



**BUDGET REVIEW COMMISSION
CITY HALL KIVA
3939 DRINKWATER BLVD.
SCOTTSDALE, AZ 85251
THURSDAY, OCTOBER 22, 2009**

DRAFT MINUTES

PRESENT: Louis Schmitt, Chairperson
Bob Berlese
Martha Ecton
Michael Foster

ABSENT: Eric Borowsky
Donna Reagan

STAFF: Sylvia Dlott
Scott McCarty, CFO
Judy McIlroy, Budget Manager
David Smith, Treasurer
Carrie Wilhelme, Senior Planner
Dan Worth

CALL TO ORDER

Chairman Schmitt called the Budget Review Commission to order at 5:05 p.m.

ROLL CALL

A formal roll call was conducted confirming members present as stated above.

COMMISSIONER COMMENTS

COMMISSIONER ECTON MOVED TO APPROVE THE REGULAR MEETING MINUTES OF THE APRIL 20, 2009, APRIL 23, 2009, APRIL 27, 2009, AND APRIL 30, 2009 MEETING MINUTES. SECONDED BY COMMISSIONER FOSTER, THE MOTION CARRIED UNANIMOUSLY WITH A VOTE OF FOUR (4) TO ZERO (0).

NEW BUSINESS

1. GENERAL PLAN WORKING GROUP APPOINTMENT

Mr. McCarty noted that because several Commissioners were absent the appointment of a Commission Member to participate on the General Plan Update Working Group would be reagendaized to the November meeting.

Ms. Wilhelme provided a brief description of the General Plan ratified in 2002, which is an overarching policy document for the City providing guidance for master plans, capital improvement projects and area plans. She reviewed the goals of the General Plan Working Group and the roles and responsibilities of appointees.

2. ADOPT MONTHLY FINANCIAL REPORT AND PROPOSED BUDGET ADJUSTMENTS

Mr. McCarty recalled that the City Council requested the Commission focus on discussing timely, clear financial information being presented on a monthly basis. As a result of the request, a monthly financial report and budget adjustments will be agendaized for recommendation at each month's meeting.

Scottsdale's economy is being affected by consumer confidence, the commercial and residential market, and unemployment. Mixed messages and uncertainty in the economy are reflected in decreasing consumer spending.

Revenue sources for the General Fund and transportation operation were less, and less than projected was spent. A portion of what is shown as unspent money is allocated for projects that have been completed in the previous month. One goal is to process invoices during the month projects are completed. More focus will be placed on a pattern of spending to ensure the variance number is correct.

Sales transactions are down by 17 percent, which is less than the anticipated 20 percent. Construction activity has risen more than anticipated; however room nights and rentals are lower than anticipated. Food store revenues are down partly due to increased use of food stamps and partly because a local grocery chain filed for bankruptcy protection. Adjustments will be made to the numbers in February following the holiday season reporting.

In response to a question by Chairman Schmitt, Mr. McCarty confirmed that the operating sources included State shared revenues and transportation revenues. Scottsdale's statewide sales tax responsibility includes State income tax, vehicle licensing taxes, and transportation and gas taxes.

Staff structural changes have reduced the need for overtime, resulting in lower operation costs. Operating budget expenses will also be reduced due to corrections to the budget projections.

Commissioner Berlese suggested that the unused funds be applied to an area where funding was cut. Mr. McCarty explained that the City's charter speaks clearly about how money can be moved along the matrix. Funds can only be

reallocated within a classification; moving between categories would require Council action.

Mr. McCarty reviewed the budget adjustments that will be taken to City Council on November 3rd. Adjustments will be reflected in the October report as revised budget numbers.

Future budget reductions will be determined by opportunities such as the DROP program, which could be made a permanent reduction because a portion of the police force will always be eligible to benefit from the program.

The category of reorganization will no longer be seen as part of the budget once all changes under the new organization model are completed.

Budget corrections include the unanticipated City Attorney contract payout, the ambulance contract, vehicle purchasing delays rolling over from the last fiscal year, and a crime lab expense that was anticipated for the current fiscal year but was completed last fiscal year.

COMMISSIONER BERLESE MOVED TO APPROVE ADOPTION OF THE SEPTEMBER 2009 FINANCIAL REPORT. SECONDED BY COMMISSIONER ECTON, THE MOTION CARRIED UNANIMOUSLY WITH A VOTE OF FOUR (4) TO ZERO (0).

COMMISSIONER BERLESE MOVED TO RECOMMEND APPROVAL OF THE PROPOSED BUDGET ADJUSTMENTS TO CITY COUNCIL. SECONDED BY COMMISSIONER FOSTER, THE MOTION CARRIED UNANIMOUSLY WITH A VOTE OF FOUR (4) TO ZERO (0).

Chairman Schmitt commented about the uncertainty of the official State budget. Mr. McCarty noted that a presentation on the State budget is expected during a meeting of all the cities next Friday. He did not have any information regarding the State budget that was not public information. Once the holiday season is over the City of Scottsdale will be better able to assess the budget. Further consideration should be given to the shared State tax number being down by five percent.

3. BOND 2010 PRELIMINARY DISCUSSION

Mr. McCarty noted that the bond is a complicated and important process in moving forward to determine the infrastructure of the City over the next three to seven years. As the process moves forward, the Commission will become familiar with infrastructure, debt, property taxes and operating costs. Financial policies will require ratification or adjustment based on individual bond issues.

In response to a question by Commissioner Ecton, Mr. McCarty confirmed that consideration will be given to issues that were approved through the 2000 bond and not completed. He reviewed projects that were completed as well as projects approaching completion such as the Appaloosa Library and the Grayhawk Community Park. Mr. Worth explained that although additional details

may need to be completed, a project is considered completed upon issuance of the certificate of occupancy.

A new voter approved bond program is necessary because the existing Bond 2000 program is coming to an end. Infrastructure needs must be determined based on issues existing today and into the future that are oblivious to the economic situation. Existing revenues are not enough to fund infrastructure because the future growth rate of the city is going to be slower than in the past and growth funds are needed to fund the CIP.

Mr. McCarty reviewed the State defined debt limits and the PAYGO policy, which requires a minimum 25 percent of the CIP to come from non-debt related sources. He compared benefits of PAYGO to potential debt accumulation.

Mr. McCarty reviewed outstanding debt supported by primary and secondary property taxes and the legal debt capacity. He commented that the City's policy of \$1.50 property tax should be reassessed. Chairman Schmitt requested that a comparison of tax rates in surrounding communities be part of future discussions.

In response to a question by Commissioner Berlese, Mr. McCarty explained that the State operating limit is set in State Statute, is applicable to all cities in the state, and has no override component.

Mr. McCarty explained that staff put out a call for projects and it will be necessary for the Commission to participate in evaluating the list against nine criteria:

- 1) Mandated projects that must be done to prevent exposing the City to risk and liability.
- 2) Whether a project is included in the Master Plan or a General Plan. Additional consideration should be given to projects called out in the Master Plan.

Commissioner Ecton asked if projects would be eligible under the impending General Plan. Mr. McCarty explained that although the General Plan does not have official approval the basic tenor of the plan will remain the same. The bond issue can be adjusted as needed as public discussions regarding the General Plan progress.

- 3) Whether or not a project is eligible for matching funds. Many roadway projects qualify for matching funds through the County, the State or neighboring cities and governments. Projects eligible for matching funds should be given priority because of the ability to have a larger return on investment.
- 4) Projects that sustain existing infrastructure. Continued maintenance of existing facilities should be compared to maintenance of potential new facilities.

- 5) Whether or not a project would directly improve economic vitality. Permanent structures and cultural facilities should draw events and tourists that would not normally visit Scottsdale.

Commissioner Ecton commented that Economic Vitality is charged with encouraging location of businesses to the area. Mr. McCarty noted that high quality infrastructure is a necessity in attracting new businesses.

- 6) The length of time a project will take to complete. Smaller issues should be considered that best reflect current values and have foreseeable operating impacts.

Commissioner Ecton recommended adding a consideration of a better way to cope with inflation or deflation in calculating the amount of money needed for projects. She noted that the Appaloosa Library as built is 20 percent smaller than the original plans approved by voters.

- 7) The impact to the operating budget. Prioritize projects by lowering costs through consideration of energy efficient incentives and through staffing and operational considerations.

Other funding options should be considered. An example of funding options includes increasing the percent of sales tax going toward transportation projects. McDowell Sonoran Preserve tax could be used as a vehicle to pay for bond issues related to the Preserve instead of property tax. City Council recently approved allowing a citizen vote to increase bed tax from three to five percent which could be used towards tourism and tourism related facilities.

The Municipal Property Corporation is a vehicle by which the City can issue debt and build projects with dedicated revenue streams such as water and wastewater projects. One issue that the Commission will be asked to consider is whether authorization should be obtained from voters for water and sewer projects because they could be considered life and safety issues.

Another potential issue for consideration is imposing impact fees on certain types of projects and whether or not to include costs in property taxes.

- 8) Whether or not to impose a monthly rate to pay for infrastructure related to the system and operating costs of storm water utilities. Storm water projects have historically been funded through the general CIP or voter approved issues. One benefit to the public is that storm water drainage could potentially lower personal insurance costs by changing the flood classification of certain areas.
- 9) Lastly, consideration should be given to how many projects were not completed from the Bond 2000 and how much those projects should weigh in decisions regarding Bond 2010.

Commissioner Berlese asked about funding for the projects on the west side of Scottsdale, north of the 101 on State lands. Mr. Worth explained that because the road lies completely within Scottsdale city limits, the City of Scottsdale has an

IGA with the City of Phoenix. The City of Phoenix paid 50 percent of the design and construction costs associated with the project. A similar agreement is anticipated for the segment being developed north of Thompson Peak Parkway.

Mr. McCarty recapped the bond issue amount and benchmarks for consideration. He reviewed the average homeowner tax, valuation, debt per capita, and the legal limits.

In November staff hopes to have the Bond counsel available to explain options. Staff will be prepared to discuss the possibility of a storm water utility. The January meeting is expected to primarily consist of discussion of specific projects and the issue amount, along with various iterations of information and possibilities. During the next six months a plan should be assimilated to bring to the public, the bond counsel and financial advisor will review the proposal, and the proposal will be presented to City Council. A fiscal CIP will be developed for projects that do not qualify for the bond. Because State Statute only permits bond elections in November, bond language must be completed no later than July 20, 2010 in order to be eligible for the November election.

Commissioner Berlese expressed concern about being able to complete the task in addition to reviewing the FY 10/11 Operating Budget. Chairman Schmitt suggested that staff put together a calendar of meetings based on Commissioner and staff schedules. Mr. McCarty noted that discussion materials will be provided well in advance in an effort to expedite discussions during Commission meetings.

Commissioner Ecton suggested that scheduling a combination of morning and evening meetings would be a more convenient way to incorporate the needed additional meetings. Chairman Schmitt suggested that a subcommittee could be formed for additional discussions.

Chairman Schmitt requested that staff put together a rating system for prioritizing discussions and potential bond projects. Commissioner Foster noted the importance of considering the climate of the community when ranking projects.

Commissioner Foster commented that the storm water discussion is a good example of a topic that might be supported by citizens because of the potential individual savings over time.

Mr. Smith asked if the Commission would be interested in adding criteria that looks at a return on investment (ROI). Chairman Schmitt felt that ROI criteria could be a valuable tool.

COMMISSIONER COMMENTS

The Commissioners had no comments.

CHAIRMAN'S COMMENTS

Chairman Schmitt noted that a replacement is needed for Mr. Smith's position on the Commission. His Council representative should be contacted to select another appointee.

A Commission member should be selected to represent the Commission on the General Plan Update Working Group during the November meeting.

The City Council should be consulted to determine their expectations of the Budget Commission.

PUBLIC COMMENT

No members of the public wished to address the Commission.

ADJOURNMENT

With no further business to discuss, and no need for an executive session, the regular meeting adjourned at 7:07 p.m.

Respectfully submitted,
A/V Tronics, Inc. DBA AVTranz