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CALL TO ORDER

[Time: 00:00:02]

Mayor Ortega: Good evening. I call the January 31st, 2022, City Council Regular Meeting to order. City Clerk Ben Lane, would you please conduct the roll call?

ROLL CALL

[Time: 00:00:17]

Clerk Lane: Thank you, Mayor. Mayor David Ortega.

Mayor Ortega: Present.

Clerk Ben Lane: Vice Mayor Tammy Caputi.

Vice Mayor Caputi: Here.

Clerk Ben Lane: Councilmembers Tom Durham.

Councilmember Durham: Here.

Clerk Ben Lane: Betty Janik.

Councilmember Janik: Present.

Clerk Ben Lane: Kathy Littlefield.

Councilmember Littlefield: Here.

Clerk Ben Lane: Linda Milhaven.

Councilmember Milhaven: Here.

Clerk Ben Lane: Solange Whitehead.

Councilmember Whitehead: Here.

Clerk Ben Lane: City Manager Jim Thompson.

Jim Thompson: Here.

Clerk Ben Lane: City Attorney Sherry Scott.

Sherry Scott: Here.

Clerk Ben Lane: City Treasurer Sonia Andrews.

Sonia Andrews: Here.

Clerk Ben Lane: City Auditor Sharron Walker.

Sharron Walker: Here.

Clerk Ben Lane: And the Clerk is present. Thank you, Mayor.

Mayor Ortega: We have Scottsdale Police Officers Tony Wells and Brandon Trivelle, as well as the firefighter David Watts, should anyone need assistance. So let's start with the Pledge of Allegiance, Councilwoman Janik.

[Time: 00:01:07]

Councilwoman Janik: I pledge allegiance to the flag of the United States of America, and to the Republic for which it stands: One nation under God, indivisible, with liberty and justice for all.

Mayor Ortega: Well, first of all, welcome to western week in Scottsdale, and old town is transferred into an authentic old west experience for the whole family. This Thursday, head down to the Scottsdale Arts District for the gold pallet art work to view amazing work at the galleries and enjoy the music and entertainment.

Now, this Friday, between 11 a.m. and 1 p.m., is the 64th annual Hashknife Pony Express. They will arrive at the Scottsdale Museum of the West, and make sure you are there to check out the oldest sanctioned pony express in the world. And enjoy free museum admission at the Museum of the West. So we have family-friendly games, food and more.

On Saturday, it's also busy with many great events. First in historic old town Scottsdale, the Parada Del Sol and that is our tradition horse-drawn -- just a fun time to meet the council, see others, bands, and so forth and concludes with the trails end festival, which would run from noon until 4. The parade has over 100 entries that will dazzle and delight. Afterwards old town becomes a setting for a western-style block party, with live entertainment, pony rides, food, and lots of fun.

Next, the Arizona Indian festival in old town on Saturday, from 9 to 4, and Sunday as well, from 10 to 4. These festivities include the native edible experience at Scottsdale's Museum of the West. From 6 p.m. to 9 p.m. on Saturday.

This great event celebrates the culture and the traditions of Arizona's Indigenous communities with live music, beautiful art, food, and much more. I will emphasize again on Friday and Saturday, it is free admission to the Museum of the West. Please bring your friends and family and see this wonderful -- the wonderful exhibits that we have.

PUBLIC COMMENT

[Time: 00:04:04]

Mayor Ortega: Now we'll move on to public comment. Public comment is reserved for Scottsdale's citizens to comment on non-agendized items that are within the council's jurisdiction. However, there's no official council action on them, and we are here to listen. You have three minutes. So we will ask people to come forward. We also have the remote possibility for public comment. I don't believe we have any on remote. So we do show that there are two public comment requests, and I will call Teresa Kim Quale. Please tell us your address and appreciate having you here.

Teresa Kim Quale: Thank you, mayor. Mayor and city councilmembers, my name is Teresa Kim Quale and I live at 77 east Astor in Scottsdale 85260. I have lived in Scottsdale for over 60 years and currently serve as a member of the city's parks and recreation commission. I am putting forth a petition requesting that the city of Scottsdale place the following charter amendment on the Scottsdale general election ballot to be held November 8th, 2022.

Along with any other amendments that are needed to affect a district system of election of the council. If we need other amendments, I would like those as well. Currently the city charter, Article 2 of the council, Section 2, the number and selection states that the council should consist of a mayor and six city councilmembers elected at large. I won't read the entire wording, but basically what I would like to see is an amendment to this section that would say the council shall exist -- elect a mayor and six city councilmembers to represent three districts of approximately the same population size as follows: The districts shall be configured in the areas of south, central, and north.

Each district will be represented by two councilmembers that live in the district and will be staggered so that they are elected every two years a different one. When my family moved to Scottsdale in the 1960s, the city's population was under 25,000 people, and the city encompassed about 5 to 10 square miles, depending on which annexation you look at. Today, the city has 240,000, 250,000 residents, and we're 31 miles long, but more important, 185 square miles.

When the charter was drafted, there was no need for districts because of the small size and the small population, however, today given the exponential growth of our city, not only in population, but physical land miles, it only makes sense to me to create a district system that will better and more fairly serve the citizens of Scottsdale. Thank you.

[Time: 00:07:30]

Mayor Ortega: Thank you very much, and we are in receipt of a petition to be discussed for action later in the meeting. The next in-person Daniel Ishac.

Daniel Ishac: Mayor and city council, thank you for your time. My comments are related to the green belt 88 proposal which is agendized for next week and I may not be able to participate. I have read through the materials for next week's discussion, and in so doing I read the summary from planning and development service, as well as the developer.

Moreover, I read more than 100 comments from residents and business owners. Regarding those comments, particularly those opposed to the development, I was amazed at what is at best a misunderstanding but perhaps casting aspersions. I will highlight a few comments that warrant a burden, lack of demand and overpriced apartments.

I'm not sure if the commenters made any review of the housing crisis in the valley. Quotes of vacancies and planned apartments fail to reflect the current reality. Increased traffic. The city's traffic study showed a favorable improvement from the development. Such comments are false. Comparisons to Los Angeles and other major cities, a three or four-story building is hardly urban and is not a high rise.

As was often stated, hyperbole is often a tool of the uninformed. Increased crime and riff raft.

Moreover, it's more than offensive to suggest that someone who can't afford the cost of purchasing a home in Scottsdale is of lower quality or lower value to the city. Diminishes the look and feel of the area. The existing space is dated, somewhat unappealing and to be blunt, incongruous with the image of Scottsdale. It's certainly not the look and feel of a neighborhood, despite claims of many of the commenters. And it already blocks the view of the green belt.

The new space improves the look of that area from all directions, and it provides improved pedestrian access along the green belt. Loss of commercial space. The amended project provides significant and improved quality space for the site, while substantially increasing the number of potential consumers for surrounding businesses. Consumers that don't require vehicles to reach them.

Precedent. Commenters lack a basic understanding of the planning development process and approval requirements of the city. Arguments of precedent are nothing more than fear mongering. I have said before to this council, that I have no financial interest in many of the proposed developers for this or the other sites, but I do have an interest in the sustainability of this city.

Without residents living and spending money here, we cannot continue to exist as a thriving desirable place to live, work or visit. Nor will we have funds to main and let alone maintain our city. It's our job to take out the hysteria and hyperbole. Don't be bullied and please don't be blinded by misinformed comments. Thank you.

[Time: 00:10:59]

Mayor Ortega: Thank you very much. At this time, I will close public comment, and we will move on to the minutes portion as posted. I see Councilwoman Whitehead.

Councilmember Whitehead: Thank you, mayor. I will make a motion to approve let's see, three of the minutes and then request to correct the fourth d. So I guess I will start with a motion to approve special meeting minutes of December 8th, executive session minutes meetings December 8th, regular meeting and work study session minutes of December 8th, 2021.

Councilmember Janik: I second that.

Mayor Ortega: Thank you. We have a motion and a second by Councilwoman Janik. Please register your vote. Thank you. That passed unanimously.

Councilmember Whitehead: Thank you, mayor. I would like to amend regular meeting and work study session minutes of January 11th, 2022, on page 7 of 8 of the work -- on the work study page, under number one, preserve strategic objectives, and then under there was council consensus on the following items.

I request to edit the final of four -- not edit to correct the final of four bullet points staff and the

McDowell Sonoran Preserve commission will look at how the current funding sources can be used to purchase strategic land parcels. That's my correction. Thank you.

Mayor Ortega: I would second that. I think that was a topic that could be entered in the minutes. So we have a motion and a second to approve regular meeting and work study minutes of January 11th as revised. Please register your vote. Thank you. As shown, it's approved, one dissenting from Councilmember Milhaven.

CONSENT AGENDA

[Time: 00:13:29]

Mayor Ortega: Next, we will proceed to the consent agenda items as posted. They are items 1 through 18. At this point, we are able to receive public comment on the consent agenda items, as well as any comment without pulling it from the consent agenda. At this point, there are two requests for public comment. So I will start with public comment first.

And if you could please come forward and regarding number 11 is the termination of the fire department mutual aid agreement. Please state your name and thank you so much.

Tim Soule: I need the readers. My name is Tim Soule, I'm the fire chief for the Rural Metro operations here in the Phoenix metro region. Mr. Mayor, Mr. Thompson, thank you for the opportunity to speak today. I would like to comment on council consent agenda item number 11, termination of the fire department mutual aid agreement.

The Arizona State fire chief's association fire mutual aid agreement begins with neighbors helping neighbors because it's the right thing to do the fire service in the Phoenix service metro area has a progressive culture and the Scottsdale Fire Department is a strong example of a department providing excellent customer service with a strong culture of caring for the community, firefighter safety and collaboration between agencies.

This is why the proposed cancellation of the mutual aid agreement is such a surprise as it blatantly runs counter to the fire service culture of caring for our community and our neighbors. The impetus for the cancellation of this agreement appears to be the assumption of fire service provision to the Cave Creek area by the daisy mountain fire district and the push to move the community of carefree to do the same.

Carefree actually attempted to join the automatic aid -- IGA and was rejected because of their involvement and staffing by Rural Metro. There are areas in the city of Scottsdale that Rural Metro resources may be the closest and most appropriate resources to citizens in your area, yet, we are not requested.

It's hard to imagine our response to bordering areas within the city of Scottsdale does not add value to the public safety of your citizens and to other communities in the region. If the

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Scottsdale Fire Department were to keep and utilize the existing mutual aid agreement with Rural Metro Fire Department, we could provide a faster response at times to the Scottsdale citizens and have the potential to provide the best public safety for your residents.

If the decision to cancel the mutual aid agreement with Rural Metro fire, it puts firefighters at a higher degree of risk and it's contrary to firefighting service and it also appears to create a conflict between the current IGA and your -- your council decision.

I would respectfully request that the decision from -- on this council item be moved from the consent agenda item and delayed pending discussions between Chief Shannon and myself to address concerns and we can report back to the city manager and council.

If that's not the decision, I would ask that there be a public statement that Scottsdale will respond mutual aid resources if available for life safety requests or that they will not. Chief Shannon has assured me in private conversations that the Scottsdale Fire Department would still respond resources if available for life safety incidents as requested by Rural Metro fire, however, publicly, there's considerable fear being felt in the Carefree Community with the cancellation of the fire department mutual aid agreement.

It would be important to know that the status quo is in place as they reach a decision. Have enclosed a letter with more details in your packet.

[Time: 00:17:55]

Mayor Ortega: Thank you, chief. We have a second in-person regarding item 11.

Brian Tobin: Good evening, mayor and council. My name is Brian Tobin. I'm the fire chief of the daisy mountain fire district. I want to thank you for giving me the opportunity to speak you to this evening.

I have been the fire chief in daisy mountain for two years. Before that, I was an assistant fire chief in the Phoenix Fire Department and retired in June of 2019 before joining the daisy mountain fire district. I want to talk to you a little bit about mutual aid. The chief gave you some pretty good points on it. The old Phoenix fire chief used to tell us that mutual aid had two critical components that made it beneficial for both communities.

One, is that it was mutual and the other was that it provided aid. That was always the struggle with working with border areas that used the Rural Metro model in the day when Phoenix and other jurisdictions worked on it.

But as you know, I don't have to give you a lesson on mutual aid here in the city of Scottsdale. You've had quite your own history with the private corporation of Rural Metro providing service to you.

You know, Rural Metro does have a history in the valley, and their history has not always been one that other fire departments can acknowledge as being helpful. Their aid is not mutual, and their firefighters, although work very hard, this is not about the firefighters that work on the truck.

It's about the politics of responding to another jurisdiction and trying to share resources and share operating maneuvers and training with a department that doesn't provide those back in exchange. My organization, the daisy mountain fire district has a governing board just like you that are elected by the public.

My governing board has chosen to not have a mutual aid agreement with Rural Metro for a lot of reasons some of which I already described. Elected officials like you put a lot of investment into your fire department, just like ours do, and when they enter into agreements with other agencies, including Rural Metro, they expect that to be similarly reciprocated. It's simply not in this case.

Phoenix has an agreement Rural Metro when it's within a mile. And mostly it's one-mile use. Tempe Fire Department does not have a mutual aid agreement. Peoria has one and sometimes it's not always followed when they send a bill for services, it's not reciprocated. The chief mentioned about the statewide mutual aid compact. It's interesting that that keeps coming up because most communities are in the statewide mutual aid compact but that's not to respond to emergencies on an immediate basis.

If this was a large incident in a town or a community outside of the jurisdiction that you are in, that they would require resources through state and the state would see what resources would respond over a daily long operating period. I would encourage you to support Chief Shannon's recommendation. Thank you very much. Have a good evening.

[Time: 00:21:28]

Mayor Ortega: Thank you, chief. I see a comment request from Vice Mayor Caputi on any of the items 1 through 18. Please. Go ahead.

Vice Mayor Caputi: I was just going to request that we pull item number 11 from the consent agenda because I would like to hear from our own Chief Shannon, please.

Mayor Ortega: Thank you. We will consider that done then. We will proceed with our consent agenda, items 1 through 18, except for 11, which is opened for discussion. And a separate vote. So for the consent agenda items do I have a motion 1 through 18, except for 11.

Councilmember Littlefield: I would move to approve items 1 through 18, except for item number 11.

Councilmember Whitehead: I will second it.

Councilmember Durham: Second.

Mayor Ortega: Thank you. On consent agenda items 1 through 18, excluding 11, please register your vote. Okay. Thank you. That was unanimous. At this point, we will have a second agenda item, which would be item number 11 and a presentation by our Chief Shannon as well as questions. Thank you.

[Time: 00:23:02]

Tom Shannon: Good evening mayor and members of the council, Brian, if you could just help me with the Elmo. It's a bit of a story here. I will try to be super concise. I would like to welcome Chief Soule to Arizona. It's a heck of a way to be received. As Chief Tobin identified, Scottsdale does have a very long history with rural met throw, and they have served the community very well, within a context.

As Scottsdale grew, so did the fire service needs the community. Again, I would also like to echo as Chief Tobin mentioned, and I'm sure Chief Soule would agree, the fire firefighters at Rural Metro are outstanding firefighters. This is really a business conversation.

And so understanding the history of Scottsdale's experience with Rural Metro, in 2004, if you remember that pivotal time, when the municipal fire department was being born, it was being borne out of essentially -- with a gun to our head to a certain extent, a community proposition had been turned down, and Rural Metro subsequently determined that they could no longer afford to staff the way that the city required. That was the reason they left.

And so in 2004, the fire department was born out of necessity and at that time, the communities of Paradise Valley, Carefree, Cave Creek and Fountain Hills asked to be included into the conversation. Subsequent to that, chief McDonald and staff provided an enormous amount of information, and those communities chose other options.

Paradise Valley chose Phoenix and the other three communities stayed with Rural Metro as a lower cost of fire service. This is important, because they did so with a full understanding of what they were going to get in terms of staffing and capabilities. Okay?

In 2011, the town of Carefree approached Scottsdale for a -- essentially a request for proposal. They were considering a renewal of their contract with Rural Metro and we provided an enormous amount of staff time and effort to provide them that service and that would have brought them into the automatic aid system, which as you well know is a crown jewel of fire protection service, not only in Arizona but in the nation.

As a result of that very exhaustive process, they again chose Rural Metro as the lower cost option. That was what they felt their community needed. That's what they thought they could pay for. During all of those times we maintained a mutual aid agreement that quite honestly is a

one-way agreement. It has been since its inception and there was a period of acceptance to that in that we knew that in Chief Soule's commentary, that neighbors should help neighbors.

And to cut to the chase, to the end of this conversation, but that has a -- an expiration date and a context as well. And so I will continue in that -- in July of 2017, there were significant fires and throughout -- primarily the wildland urban interface that required an enormous amount of automatic aid resources. At that time there was a consideration of -- of reimbursement for that participation, and that created kind of a pay as you go automatic aid participation, and that was the reason that I chose to abandon that reimbursement philosophy just this last August.

It was also simultaneously timed with Carefree's interest yet again to acquire services from the city of Scottsdale or the town of -- or the fire district of daisy mountain or Phoenix, because they realized that they were vulnerable moving forward with primarily wildland urban interface fires.

They yet again made a decision to go with Rural Metro in the form of a public safety advisory committee that they had assembled, and they quite specifically said that they were quite happy with Rural Metro's service delivery model.

[Time: 00:27:29]

It was an insurance plan, if you will, that they could afford, and that it was based on the premise that they would continue to have mutual aid agreements with the surrounding community. This is pivotal to the conversation. What they essentially were doing was acknowledging that they were going to defer the balance of their fire protection and E.M.S. needs to their surrounding communities.

I very simply could no longer acknowledge that the mutual aid agreement was neighbors helping neighbors in times of need. Instead, this was a way to supplant their business needs, and I would argue for daily services, and I know in your letter from Chief Soule, he has provided some data with all due respect to my brother, he the data that I will show you or can discuss with you is CAD data. It's freedom of information requestable.

The sources are the Phoenix Fire Department dispatch system, and I can assure you that the city of Scottsdale does not go out looking for calls. We receive a request for mutual aid and then we respond to them. And so the assertion that Scottsdale has provided services to the community essentially without being requested is just simply not supported. Really what's important is this, in the last five to six years, this shows the cursory data that we pulled that represents our most northern stations and their activity in both Cave Creek and Carefree.

This is important because the Carefree public safety advisory committee seems to be centrally focused on what are the calls for service in their community. Well, our relationship is with Rural Metro. So when they call for assistance, it's to serve their communities that they have contracts with. And so what you are seeing here is 84 total calls since January 1st of 2015, about 41 it looks like in Carefree and 43 in Cave Creek.

What's really important is these come in multiples. So when Scottsdale goes to the community we typically come with our friends from daisy mountain or Phoenix because they are large-scale incidents.

I can show you that in the case of most recent ocotillo fires we had literally dumped north valley into Cave Creek to provide them services. And to summarize and then allow questions, I -- I can do two things for you, chief. I can assure that with the termination of this contract, Scottsdale will still respond when requested and available for life safety purposes. That's important because it would be immoral to do anything less.

However, we will do so in a very calculated way to ensure that Chief Soule's firefighters are safe and my firefighters are safe. My proposition is that this agreement no longer is mutually beneficial. And so if a future agreement was to exist that that would have to include a lot more content that demonstrates reciprocity as Chief Tobin described. And so I can assure -- I can assure you that.

If you are happy with the services you are being provided by Rural Metro, I would suggest you stay with Rural Metro. It's just if you are -- is your business plan is to have the surrounding provide you the Lloyd's of London rider, if you will, that simply is not fair to the citizens of Scottsdale, whether it's desert mountain, whispering rock all of our northern communities. With that, I will entertain any questions if there are.

[Time: 00:31:33]

Mayor Ortega: At this point, I will turn to my colleagues, Councilmember Milhaven and Councilmember Durham.

Councilmember Milhaven: Thank you for that presentation and thank you for assuring our neighbors we are still here to be good neighbors. Could you explain for folks. I'm not sure everyone understands automatic aid and mutual aid. Could you explain the difference?

Tom Shannon: Yes, ma'am. Automatic aid literally means there nor no borders in the valley from Harquahala, the closest fire truck that is appropriately capable will go to the call. That's why the city of Phoenix and Tempe are in Scottsdale quite frequently and vice versa. That is a mutually agreed upon contract that requires very specific things.

You must maintain the same dispatch system. You must staff exactly the same. You must maintain this similar training. You must all attend training at one of five regional training academies and that's a very precise methodology and that makes sense. It's something that we should be proud of as Arizonans. Mutual aid is something less formal.

If you need help and you request it, I may offer it, but I'm not obligated to. Thank you for the question, because what is important about our past mutual aid agreements was that it -- this

was a degree of pressure, if you will, implied pressure that with the agreement we should still provide services, and when we did so, especially when we were receiving reimbursement, we encumbered our automatic aid partners who were not party to our agreement. That is not fair. Thank you for the question.

Councilmember Milhaven: And having been on the council for a while, I'm pretty familiar with the automatic aid. I remember when I was first elected we were at risk of losing our position in the regional system because we and many places only had three guys on a truck and we needed to have four.

And what I learned at that time, right, the automatic aid agreement is an agreement among all the fire services with very specific guidelines about what you need to do to be part of automatic aid.

I had that chance, I listened to a recording the Carefree public advisory committee meeting and it seemed to me they might have been a little bit confused about what the requirements were. It's not up to Scottsdale to decide whether or not you meet those requirements. They're pretty clear.

And what I heard in that conversation among the task force members was, well, we don't know if we want to put four guys on a truck. Well, here's the deal. If you don't put four guys on a truck, you can't be part of automatic aid. That's part of the rules of road to play along that system. And I also want to make a comment this is absolutely no criticism of Rural Metro. Rural Metro is providing the services Carefree contracts for.

Because the other part of the conversation was, well, do we want to pay for four guys on a truck whether Rural Metro does or whether they establish their own municipal fire department. It's what level of service are they willing to pay for regardless, and it seems to me while on the one hand it seems that they value that automatic aid partnership, they are not quite sure that they need or they want to invest in it or that they have a way to pay for it.

I think our only choice is, since they have chosen, despite being given notice to move forward and say let's do everything we can to meet the requirements of automatic aid, we have no choice but to terminate that agreement. But certainly, when we can to help our neighbors and if in the future they want to meet those requirements, then I certainly would be willing to revisit that. I see my colleagues have comments so I will yield. Thank you.

[Time: 00:35:21]

Mayor Ortega: Councilmember Durham and then Councilwoman Whitehead.

Councilmember Durham: There was this agreement that was dated August 24th just of last year. How does that fit into this conversation because -- is this a mutual aid agreement?

Tom Shannon: It was, and it's germane to the conversation for both you, us, and the folks in

Carefree. Because that's really the what changed. So that agreement was established to ensure that there would be no reimbursement clause to the previous mutual aid relationship and that was to yet further disentangle the city of Scottsdale from an obligation to respond because we were going to get reimbursed for services. That was intentional on my part.

And, chief -- I don't think Chief Soule you were here then, but I had very intentional conversations with then chief Brian Davis about that because as I said before, I am not encumber my automatic aid partners just because I'm being reimbursed.

So the mutual aid agreement change in August was also timed around Carefree's consideration of what they were going to do. And so it's easy to conflate the two and I would be disingenuous if I didn't say I felt motivated to address this issue when I saw the recommendations of public safety advisory committee, that they intended on using the mutual aid relationships to back up their services, and that simply caused me to say, okay, we really need to relook at our agreements here and make sure that they are, one, mutual; and two, provide reciprocal aid.

[Time: 00:37:07]

Councilmember Durham: Thank you. My only concern in all of this is whether we have given fair notice to Carefree of what's happening and from the way you have described it, it sounds like they have had more than sufficient notice.

Tom Shannon: Yes, I would say, perhaps years. And very specifically, at least six months of in-depth conversation not only with the town manager, but also with the public safety advisory committee through testimony. It may be the fact that they didn't receive all of the data that we provided the town manager, but I can assure you they have been well-informed about the consequences of choosing a different type of fire service protection.

For every day run of the mill low acuity types of incidents, the staffing model -- anybody who lives back east knows that the staffing model is not uncommon. But what any complex medical call or a single dwelling fire requires is essentially a pit crew around that incident doing very specific work.

And our friends at Rural Metro are just simply too sparsely placed throughout the valley to provide that, which means they require assistance from their mutual aid partners. And the frequency of that, I think, is what the data debates but I can assure you that it's -- it caused me enough concern to bring this forward.

Councilmember Durham: Thank you, chief.

Tom Shannon: Yes.

Mayor Ortega: Councilwoman Whitehead and then Councilwoman Littlefield.

Councilmember Whitehead: Thank you, chief. Well, actually, I have no further questions. I really appreciate this presentation and I really appreciate Councilwoman Milhaven's added information. I'm ready to make a motion, but it sounds like there are other. I will put a motion out there and people can continue to discuss.

Mayor Ortega: If I may just mention, there's two other people would want to speak.

Councilmember Whitehead: I will just wait. Thank you.

Mayor Ortega: Councilwoman Littlefield and then Vice Mayor Caputi and myself.

Councilmember Littlefield: Thank you, mayor. I have been familiar with the growth and the development of the fire department here in Scottsdale since its origin and I believe we have a fantastic fire department. Thank you, chief, for all that you are doing for us. I also would like to say I agree wholeheartedly and 100% with what Councilwoman Milhaven said. She is exactly right on. I think that this is something that needs to be done. It doesn't mean we won't help our neighbors. And I think that we have a need for this to move forward in our own fire department and to continue with what we are doing. Thank you.

Mayor Ortega: Okay. Next up, Vice Mayor Caputi and then Councilwoman Janik.

Vice Mayor Caputi: Well, I could have just let Councilwoman Whitehead continue, because I was going in that same vain. I think that, of course, Scottsdale always wants to be a good neighbor.

Nobody ever questions that, but mutual aid does need to be mutually beneficial. And so I would like to move to terminate the -- to accept consent item agenda item 11 and terminate the fire department mutual aid agreement, and perhaps also ask the city manager to consider the benefit of entering into a new agreement that might assure shared risk.

Mayor Ortega: And I would just say, thank you, and there was one comment from Councilwoman Janik. I say that because she may have a question for the chief.

[Time: 00:40:47]

Councilmember Milhaven: I will go ahead and second that motion in the meantime. Thank you.

Mayor Ortega: Okay. Go ahead, Councilwoman Janik.

Councilmember Janik: Thank you very much, Chief Shannon for that explanation and, Councilwoman Milhaven, good question. I didn't know I needed to know that. So it was good to hear it and I appreciate councilman Durham and his questions. So I would definitely agree that we should go forward with this motion. Thank you.

Mayor Ortega: Okay. So I will speak to the motion and support it. I served on city council when Rural Metro was the approved vendor, and through the -- and up to the transition. So 22 years ago, Rural Metro and their model served Scottsdale, originated in Scottsdale and expanded to many rural areas where the need was present. And we admire that success.

What came about was that that model did not work in Scottsdale. And that evolved in our own fire department, which I always supported as a coequal partner and communication with our police department and so forth. So I was -- I am concerned about the sort of pay-as-you-go model of reimbursement. I don't think that's a good practice. And so that has to go.

We can't insure you after an incident and work on that model. The other main problem, of course, is they don't meet specs. They don't meet Scottsdale specs. And it's so essential for the diversity of our city, and different fire -- let's just say -- event and firefighting events that we provide the maximum protection we have and not hyperextend or extend our means.

So that means we will be within our jurisdiction, and have written, of course, agreements IGAs with our surrounding cities where appropriate. I believe that the notice has been -- I have seen the record, for a period of time, and the public comments in Carefree have been duly noticed and they took a different path.

[Time: 00:43:25]

The other thing I want to extend, of course, is that you can't fight fire without water, right? And so the city of Scottsdale has had a good relationship with the extension of infrastructure to allow sewer and other things that we have transacted here. So we are also in that position to work with their allocations in that respect.

So at this point, we have a motion and a second for item 11. Please register your vote. Okay. Motion passes unanimously. Thank you very much.

ITEM 19 – QUARTERLY FINANCIAL AND CAPITAL IMPROVEMENT PLAN UPDATE

[Time: 00:44:09]

Mayor Ortega: We will now continue to the regular agenda item number 19, which was the quarterly financial and capital improvement plan update. The presenters are Sonia Andrews, our city treasurer and Dan Worth who will cover the public works area.

After this report, we'll go into comments and then questions from the council ourselves. So thank you very much, city treasurer.

Sonia Andrews: Thank you, mayor. Good evening, mayor and council. This is the quarterly financial update, and as the mayor said, I will provide an update on the general fund, revenue and expenditures, and after this, after my update, Dan Worth our public works director will

provide an update on the -- our capital improvement program. Next.

So far the second quarter of our fiscal year, that is the months of October through December of 2021, the key points are consumer spending continues to be very strong through December. So our revenues continue to be very strong.

Also on the expenditure side, we are spending within our means but we are keeping an eye on inflation and other market volatilities. Next. This slide shows the Mastercard spending pulse. Mastercard tracks national retail sales activity. They track and report on all forms of payment, not just Mastercard transactions. And for the months of November and December of last year, that is traditionally the holiday period, they are showing significant increases in retail sales activities. You can see they are all pluses.

So the -- from 2020 to 2021, retail sales increased by 8.5%, and you can see at the bottom eCommerce, which is online sales increased by 11%. Comparing that to 2019, online sales increased by 61.4%. So basically, a very significant continuing increase in consumer spending. Next.

[Time: 00:46:26]

At the local level, we can see that this is our general fund local sales tax revenues for year-to-date through December 2021. It is up 25% from prior year. And the two largest categories that exceed our budget right now in a positive variance is retail. We are experiencing a 4.7 million positive budget variance and also dining and entertainment, 3.4 million positive budget variance. Next.

In terms of total revenues for the general fund, we are up 13% compared to prior year, and also 19.8 million positive variance from the budget. Most of that is driven by the local sales tax. Next. On the expenditure side, as I mentioned, we are spending within our means. There's a couple of categories we're a little over the budget. One is \$1 million spending where grant funds we were anticipating to cover those expenditures that did not come in for those expenditures, so we had to cover it with our budget. And the other is an accounting adjustment to record our leases. That generated those two negative variances. Next.

When we look at expenditures by division, we are also within our budget and spending within our means. Although we keep eye close eye on inflation. Inflation is driving up some of our commodities and some of the expenditures that we see it. Hasn't affected us in terms of our budget, but we are keeping a close eye on that. That is the end of my presentation. Thank you.

Mayor Ortega: And at this point, if there's any -- I don't see any requests from the public to comment. But at this point, just because it's in two parts, are there any questions for our treasurer and I do see Councilwoman Janik. Thank you.

Councilmember Janik: Yeah, thank you. Very good report. I do have a question. Just for

clarification on transfers, it does show a negative balance, negative variance, and you said it was because the grant funds did not come in as anticipated. And I just wanted to make sure that they will eventually come in. It is number 6, slide number 6.

Sonia Andrews: Regarding the grant funds, that was a riot relief grant that we received, and some of the expenditures we thought would qualify for that grant did not qualify for it. It was about \$1 million in expenditures and so we have to cover it with our own -- our own budget.

Councilmember Janik: Okay. So that is money we will not recapture?

Sonia Andrews: From the Grant that we anticipated, correct.

Councilmember Janik: Okay. Thank you.

[Time: 00:49:38]

Mayor Ortega: I see Vice Mayor Caputi.

Vice Mayor Caputi: Thank you. Could you go back to the first slide? It talked about revenues. We were showing how revenues are up 25%. With the detail. Yeah.

So the thing that caught my eye there is that we are -- you said we exceeded our budget in retail and in dining. The construction number is concerning to me, I just want to ask for your feelings on that.

I know we had talked about the last three months actually showed a 25% -- in December 25% decrease in construction revenue which I found shocking. I don't know if anyone else is looking around the valley at all, about cranes but I work in the construction industry and I couldn't be any busier. I wanted your opinion on that flat number. That concerns me.

Sonia Andrews: Yes, we have been watching the construction sales tax. The construction sales tax, we collect based on either cash receipts or when the contractor or builder does the progress billing. So there may be a timing delay.

However, you are correct in that we are seeing a decrease in our construction sales tax for the months of October, November, and December. They are coming in below the prior year and below budget as well. We're monitoring that, and looking to see if those are timing difference or if it's a more concerning trend.

We're also reaching out to some of our peer cities to see what they are looking at and when we get that data, we will get that out to the council.

Vice Mayor Caputi: The lag you mentioned makes me even more nervous. To me, it means it

will look worse a year or two from now. Thank you.

Mayor Ortega: Councilwoman Littlefield, I'm sorry, Whitehead.

Councilmember Whitehead: Okay. I -- that triggered a question. Could you explain, again, because obviously we have so many projects in the pipeline, when does the construction tax kick in?

Sonia Andrews: Yes, mayor, councilmembers, it really depends on the project. So for smaller projects, it may be on a cash basis, when the contractor or -- if it's a simple remodel project or something like that, they may be reporting when they purchase materials, when they receive the cash for the project.

If it's a larger project, it may be progress billings and it may be at the end of the project that they receive the income and report that to us. So for some larger projects, there may be a delay and for smaller projects it may be more -- you know, more immediate. So it's really hard to say exactly what projects are in the pipeline and what is being progress reported and what we're getting taxes for now versus later. It's really hard to kind of identify that other than monitoring month-by-month our trends.

Councilmember Whitehead: Okay. Thank you. I know when we approved a project there's some bonus dollars to do and I haven't seen those materialize but thank you.

Mayor Ortega: On this subject, and in particular on the construction performance, we did receive a memo from I believe Tim Curtis, well, with our development services, saying that through last year, we had record-breaking number of permits. I think that was over 20% higher than preCOVID.

[Time: 00:53:24]

So, again, how that ends up shaking out, we've had -- when you begin with a -- with that strong of plans in progress, I think we will see it's hard to predict that that would decline.
Councilwoman Littlefield?

Councilmember Littlefield: Thank you, mayor. I do have a question after all. I was looking at your retail numbers. And it shows a very large negative variance. Can you tell me a little bit about why that retail number is down so? Or do you have any data on that?

Sonia Andrews: Mayor, councilmembers, I'm sorry, can you repeat that question?

Councilmember Littlefield: The retail number, the budget variance is 4.7. Can you tell me why that is there? Why we have such a lower number? What makes it up? Because we just came off Christmas and all kinds of good stuff like that. I would think it would be higher.

Sonia Andrews: Yes, that is a positive variance of \$4.7 million. So our actual year-to-date through December of 2021 is \$24.6 million from our retail category. Retail includes –

Councilmember Littlefield: I'm reading it backwards through the plastic. Thank you. I'm sorry.

Mayor Ortega: Thank you. Let's move on with Dan Worth and our capital projects.

Dan Worth: Good evening, mayor and council. Before I get into the discussion of the capital program, and some project highlights, I do want to make a quick announcement. We now have a new city engineer. Her name is Alison Timque. I believe she's sitting in the back of the room here.

Alison has been working with the city since 1998 and has worked on several very complex projects for the city, in our capital program, as a senior project manager, is well-qualified to take over the responsibilities even hopefully will be presenting the next quarterly update to you, instead of me.

I am going to go through a similar format as I used last time. I will talk about bond 2019 and some of those projects and some of our other funding sources. This chart is very similar to the one I showed at the last update. The last update, I showed you a pie chart that showed sources of funds in our capital program where the money comes from. This is where the money goes to.

This is the different major programs that our capital projects support and no surprise, you can see the two very large slices on here are water. That would be water and wastewater, in the brown, the green one transportation, two areas where we have significant capital needs, where we have an enterprise in the case of water, and we have dedicated funding sources dedicated sales tax increments and county and federal funding, you know, for transportation.

[Time: 00:56:29]

So we do have other funding sources to meet the needs in those areas. The smaller segments in the upper right are where most of the bond money is going. Some of the functional areas that don't have some of those dedicated funding sources. The bond program, I'm going to show you an update slide for each of the individual questions. And then highlight for each question, one or two projects of interest. This is the question one.

I'm going to go over some details of projects 53, the sports fields and 55 the whisper rock park at Ashler Hills drives and the subsequent slide, one other thing I want to point out, number 42 has hit a bit of a milestone. We selected a design consultant for the design of the dog park at Thompson peak park and that is going to be an award that will be coming to you for approval sometime in the next couple of months.

The multiuse sports fields at bell road, if you recall, the last time I talked to you about these, I

showed you pictures of the fields. The fields were the highest priority. We did those first. We got them in, with turf growing in time to support the events this winter. Now we're doing everything else, and you can see in had the upper picture that's the restroom and maintenance building, associated with the fields and you can also see a lot of evidence of the landscape work that's going on.

The bottom picture, you can see drainage structure, the concrete walkways, landscaping, the parking in the background, all of the other ancillary stuff that supports the use of those sports fields and it is all progressing very well. Some of the issues I mentioned this last time, still an issue, the last bullet under status, inflation and construction costs we're looking to come up with about \$4 million to complete the scope of this.

Obviously, we are not asking for funding now. We're looking at different options. We are looking at alternatives, but we anticipate coming to you for a request to add funding to this project to be able to complete the second set of fields, the fields at the eastern end near McDowell Mountain Ranch Road. Second project in question one that I wanted to highlight. We are doing design right now on a park.

This is just east of Scottsdale Road between Ashler Hills and West Lynn. The vantage point and that rendering is looking towards the southeast. If you were hovering over the Safeway, and you can see some of the features of the project, the pickle ball courts, the turf play areas, in the center of the picture, you can see a covered shade structure. This is mostly on the southern half of the site, the northern half of the site is going to be largely dedicated to natural area open space, with some trails, provides a buffer to the residential area to the north.

[Time: 00:59:41]

I have received a lot of public comments through our outreach and if you look at the budget numbers, the inception to date is basically money for design. The bulk of the construction funding is anticipated to be in next fiscal year. Question two, I'm going to give you some highlights on project one, the civic center plaza. Another one that I want to point out, project number 18, build roadway and pedestrian improvements along second street.

We have developed some concepts and we hope to be bringing those to you and showing them to you in the near future. The civic center plaza project, this is what the civic center plaza looks like all torn up. We have completed the demo, removed much of the existing infrastructure. You can see the little orange fencing around a lot of trees. We salvaged a good number of mature trees.

We have done some of the below grade infrastructure work to include waterlines that are connecting into the area from the area of ground and main. We will be repaving that this week. We also hit pay milestone on this with DRB approval of the final design concept last week, and another area, another project where we will have a funding shortfall.

If you look at the numbers down at the bottom, there are two guaranteed maximum price GMP awards that are not reflected yet. One you just approved about an hour ago on the consent, which was a GMP award to build most of the remaining design amounts. We are holding on to a final GMP that will come when we identify the additional funding to complete this. It will be about \$5.7 million.

The slide shows \$5 million, but with the constants current estimates we are looking at about \$5.7 million to complete the project and the final GMP award will be for lighting and some of the elements to support the performance areas.

Question three, public safety and I.T. projects. This has got a lot of projects. I have two slides listing them. We'll point out that some of these will be nearing completion and will probably come off the list in the next two or three quarterly updates. Projects number 5, 7, and 11 fit into that category.

[Time: 01:02:23]

I'm going to highlight project number 6, which is not on this list, because it's actually completed, but I wanted to show you what we accomplished with that. Project number 9, and on this slide, the group of projects 26, 27, and 38, associated with the police and fire joint use training facility. This is that project that I mentioned that's completed.

Emergency backup power source for public safety radio and communication systems. Three-year long project to provide backup power to maintain the operation of the public safety radio and communications networks. This is designed to provide 24 hours of continuous operation in case of commercial and backup power generators failing. And just an interesting note, this picture is one of, I think seven different sites that we had this project on. Actually, it's more than that.

One of nine different sites, police District 2, 7 tons of batteries at this one location. So it's a pretty big prospect to get these battery backups in place. Another project that we're making good progress on, fiber optic infrastructure. This provides sufficient network bandwidth to connect a lot of our remote sites, including community centers, parks, libraries, fire stations, other community use locations, scattered from one end of the city to the other, connected to the I.T. backbone so they can make full use and visitors to the facility can make full use of the automation capabilities.

This is funded over a total of four years. You can see the first year of spending at the numbers at the bottom and they are doing a good job of contracting and obligating and getting the funds spent and keeping on track with this project. This is the grouping of three projects. The rendering is from our consultant.

Shows in the upper left, the proposed fire training facility, which is a new building. In the lower right is two new there live fire training structures and the existing flashover simulator. Again, a

existing theme. This is a project where due to escalating costs and changes in scope, frankly, we are short between the three projects a total of about \$14 million.

And, again, we're anticipating -- we're developing some -- some proposals to meet that shortfall, that we'll be bringing to you at the appropriate time. And then just quickly, a list of completed projects, the ones that are highlighted in yellow. Sports lighting and projects at WestWorld and the one that I showed you the detail slide on with the backup power source.

I just wanted to highlight a handful of nonbond funded projects, a couple of street projects that we have in design. Jomax road -- or not Jomax, Scottsdale Road from Jomax to Dixileta, you can see the cross section, that's the basic design for this road. Two lanes each direction, separated by a landscape median minor arterial cross section. It's a complete street, we are addressing multiple modes of transportation, in addition to cars we have bike lanes. We have paths and walkways and you can see the -- the emphasis on the equestrian users in the graphic.

[Time: 01:06:15]

This is also addressing many of the low flow crossings which we are trying to do on our all of our projects in north Scottsdale in order to ensure that communities still have access when monsoon events are happening and to facilitate emergency response during those storms. And we are anticipating building it starting about this time next year. And then this is a very large project that we have been working on for a number of years and we have been partnering with our neighbors at the Salt River Pima community.

This is actually reflected in the C.I.P. with multiple projects, street projects along Pima road, and we have now got granite reef watershed broken up into three different phases one of which is essentially complete and the picture is actually from phase one. This is a picture of excavation happening in the middle of Indian School Road this past year. Pretty significant event for commuters, and we had a contractor that didn't quite meet standards.

So they were out there quite a bit longer than they were supposed to be, but we worked through that and got the contractor out of the way and got another contractor to come in and complete the project. This granite reef watershed project that protects a lot of properties. It will provide flood protection for about 1,000 properties, but it's also the construction can be pretty obtrusive, and the finished product is going to be out of sight. A lot of it is underground. A lot of it is conveyance pipelines underground. Part of it is pipelines under Pima road, that's why we have combined this with the Pima road project.

Partnering with the Indian community on the Pima road project, they have gone and gotten a very significant federal grant that was made available to Indian communities for major infrastructure projects. So that's been a huge help. And if you take a look at all of these projects together, you can see -- together, you can see the numbers down at the bottom. Our share is relatively small. We have contributions coming from the federal grant from the Indian community, coming from the M.A.G. arterial life cycle program, the county flood control district,

the federal grant is paying for some of the flood control projects and of course the community and Scottsdale are sharing on what's left on the municipal pieces.

So we're getting about \$80 million worth of construction for a bargain basement price here. And then I wanted to highlight a couple of water projects because you often don't see these and it's one the bigger parts of our capital program. This is the expansion of a water reservoir site that we have. It's on Pima road, west of the Pima road at Jomax. The project is to build a new tank, two and a half million gallon tank and you can see that in the background. That is a big tank.

[Time: 01:09:17]

There's an existing 2.5 million-gallon tank that you don't see in this picture, but the process is build a new one. And you can see the pit in the fore ground is actually where they are exposing and connecting the pipes that are going to tie this new reservoir into our distribution system and when that's all set, they go into the existing tank, empty it and do a structural survey to determine the scope of the renovation, restoration of that tank, so that then they can go and rebuild that.

Very important for meeting growing water needs in northern Scottsdale, and because it's addressing growing needs, it's funded by development fees as well as by water rates, because it supports existing customers as well. Aquifer storage and recovery wells is a project that's a very important part of our safety yield program. Ensured drought preparedness.

These are the wells where we are taking water that we treat in our advanced water treatment facility and we are injecting it back into aquifer, so that we can withdraw it at a later date so it's storage and recovery. It's putting into the aquifer and it's giving us the capability to pull it out of the aquifer. That's a very complex well. You have approved several GMPs to get us to where we are on this program. We have drilled first of four sites. This is the second one. It's legacy just east of Scottsdale Road.

You have approved a GMP earlier this month to equip the first site which is at Miller and deer valley and we have two additional sites that we are going to be moving to. One is at the property that is -- the municipal use portion of the property that is south of the freeway and east of Hayden Road and the other one is in the parking area at Scottsdale sports complex. So that is what I have to share with you and I would be happy to answer any questions that you may have about the status of the capital program.

Mayor Ortega: I see Councilwoman Janik. Please.

Councilmember Janik: Thank you. Very nice presentation. The overrun on the bond issues, what are we at now? How many million dollars have we gone beyond what we anticipated?

Dan Worth: For the projects that are in design or in construction where we have a good solid

idea of what the needs are?

Councilmember Janik: Mm-hmm.

Dan Worth: It adds up to about \$24 million.

Councilmember Janik: That's what I had too. So what do you attribute most of the overruns?

Dan Worth: In most cases, it's escalating construction costs. As I mentioned, particularly on the police training facility, we had it scoped wrong, and we have made some adjustments to try to get what the police department needs in that facility and that's helped to drive up the cost too. And that's one of our larger ones.

Councilmember Janik: Okay. And how much would you say inflation has -- is responsible for these increases? Most of it?

[Time: 01:12:27]

Dan Worth: Take out that police facility which is about \$8 million overrun in itself, inflation is the primary culprit for the rest of it. Most of these projects were scoped and estimated in 2018.

Councilmember Janik: Right. And it's changed.

Dan Worth: Yes.

Councilmember Janik: Okay. Thank you.

Mayor Ortega: Councilmember Durham.

Councilmember Durham: Thank you, mayor. Following up on Councilmember Janik's question, what's the plan to deal with these cost overruns? Do we have reserves or extra space in these budgets?

Dan Worth: We're going to be coming forward with concrete proposals but there are several things that we are looking at. One is proceeds from real estate sales. You approved the sale of the old fire station on McDowell Road at the last meeting, that \$2 million. That's going to come to the city. We have the museum square land sale that is due to close within a couple of weeks. That's another \$20 million, roughly, if that closes and we have every reason to believe that it will.

We have a third parcel, the eastern 40 acres on bell road that we now have advertised. That's opened for auction. The auction date is set for March 16th, I believe. We will find out whether or not we have a buyer for that piece of land. So those are some potential sources of funding. I don't want to get too far ahead of myself, but general fund on reserve fund balance is also a

possibility, although I know city manager has many competing interests looking for that as a source of funding.

Councilmember Durham: Thank you.

Mayor Ortega: Councilwoman whitehead.

Councilmember Whitehead: I guess I just wonder -- thank you for presentation. Yes, a lot of things change. I just wonder if we delay, is this any projects that won't be started as soon or without any impacts? I mean, that's another way. You know, I don't know if there's any way that we delay some of those projects or perhaps we get into the same situation?

Dan Worth: Just without going into an awful lot of detail and analysis, if you are going to delay projects to free up additional funds to go towards these bond projects, you are not going to get it from transportation projects. Three-quarters of funding is coming from sources that have to be comment, all the sources are coming from transportation. You are left with the pie in the upper right.

Councilmember Whitehead: That's what I meant within the bond. That's for another discussion, perhaps. Thank you.

[Time: 01:15:25]

Mayor Ortega: Any other comments? Okay. Well, first of all, I do want to congratulate our new city engineer. You have 30 years experience with the city, and probably all sorts of capacities and thank you so much. You're going to stay very busy. The subject, of course, we have a really white, hot, real estate market.

The construction market is very active and overheated right now and we are caught up in that. We have three things going for us. We have an excellent bond rating and our bankers and our borrowing power is very low, and, excuse me, the interest rates are very low in our favor. And that, in particular, is a great position that Scottsdale has earned. The other factor is as you mentioned, we park our money and land sometimes where other assets may have been -- where cash went into properties.

Of course, the fire station was essential until we built the new one and we surplussed that. So all of these assets are one side of the ledger or the other, essentially the fire station upon sale, that cash gets turned into a park -- a completion build or whatever that needs to happen. So I think it's an exciting time for the city. Obviously we have to compete with private sector and other public sector. I really appreciate and, you know, as I know the different stages of development as they come forward.

I'm looking forward to see who you select for the dog park and how that is discussed. It is one of the top quality of life factors. So at this point, I think we're concluded on the item. And thank

you very much, treasurer Andrews. I do not -- I will say I would call for public comment on every matter. There is none. So accordingly, I will close public comment.

ITEM 20 – CITIZEN PETITIONS

[Time: 01:17:51]

Mayor Ortega: At this point, we will move on to item number 20, which is receipt and acknowledgment of a citizen petition. Petition was submitted to the clerk's office and read by citizen Teresa Kim Quale and includes distinguished Paul Messinger on it. So in receipt of it, I would move that we direct the city manager to place this item on the agenda for a work study on February 15th, which is an open date, and at that point, we could discuss the particulars of it. So I would move that we take that action.

Councilmember Whitehead: Mayor? I will second that motion.

Mayor Ortega: Thank you. We have a motion and a second. Any other discussion? Thank you. Please register your vote. So I do see -- I don't see Councilwoman Littlefield, for some reason. It might be a little delayed there. Just tell me. Okay. So the motion passes 4-3, with Councilwoman Littlefield dissenting. That ends that matter. We will look forward to the discussion. Now, are there any other mayor or council items tonight? Okay. See none, I would ask that we adjourn the meeting.

I will clarify that we will be going into executive session on the post -- we took a recess off our -- off our regular -- excuse me, executive session. So at this point, I would take a motion to adjourn -- oh, wait. Excuse me. Go ahead. Have I missed something?

City Attorney Scott: Mayor, I believe we still have the work study session on the agenda for this regular meeting.

CALL TO ORDER – WORK STUDY

[Time: 01:20:21]

Mayor Ortega: We will clean that up. Okay. Let's proceed to the work study. Thank you. At this point, we have a work study, and I will -- we are continuing our in session. I call the January 31st, 2022, city council work study session to order. And for the record, our councilmembers and the charter officers are present.

You know, the work study sessions provide us a less formal setting for the mayor and the council to discuss specific topics with one another and the city staff to provide staff with an opportunity to receive direction from the council. This is also an opportunity for the public input to continue to maximize the free discussion and the and for our topic. We do limit the public comment to

five speakers and that would allow our meeting to continue in a shorter manner.

At this point, I would call for open public comment. We have none. So I will close public comment. Our work study item, of course is the fiscal year 2022/23 comprehensive financial policies. As you know, our city treasurer Sonia Andrews brings new insight as our new treasurer. So we will go ahead, right into the presentation where you are at.

Sonia Andrews: Thank you, mayor. Thank you, council. Tonight's study session is on updating our financial policies. Next. Next slide. I would like to talk by talking about what financial policies are. They are rules that govern our financial activities but more than that, they also institutionalize good financial management practices.

Our policies establish a shared understanding h the organization of what good financial management practices are. We use our financial policies to identify and manage financial risks and financial policies also help us formalize our best practices and support our bond ratings. Next slide, bond ratings.

[Time: 01:23:17]

Bond ratings reflect our financial strength and also the quality of our debt. The higher the quality, the higher the credit quality, the lower the interest rates which we can then translate those savings to our residents. As you can see on this pie chart, financial policies and management practices carry significant weight it comes to the pond ratings. They look at err financial metrics but they also consider financial practices crucial to supporting a strong bond rating.

Currently the city enjoys a AAA rating. That's the highest rating that rating agencies assign, and we receive high scores for our financial policies and management practices. Next. Here's a quote from a recent Standard & Poor's rating report that we received for our general obligation debt. They view the city's management as very strong, with strong financial policies. Indicating practices that are strong, well embedded and likely sustainable. You may be asking, why are we updating our policies? Well, we haven't done an in-depth review for probably over 20 years.

It's time to take a hard look and see if we need to enhance them. We are a world-class community with best policies. Our policies should reflect that and be sustainable and carry us into the future. Next slide. So with that in mind, we did a really in-depth review this year and these are our proposed enhancements to our policies to ensure our strong financial practices carry us into the future. With err proposing to organize and reformat the policies to make them easier to follow and reference.

We are proposing to incorporate some best practices over the years there have been new best practices that have been developed and we have incorporates them into our work, but we have not put them into our policies. Also, formalizing some strong financial management practices that we exercise. Again, we have incorporated strong practices. They are just written into our

policy. And finally to clarify any confusing language where needed. Next slide.

As far as reformatting and reorganizing. Here's a before and after look. We hope that our proposed new look makes it easier and to find. This is recommended by the national GFAO best practices which we follow. And also for each of these policies we added an introductory section to explain the purpose of the policies. Next.

So the next set of slides I will be discussing notable changes in our policies. Next slide. I will bring to your attention the four policies with the red arrows next to them, because they have more notable changes. I will not be going through every single policy that we updated as we will be here all night if I do that. The entire policy document is posted on our website for the study session for anybody who is interested in reading all the policies and the whole document.

[Time: 01:27:11]

The four policies I will take you through are the reserve policy, the capital asset maintenance policy, and the debt management and pension funding policy. Next slide. For the reserve policy, this shows our current policy reserves and what our proposed new policy reserves will be. When we look at policies we take into consideration the volatility of revenues. We also look at the flexibility in cutting expenditures. If we have less flexibility then we need more reserves if we have more volatility, we need more preserves.

Currently GFAO best practices dictates a minimum of two months of reserves. That's about 17%. And also we look at our peer city. Our peer cities average 25% in reserves. So we take all of that into consideration and also what type of unexpected events we might face ax and over the years the expected events are larger and more unpredictable, like cyber attacks weather disruptions, pandemics and the likes.

For the general fund operating reserves we are proposing moving that from 10% to 20% and we are also proposing establishing an emergency reserve of 5%. The other reserves where we have our transportation reserves and our debt reserves. We propose changing our debt service reserves our policy states a minimum of \$5 million. We are proposing changing that to 25% of the debt service so it can fluctuate with the level of debt that we have. Next slide.

We are also proposing changing our operating reserves and our enterprise activity from the 60 to 120 days to 25% for water, wastewater and airport and 15% for solid waste. And the other two are the reserves that we have, we will keep those as is. Next slide.

The current reserve policy is that reserves are only used for significant large-scale unexpected events. Whenever we use those reserves we require council approval. That will remain the same in our new proposed policies but we will add a couple more new ones to it as well. Of them is we should use reserves only as a last resort. In times of budget deficit, we should look at reducing revenues -- I mean expenditures or looking at other revenue sources before considering using those reserves.

And if we use those reserves, we should replenish those reserves within two fiscal years, and in the case of the general fund emergency reserves, we're proposing replenishing those within one fiscal year. Next slide. Next is the capital asset maintenance and replacement policy.

The two new policies we are proposing is that we will conduct periodic physical inventories and maintain multiyear maintenance and replacement plans for our critical assets. And that establish ongoing funding source to provide for critical maintenance and replacements and avoid deferral of those maintenance and replacements. Next slide.

[Time: 01:30:50]

So currently, this is how we fund our capital asset, maintenance and replacements out of the general fund, not the enterprise activities but the general fund asset maintenance replacements.

We use -- we look at one-time sources of revenues that we shouldn't be relying on for operating expenditures and that would be our construction sales tax. Currently our policy is 25% of construction sales tax from the general fund. We transfer over to fund capital assets maintenance and replacement. We also transfer 100% of our interest earnings above \$1 million and our new policy we are proposing removing the above \$1 million and just transferring 100% of interest earnings from the general fund. Currently we transfer a third of the general fund food tax as well, bases on our policy that will be phased out by 2024.

And our policy also allows us to provide additional funding as recommended by the city manager through the budget process. Next slide. As far as the debt management policy, we enhance that quite a bit. We added a whole section on the criteria we use to evaluate debt issuance and the conditions with which we will issue debt. We also added that we must use a qualified financial advisor and bond counsel for all debt issuances.

We added the target debt coverage ratio will be two times for water, wastewater debt and 1.5 times for aviation. That target debt coverage is necessary to maintain the triple a bond ratings and we are proposing that as a policy the general fun supported debt should not exceed 10% of our general fund operating revenues. That's based on best practices and very much industry standard. And the next slide. The next slide is our pension funding policy.

As you know recent problems with our public safety pension retirement system, has brought the need to look at funding our pension liabilities. The policy states that we must fully fund our annual required contribution as determined by the actuaries for all of our pensions. We will strive to make additional contributions above the required contributions to ensure an acceptable funded status in the event that our funded status drops to an unacceptable level. And then also that we will not rely on debt to reduce unfunded pension liabilities. Next slide.

So to summarize we hope that our proposed policies will help strengthen our current policies,

make it ease err to read and reference and align them with best financial practices. We will clarify any confusing language. Next slide.

So the next step is the comprehensive financial policies will be brought to the February 22nd council meeting for approval and adoption. It also references specific separate policies that we will bring to council in March for adoption, and those are the investment policies, the public safety requirement system pension funding policy and that separate policy is required by state statute. And two debt policies one required by the I.R.S. and the other by the S.E.C. So those will be brought to council in March. And with that, I can answer any questions.

Mayor Ortega: Thank you very much. We have council woman Whitehead and then Councilwoman Janik.

Councilmember Whitehead: Thank you, Sonia. And I guess the public should know that we had the benefit of going through this ahead of time. I have always been an investor in real estate. I have been through a lot of ups and downs and it's always interesting to me. When I see this sudden burst of sales tax increase, I immediately have a red flag as things go up sharply, they can sure go down and usually down is faster than up.

I just want to state how much appreciate this. I also support the idea that we don't rely on one-time income sources for maintenance. And not using debt service for debt that we have. That's very irresponsible. And I just really support this policy and I really appreciate the recommendations.

Sonia Andrews: Thank you.

[Time: 01:36:00]

Mayor Ortega: Councilmember Janik, and then Durham and Caputi.

Councilmember Janik: Again, I had the advantage to talk to you ahead of time. I do have a couple of questions. I believe it looks like it's page 34 of 42. I'm not sure what the slide number, is but it's the reserves policy and the general fund the operating revenues we're going from 10 to 20% does that happen stepwise over a couple of years or does it happen as soon as the policy is approved?

And where does the funding come from to go from 10 to 20%? Or are you just renaming or taking what is already there and putting it into a different category?

Sonia Andrews: Mayor and councilmembers, thank you for that question. The increase of the general fund policy from 10 to 20% and also the additional 5% will be implemented for fiscal year '22-23. And given that we have some excess fund balance and also excess revenues over what we budgeted to spend, we do have the ability to provide for that policy reserve without impacting our expenditure needs.

Councilmember Janik: Okay. Then I have another question. Debt service revenues, reserves, pardon me, excise tax or other non-property tax supported debt, currently it's \$5 million and you will go to a 25%. So I think it's always good to go to a percent because it's slides as it needs to slide, but my question is. Would you say that \$5 million current is 25% and historically when you look back is 25% an average that you have seen for the past couple of years?

Sonia Andrews: Mayor councilmember, yes. The \$5 million is about 25% of our debt service for non-property tax supported debt right now. So moving to 25% does not really change that \$5 million number, but it does allow us to move up and down with the debt service and I would say that as we have issued more debt, that it's gone up to, you know, \$5 million.

Councilmember Janik: Thank you.

Mayor Ortega: Councilmember Durham and then Vice Mayor Caputi.

Councilmember Durham: Thank you, mayor. I think these are really well-organized, easy to read, as other things from your department have been. So I think that's really very good to see. I think these are something that the general public should -- would be happy to read because it makes it clear that we are acting very responsibly with debt and other things. I did have one special question.

There have been quite a few changes to the capital replacement policies which are very helpful because it really puts us on a road to avoid surprises. One I was a little bit confused by was 4.06 on the fleet and information technology, the rental rate structure. What is that -- that's limited to fleet and information technology, and I -- I was curious why it was limited to those assets.

[Time: 01:39:54]

City Manager Thompson: Mayor, members of council, Councilmember Durham, those are internal service funds. We charge for the fees in those areas to the various departments and so that's why we would do rental rate charge back for utilization of those assets they are internal funds and treated as such they are specific in nature to that.

If I could jump back to Councilmember Janik's question as well, and just add a little bit of depth. On the reserve, in the last five years, we have grown from about \$30 million to over \$120 million in the bank of which then we have taken \$40 million this year to pay down the P.S.P.R.S. pension which is also so noted.

We are going to have a proposed budget when buys it down even further because those numbers for police were nearly \$180 million on the liability side and the fire none at this time but we know we will have a large portion of the staff retire in the next couple of years because we took them over from rural, part of the earlier discussion tonight. So we prepared ourselves and we have been doing without some things to do that. One thing goes from the other.

At least in the general fund, you will see no impact for us to do that because we have built up the reserve. It's a good time for us to do it. It prepares us better for future year. So that that's specific to your question. That's why we do it. It's an internal service fund. I reviewed these thoroughly about Sonia and staff. And I concur with them. I think it's something that was long overdue as well because the policies we have were somewhat antiquated and as you can see, it brings us to best practices today. So again, thank you for both the questions and hopefully that addressed them.

Mayor Ortega: Very good. Vice Mayor Caputi and then Milhaven.

Vice Mayor Caputi: I'm certainly supportive of being fiscally conservative. I had a similar question as Councilwoman Janik. It just -- and thank you for further explanation Jim. Going from 10% to 25% goes extreme and the comment that councilwoman mentioned it was an off year. This year is a little -- definitely out of the norm and we have a great amount of extra resources. Is that something that we feel comfortable maintaining going forward so 22, 23, going from 10 to 25%. Are we going to be reexamining it each year as the numbers change? That's my first question.

City Manager Thompson: Mayor, members of council, Vice Mayor Caputi. We did look at all of our financial policies on an annual basis. Someone, sometimes we have situations where we move forth in the budget process where we say we are going to not act upon or we are going to waive or we are not going to follow a certain policy and that's part of cleaning these up was to do that. That's part of the budget process.

We the challenge when COVID hit, when the pandemic hit, we had no idea and there were things we needed to do. So we look at those thoroughly every year and we will try to keep this updated and we are not decades later and say it's time to update the policies. So I appreciate that comment and concern and question. As far as the 10 to 20% and then plus the five on the emergency side, the one thing we did spell out in these policies which was not spelled before is when can we look at utilizing those.

When the pandemic broke out at 10%, we really took a stand. That's really the low side on the bond mark. You like to be up near the 20 if you can be, maybe a little bit forward. And any of us who has ever had to go into a personal advisor, what is the first thing they say is have six months cash on hand is when you fit nirvana. We're asking for 20% to have cash on hand, that's the nirvana for cities. That's the place to be.

[Time: 01:44:28]

We have the potential and the capacity to do it because for the last five years and probably before, the of the last five in particular, we have grown that fund balance on purpose, with the purpose in mind buying down pensions and putting us in a financial position and thank goodness, because, one, pandemic and, two, now inflation, which Dan mentioned earlier,

\$24 million just on the projects that we have right in front of us that we have shortfalls on already, and we are still early in the process.

Again, I -- you know, I'm in agreement with the numbers. I think it's best practices but in the time comes forward where we get challenges times, you are supposed to use those. That's what they are there for. And so, again, we will have those discussions if we hit that year where we have the bad times in the future and when you look from a real estate standpoint, as councilmember whitehead brought up, we will have a day where we have a downturn in the numbers that we see today and we will look at them and see if we are in the best place that we possibly can. 10% is the lowest.

The bond companies go a little bit crazy and what we see in the market is everybody is hovering around 20% and we like to be at the forefront of that.

Vice Mayor Caputi: Thank you for reassuring me. I worry about being overly conservative because those funds are not being used for other productive means. And also I want to reiterate that that number that I found very interesting 25 -- I didn't realize 25% of construction sales tax revenue funds or capital assets and so I will repeat that I would like to keep our eye on that construction sales tax fund -- revenue fund because pulling permits is great, but, that does not translate into actually building. We are in a decreasing trend and that's something we definitely want to watch for. Thank you.

Mayor Ortega: Councilwoman Milhaven and Littlefield.

Councilmember Milhaven: I would like to echo my colleagues' comments, great job. I have one comment. The food for home consumption tax transfer, I thought we had already eliminated that and as I thought about it, I think that was one of those we suspended it during times of financial concern. I think we should just eliminate that all together, and not wait to phase it out through 2024.

Sonia Andrews: Mayor, councilmembers, Councilmember Milhaven, we can do that and bring that proposal to you.

Councilmember Milhaven: Thank you.

Mayor Ortega: Councilwoman Littlefield.

Councilmember Littlefield: Thank you, mayor. Once again, I agree with Councilmember Milhaven. I think this is something we needed to do for a long time. It has not been upgraded or tightened and I think this will really, really help us as we go forward and hopefully climb out of this time that is so challenges for us all.

[Time: 01:47:30]

I would like to thank you, city treasurer for taking this on and doing such a great job. I read through it carefully. I had the advantage of my colleagues to meet with you separately and go over some of these things. I think with you have done a fantastic job in helping Scottsdale maintain its good bond rating and good financial position and situation going forward. So thank you.

Mayor Ortega: Well, thank you. The purpose of the work study is to get the consensus and I think it's very positive. I too very much like the outline and the numbers and the targets that you are looking at. I think it's a very powerful overview and it's appreciated.

The -- when I think of a 25% reserve on get service or car payments, basically, it's basically three months of payments that you would be prepared to cover. And I think that's really very rational and the other thing that I like about it is that there should be no unwritten policies. So if there is some gaps that needed to be modernized, then we are doing that and that's the best way to approach it.

ADJOURNMENT

[Time: 01:48:48]

Mayor Ortega: So with that, we would be concluded with our work study. At this point, before we adjourn, I do want to point out that our council is in recess from an executive session. We will be returning to that. Let's call it about 7:00. So at this point, I take a motion to adjourn.

Councilmember Janik: So moved.

Vice Mayor Caputi: Second.

Mayor Ortega: We have a motion and a second. All in favor say aye. So moved. Thank you.