reorganization.

Mr. McCarty clarified that the proposed budget meets the definition of State law as a balanced budget.

Commissioner Borowsky noted expenses are now exceeding revenues because revenues have dropped. The real problem occurred due to mismanagement in years where there was excess. He indicated he does not agree with penalizing current employees for past bad management. When the economy turns around, those employees will be needed. He said staff should be given the opportunity to cut the deficit in other ways.

Mr. Little said the proposed budget is predicated on one central strategy: This is Scottsdale, and everything staff has done was done to preserve the levels of service that is expected of this City. This is a community that prides itself on a special level of service provided by special employees.

Chair Schmitt said in order to maintain the expected service levels, taxes may have to be increased. Mr. Little agreed that could be an option, as well as using reserves. Staff proposed not to use the reserves in order to maintain the AAA bond rating.

Commissioner Berlese said the outcome of the last reduction in force in 1990 was the establishment of a rainy day fund. During robust economic times, previous administrations spent a lot of that money; he indicated he would like to see how that fund was depleted.

Commissioner Foster said for the time being he would like to place his faith in the leadership, who could make adjustments later, if necessary.

Chair Schmitt said this is a difficult issue, and suggested the Commission could express their concern but not make any recommendations at this time.

Commissioner Borowsky asked if staff has discussed a Plan B. Mr. Little said staff knows exactly what list of options would be brought to policymakers, should the need arise. It is the City Council's job to tell staff what services and service levels they want.

Vice Chair Smith said it is City staff's responsibility to look for areas of efficiency and cost savings, but service cuts are the responsibility of the City Council. There may come a time where the current level of service is not commensurate with the level of income the City used to enjoy.

The Commission agreed by consensus that if there is, in fact, an issue with the financial forecast there will be serious problems; the City Manager should come up with a Plan B.

Miscellaneous and other expenses

Utilities

Commissioner Ecton said it was her understanding that it is the City Council's responsibility to cut specific programs in the operating departments.

The Commission had no further recommendations for the City Council on this issue.

Contingency Planning

The Commission had no further recommendations for the City Council on this issue.

Support Reorganization in eight divisions

The Commission agreed by consensus to recommend the City Council support the reorganization.

Transparency

The Commission had no recommendations for the City Council on this issue.

Develop organizational chart showing skills, compensation, and experience

Commissioner Foster said certain employees are in very competitive positions, and others have acquired a breadth and depth of experience that could allow them to do the work of 1.5 or 2 FTEs due to the efficiencies they bring to bear. It would be helpful to know how many employees the City has, how critical they are, and what they are paid. The City would not want to lose talent of that caliber when making further cuts. Cutting certain individuals could be a critical loss to the organization, while with other positions it could be a healthy thing. It is important for leadership to be able to identify which employees should be kept.

Elimination, duplication of effort, and gain efficiencies

The Commission had no further recommendations for the City Council regarding this issue.

Prompt restaffing of the City Treasurer

Vice Chair Smith said the City should have independent financial advice as provided for in the charter. Since the position is now vacant, he urged the City to fill the position with such a person.

Commissioner Ecton discussed the financial aspect of hiring a City Treasurer, including salary, benefits, support staff, et cetera. The total cost could reach \$400,000 or more.

Vice Chair Smith said this is an important position and would recommend it be filled.

In response to an inquiry by Commissioner Borowsky, Mr. Little said in the recent past, a City employee has always filled this position. Because it is a charter position, this is the City Council's decision.

Chair Schmitt said in the scheme of things, the treasurer or CFO serves as a counselor to the CEO relative to financial matters. They also handle the issue of how debt is

managed. Many times the treasurer provides a counterpoint to the controller's opinions, which is good for an organization. This position is a control function, but it would be expensive. The Council should review this issue for a decision.

The Commission agreed by consensus to recommend the City Council review whether to fill the treasurer position, and if so, by whom.

Bond Election

Mr. McCarty explained the City's last authorized bond issue for general government improvements was in 2000, and the entire plan is \$50 million away from being completed. The Transportation Master Plan, Fire Facility Master Plan, and Stormwater Master Plan are currently being drafted, and staff is recommending bond authorization to complete components of those plans.

The Commission agreed by consensus to recommend that Council set the bond process in motion and define the projects that could be included in a future bond election as soon as the fall of 2010.

Bed Tax

The Commission had no further recommendations regarding this issue.

Voter authority to use restricted reserve funds for general expenses

The Commission had no recommendations for the Council regarding this issue.

Increase Sales Tax

The Commission agreed to comment on this issue.

Capital funds for infrastructure maintenance

The Commission had no recommendations for the City Council on this issue.

Changes to the budget process

Commissioner Reagan said it would have been helpful if the goals and mission of the Commission had been more structured.

Chair Schmitt said it has been a learning process for everyone.

Chair Smith said Council should help the City Manager design some of the programs and activities that are important to the City.

Budget timetable and responsibilities

The Commission agreed to start the process earlier next year.

Commissioner Borowsky asked whether there are other budget process alternatives. Mr. Little said there are other ways to do the budget, including two-year budgeting. Staff would like to engage in a discussion on this issue with the Commission during a future meeting.

Adoption of metrics and performance measures

Commissioner Borowsky suggested it would be useful for the City to study the 19-year data, including cost per capita, to determine whether the City has gotten worse or better. That data would also be helpful during the budget process.

Mr. Little said staff would be installing an organizational unit that will assist in exploring the use of metrics. The City is already using metrics in many areas; however, they can be expanded and perfected. State-of-the-art practices and the role of metrics and how they can be used to judge performance against plan will be researched.

The Commission agreed by consensus to recommend the use of metrics, and that performance measures be researched and implemented in the coming year.

Commissioner Borowsky requested staff do a comparative study with other cities to determine whether the City has too many employees or if it is spending too much money. A general answer to those questions is not viable; exact data must be used to reach a definitive conclusion.

Commissioner Borowsky noted that the City's debt in 2003 was \$619 million, and currently sits at \$1.1 billion, which represents an 80 percent increase. He stated a lot of money has been spent on things that the average citizen does not use. If debt continues to increase at this level, taxes will have to be raised significantly. He said this is a major issue that needs to be addressed by the City Council.

Mr. McCarty clarified that a lot of the debt increase is a result of voter action in the form of bond issuances, and debt issued related to Preserve acquisition, which is also voter initiated.

Commissioner Borowsky expressed concern that many issues are put before the voters by special interest groups, and are not truly understood by average citizens. The Council should take a leadership role and alert citizens about the massive growth in debt.

Vice Chair Smith agreed, and indicated the Commission should recommend the City Council be more involved in financial matters than in the past, and issues of financial transparency, understanding, and visibility should be transferred to the citizenry.

Commissioner Comments

None noted.

Chairman's Comments

Chair Schmitt suggested the Commission write a three- to four-page document to be used as the cornerstone for sending its recommendations forth to the City Council. The Commission agreed by consensus to review the minutes, create the document, and send it to staff.

Public Comment

None noted.

Adjournment

Being duly moved and seconded, the meeting adjourned at 9:57 p.m.

Respectfully submitted,

A/V Tronics Inc., DBA AVTranz