



**CITY OF SCOTTSDALE  
BUDGET REVIEW COMMISSION**

**THURSDAY, APRIL 2, 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:** Deb Barrett, Community Services Manager  
Bryan Bundy, Sr. Budget Analyst  
Craig Clifford, Financial Services General Manager  
Sylvia Dlott, Sr. Budget Analyst  
John Little, Acting City Manager  
Scott McCarty, Assistant General Manager, Financial Services  
Deborah Robberson, City Attorney  
Janet Secor, Scottsdale Airport Billing and Collections

**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.

**Commissioner Items**

Commissioner Reagan informed staff she will be asking for clarification regarding the difference in revenues between Option A and Option B when discussing water rates and fees.

Vice Chair Smith indicated he will be interested in seeing what drives the rate and fee cost increases.

**Approval of Minutes – March 19, 2009 meeting**

**COMMISSIONER ECTON MOVED TO APPROVE THE BUDGET REVIEW COMMISSION MEETING MINUTES OF MARCH 19, 2009. COMMISSIONER REAGAN SECONDED THE MOTION, WHICH CARRIED BY A UNANIMOUS VOTE OF SEVEN (7) TO ZERO (0).**

## **New Business**

### **1. RATES AND FEES AND PROPERTY TAXES – CRAIG CLIFFORD, FINANCIAL SERVICES GENERAL MANAGER / CFO**

Financial Services General Manager Craig Clifford stated the City's budget is put together by fund, with separate funds to address different operations. Departments participate and take responsibility for meeting policy goals to ensure long-term financial health. Strategic multi-year fiscal planning is used in the budget development process, which considers capital infrastructure needs, current operational costs, economic environment, program efficiencies, and sustainable funding for those operations. Rates and fees are reviewed and adjusted annually. With these multi-year plans, the City has attempted to bring forward responsible, incremental rate and fee adjustments. This makes it more affordable for customers and citizens, and keeps the City fiscally sound and sustainable. The proposed rate adjustments are based upon these multi-year plans.

#### **Water/Sewer/Solid Waste**

In regard to water rates and fees, two options have been put forward. Option A, which is in keeping with the City's typical annual adjustments, forecasted a 4.5 percent rate increase for water services. Considering the current economic environment, staff researched options to minimize the effects of rate and fee increases to customers, while keeping the City fiscally fit.

Mr. Clifford outlined Option B as follows:

- 2.5 percent increase.
- Takes into account a \$3.2 million operating increase for costs of water, electricity, and other expenses as well as capital cost increases to address the capital program.
- Water rates and fees are a major contributor to the PAYGO portion of water and sewer.
- Maintains reserves, but does not increase them. Estimated reserve of approximately 70 days.
- Would increase the typical utility bill for a residential customer approximately 2.4 percent, well below the nationwide Consumer Price Index change for utilities of 6.5 percent.

Mr. Clifford noted Option A (4.5 percent increase) would bring in an additional \$1 million per year. Option B could not be used year after year, as it would jeopardize the City's operating resources.

A typical residential bill under either option would be lower than the two largest service providers in the metropolitan area.

In response to an inquiry by Commissioner Smith, Mr. Clifford explained the 2.5 percent increase will generate approximately \$2.6 million of additional revenue. Costs will be approximately \$3.2 million, even after reducing a variety of cost points within the current budget. Option A would generate another \$1.5 million.

Option B recommends a 3 percent increase in sewer rates in fees, while Option A recommends 6.5 percent. The City has planned for water, sewer, and utility increases of approximately 4.5 to 6 percent in order to keep up with expected operating cost changes, as well as to feed the PAYGO portion of the capital program for repair, replacement, and expansion of the systems. Sewer rates are charged back based on the type of business.

Capital costs include the wastewater collection system and continuing increased costs for Capacity Management Operations and Maintenance (CMOM), regulatory compliance, capital costs for the Gainey Ranch Treatment Plant rehabilitation and continuing costs for participation in the 91<sup>st</sup> Avenue Wastewater Treatment Plant.

Much of the financing anticipated in the year 2010 is related to the sewer side of the operations in order to keep up with infrastructure. In addition to rate increases, the City will need \$75 million of additional debt. Staff anticipates an approximate \$2.3 million sewer operating expense increase. The PAYGO portion from these rates and fees will be approximately \$39 million.

In regard to solid waste, Option B recommends a 2 percent increase. This would leave an operating reserve of approximately 60 days. Part of the rate increase would help provide funding to expand the solid waste transfer station, a capital project that has been planned for some time.

Using Option B, when combining these options, a typical residential utility bill would increase approximately \$1.90 per month, or 2.4 percent. Option A would increase the same bill approximately \$3.67 a month, or 4.6 percent. Either option would be well below the national average.

Mr. Clifford emphasized that none of these increases are in any way directly related to any deficit. This is the way the City has always done business.

Commissioner Foster asked if the national average is based on a five-year or annual average. Mr. Clifford explained the national average is an annualized increase, and the current cost change is approximately 6.5 percent for utilities.

Mr. Clifford presented a summary of the City's annual utility rate changes from 2000, and explained that the rising costs are attributable to EPA changes for water quality and aging infrastructure costs. The City's average adjustments have consistently fallen below the national averages.

Vice Chair Smith asked whether accepting Option B would put the City at future risk. Mr. Clifford said that would be the case only if Option B was the City's consistent approach. That option is being presented this year due to the current economic issues. Staff would not recommend that approach for more than one year.

Mr. Clifford indicated the City is at a much greater reliance upon CAP water than other surrounding cities, and it costs more than SRP or groundwater resources. This drives overall water costs higher than neighboring cities.

There are some administrative service fee charges in utility enterprise rates. The main revenue driver is use fees; however, these fees are driven by benchmarking with other cities and the labor costs associated with the services. Staff is proposing changing the late payment fee to a 1.5 percent charge per month on the past due amount, with a minimum charge of \$5. In addition, there is a recommendation to raise the water service termination fee to \$55. Staff recommends changing the fire hydrant meter deposit to \$1,000 for a three-inch meter, and to \$200 for a one-inch meter.

Chair Schmitt asked if the proposed rate for a 3" meter is a Valley-wide average, indicating it seemed high. Mr. Clifford stated it is on the high end of the range. Valley-wide rates range from \$225 to \$1555.

## **Airport**

In regard to Airport enterprise rates, the City made changes to those rates and fees last year and no changes have been recommended for this year.

Commissioner Ecton asked if small planes landing at the Airport pay landing fees, tie down fees, or touch and go fees. Ms. Secor indicated the Airport does charge transient landing fees to airplanes that are not based at the Airport. Flight school aircraft are considered based aircraft and are not charged transient landing fees. They do pay for aircraft storage and tie down fees.

In response to an inquiry by Commissioner Foster, Ms. Secor stated airport rates and fees are revisited annually as an enterprise fund, and increases could be considered in the future. Commissioner Foster asked for a comparison of fees with other area airports.

Most non-enterprise areas fall within the General Fund. Some of these revenues include:

- City Clerk special revenue funds.
- Court enhancement fee. Staff is recommending an increase. The proposed changes are reviewed and approved by the presiding judge, who takes into consideration benchmarking information from the entire court system.
- Court surcharges that go to the State. These are special revenue funds enacted by legislation, and can only be used for the designated purposes.

### **Community Services**

In regard to Community Services, staff reviews their recreational programs and rental rates yearly. A 1988 Code amendment requires the City to look at these rates and establish levels that will permit the City to recover its direct costs.

The recommended changes to Community Services rates and fees are as follows:

- Scottsdale Stadium - increase commercial rental rate 25 percent, which would generate approximately \$4,000 annually in revenues.
- Scottsdale Sports Complex - increase field rates to \$12 for youth, \$15 for adult, and adding a commercial rate of \$100, which would generate approximately \$36,000 of annualized revenue.
- McDowell Mountain Ranch Aquatics Center - reduction in island rental to \$20 for residents and \$40 for non-residents.
- All City pools - add a commercial rental rate of \$10 per lane per hour.
- Adult Sport Leagues - adjust recovery rate to 110 percent of direct costs (less than \$5 per participant impact), which would generate approximately \$42,000 in revenue annually.
- Sport field rentals - increase to \$10 per hour per field and to \$20 for non-residents, as well as adding a \$40 commercial rate.
- Private tournaments and leagues - increase fees to \$45 to cover field maintenance costs. Annualized revenue from this change would be approximately \$55,000.
- Youth and Family Services Juvenile Diversion Program - increase rate to \$40 to offset the cost of providing these services, which would generate approximately \$9,500 annually.

Commissioner Ecton asked whether the City has done anything to ensure that elementary and junior high children can participate in City programs if their parents cannot afford it. Community Services General Manager Deb Baird said the City does have a scholarship program that provides opportunities for children who cannot afford these programs.

### **Fire**

There has been recommended changes for Fire Department class fees, in addition to permit fee changes as follows:

- Fire Service Safety Permits - Adjust hourly rate by 1.5 percent
- Fire Service Safety Permit Rush Rate - \$148

## **WestWorld**

New fees for WestWorld have been recommended as follows:

- Bleacher rental - \$125
- RV dump station - \$5
- Gray water dumping charge - \$100
- Implementation of a Brett's Barn partial day rental

Mr. Clifford clarified that the Bureau of Reclamation has reviewed these recommendations and indicated they are acceptable; however, they must officially approve them before implementation.

Mr. Clifford discussed adjusted rental rates for WestWorld arenas and stalls.

## **Scottsdale Mall**

In regard to the Scottsdale Mall, Mr. Clifford indicated the Scottsdale Cultural Council has recommended adjustments to rental fees as follows:

- Marshall Garden - \$50 per hour
- Fountain Stage - \$1,500 per 18-hour day
- Overpass Area - \$50 per hour
- Mayor Garden - \$30 per hour
- Amphitheater - \$2,500 per 18-hour day
- Northeast Lawn - \$50 an hour
- West Side - \$2,400 per day
- Entire Mall - \$3,500 per day

The revenue from these rentals helps supplement the operations of the Cultural Council.

## **Planning and Development Services**

Planning and Development Services fees include all building permit charges, based upon the type of construction. They have proposed a 1.5 percent change to these rates in order to keep up with the inflation index. One notable change would be an increase in the special event fee to \$100 to cover the cost of application review.

Vice Chair Smith said the uniqueness of Scottsdale should be considered when benchmarking with other cities. Mr. Clifford indicated the City attempts to recover direct costs with non-enterprise fees, and many issues come into play when determining these fees.

Commissioner Berlese asked if the special event fee of \$100 would apply to major special events like New Year's Eve parties, the Super Bowl, and Fiesta Bowl activities. He stated that fee seems low for that type of event. Mr. Clifford stated this fee is charged along with separate charges to reimburse the City for security and cleanup, which are contracted separately. Acting City Manager John Little explained the \$100 fee is designed to accommodate smaller venues, as well as larger ones, in order to cover the City's costs.

## **Property Taxes**

Mr. Clifford discussed property tax distribution within the City. The total property tax in Scottsdale for FY 2009/2010 will be approximately \$26 million for the primary, an increase of approximately \$1.3 million, which is a 36 cent rate on every \$100 of assessed value. That coincides with an increase by the County Assessor for Scottsdale of 10.8 percent in assessed value. The Tax Code limits

individual property levies within the City to 10 percent in any given year, despite the assessed value. The overall increase in the primary tax for FY 2009/2010 is \$447,000 across the entire City.

A Risk Fund is in place for tort settlements, and is solely for the purpose of reimbursing the City for tortuous settlement cases from the prior year. It is a one time, one-year only assessment. \$1.9 million is fairly high for the City; however, five cases were settled in the last year for which City Council approved payment.

In response to an inquiry by Chair Schmitt, Mr. Clifford said the City has approximately \$16 million in its reserve account for risk/property liability. This amount is determined by yearly actuarial assessments. The City insures for catastrophic losses above \$2 million. The Loss Trust Fund board oversees the Risk Fund.

The secondary tax pays for debt associated with the capital infrastructure. The assessed value growth is different on the secondary side due to the limited and unlimited side of the tax. This tax gets adjusted every year for the full change in assessed value. This year's increase is 1.6, and staff is estimating a zero percent increase for FY 2010/2011. Staff is recommending the final issuance of the Bond 2000 program next year, and this levy includes the initial funding for that debt service.

The combined personal property tax rate will be 79 cents per every \$100 of assessed value.

Vice Chair Smith asked for clarification regarding future primary tax increases next year. Mr. Clifford explained the City's historical practice has been to levy the maximum 2 percent each year. The 2 percent does not keep up with inflation, and there is no legal way to catch up if the City does not levy the maximum amount. However, City Council does have the option to change that practice. Vice Chair Smith said the City should expect some pushback from citizens if their property values decline with no commensurate decrease in their primary tax.

Commissioner Borowsky asked for additional information regarding other property taxes in other cities. Mr. Clifford stated he would provide that information to the Commission as soon as possible. He indicated these rates are higher in virtually every city in the state.

Mr. Clifford provided the Commission with an updated review calendar. The Commission has a combined meeting with the City Council where the City Manager will be presenting a restructuring plan for the City, with the budget strategies that go along with that. In subsequent meetings, individual departments will then make in-depth presentations, giving the Commission the opportunity to ask questions on each area.

Mr. Clifford noted that all of the materials related to this presentation are available on the City's website at [www.scottsdaleaz.gov/budgetcommission](http://www.scottsdaleaz.gov/budgetcommission).

## **Commissioner Items**

Commissioner Borowsky complimented staff on keeping utility rates low.

Commissioner Reagan thanked Mr. Clifford for his presentations, indicating he has made it enjoyable and easy to understand.

Commissioner Ecton discussed high property taxes in other states.

All Commissioners expressed their appreciation for Mr. Clifford's efforts within the City.

### **Chairman's Comments**

Mr. Little introduced Scott McCarty, who will be replacing Mr. Clifford upon his departure this week.

### **Public Comment**

None noted.

### **Adjournment**

With no further business to discuss, the meeting was adjourned at 6:33 p.m.

Respectfully submitted,

A/V Tronics Inc., DBA AVTranz