



**City Manager**

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April 9, 2019

Honorable Mayor and City Council:

The proposed budget for Fiscal Year 2019/20 is provided for your review as the first step in our annual budget process.

A substantial revenue increase is projected for the next fiscal year. As the economy continues modest growth, local and state shared revenues will grow accordingly. This revenue provides the financial means to address the increasing costs of providing service as well as improving or expanding city services in key areas.

**Sources**

General Fund sources are estimated to increase \$23.6 million from the adopted FY 2018/19 budget. That total projected increase comes from several different sources:

- \$10.7 million from a projected increase in general fund sales tax revenue, including \$1.0 million for the portion dedicated to Public Safety (an increase of 7.8 percent over the adopted FY 2018/19 budget)
- \$5.1 million from a projected increase in state shared revenues (the city's proportionate slices of state income tax, state sales tax, vehicle license fees and gasoline tax), however this estimate is subject to change; the state may update estimates later in the budget process
- \$1.9 million of the projected increase is due to a change during FY 2018/19 after budget adoption in the way the Fire Insurance Premium Tax Credit is recorded due to new accounting regulations. There is an offsetting expense of the same amount for a net \$0 impact to the General Fund. The change is an accounting reporting requirement by the Governmental Accounting Standards Board (GASB) to recognize the Fire Insurance Premium credit as an expense and revenue for the Public Safety Personnel Retirement System (PSPRS) where previously just the net was recorded as an expense
- \$1.4 million additional interest earnings projected by the city's investment advisor using macroeconomic trends, all of which will be transferred to the CIP
- \$1.1 million will be generated by a \$1 monthly increase to the stormwater fee paid by utility customers; 95 cents of every \$1 generated will be used solely for stormwater capital projects

- \$1.1 million from additional primary property tax collections (\$630,000 due to the allowable 2 percent statutory adjustment and \$430,000 due to new construction on the tax rolls)
- \$700,000 in the indirect cost allocation to cover the increased costs of providing internal services (e.g. human resources and information technology to the Enterprise Funds)
- \$400,000 from an increase in the transfer from the Water and Water Reclamation Funds to the General Fund, for use of the city's rights-of-way and medians. The annual charge is 5 percent of Water Service and Water Reclamation Charges revenue
- \$300,000 from a projected increase in building permit applications
- \$300,000 from partial year new revenue collected to house non-violent low risk defendants in the new jail dormitory space scheduled to open in February 2020

The secondary property tax levy will decrease \$1.2 million next fiscal year to \$33.0 million due to the pay down of general obligation debt. The secondary rate will decrease from 0.5705 to 0.5214.

### Uses

The proposed operating budget for next fiscal year increases general fund spending by \$15.9 million from the FY 2018/19 adopted budget. Part of this increase supports the City Council's commitment to investing in our high-performance organization and employees:

- \$4.6 million General Fund (\$6.8 million all funds) is for a 2.5 percent market adjustment for city employees who meet performance expectations
- \$2.2 million General Fund (\$3.2 million all funds) for the citywide pay for performance program, through which employees may receive pay increases based on performance (up to the maximum of their salary range)
- \$1.0 million General Fund supports the specific pay program for police officers and sergeants
- \$600,000 General Fund supports the specific pay program for firefighters, fire engineers and fire captains
- \$600,000 General Fund (\$900,000 all funds) is for the second phase of a three-year plan to address employee salaries that have fallen below market comparisons
- \$400,000 will allow us to increase vacation days for sworn fire personnel from five to six

The proposed budget also includes an additional \$1.0 million in the General Fund (\$1.6 million all funds) to cover the city's share of an anticipated 6.8 percent increase in employee medical costs, and \$800,000 for the vacation trade program, which allows employees to trade-in earned vacation hours they do not intend to take.

### **Addressing pension expenses**

The proposed budget includes \$4.1 million for a handful of pension-related expenses. Within the Public Safety Personnel Retirement System (for sworn police and fire employees), an increase of \$3.4 million will be used as follows:

- \$1.9 million to account for the previously mentioned change in the way the Fire Insurance Premium Tax Credit is recorded due to new accounting regulations. There is an offsetting revenue of the same amount for a net \$0 impact to the General Fund. The change is an accounting reporting requirement by the Governmental Accounting Standards Board to recognize the Fire Insurance Premium credit as an expense and revenue for the PSPRS where previously just the net was recorded as an expense
- \$800,000 million for increased employer contribution rates in FY 2019/20
- \$700,000 is a one-time Public Safety Retirement refund plus interest to those sworn personnel who contributed to retirement unnecessarily while participating in the Deferred Retirement Option Plan (DROP) program

Additionally, \$700,000 is included for increased employer contribution rates in FY 2019/20 for employees in the Arizona State Retirement System.

### **Other General Fund expenses**

The proposed budget also includes money for several priority items:

- \$400,000 for increased costs in custodial contracts throughout the city as more locations require services, including some open 24 hours per day, 7 days a week
- \$200,000 covers annual operating costs for three completed capital projects: Fire Stations 613 and 616, and the Airport Terminal Area Redevelopment Project
- \$200,000 is a one-time expenditure to replace outdated audio-visual equipment at all libraries, senior centers, community centers and parks facilities
- \$200,000 is a one-time expenditure to purchase pension planning software to help manage liabilities and costs of the Public Safety Personnel Retirement System

### **Capital Improvement Program**

An estimated \$147 million will be spent on capital improvements in Fiscal Year 2019/20. These projects address City Council priorities and critical capital infrastructure needs in a variety of areas and are supported by different funding sources.

The City Council Capital Improvement Plan Subcommittee held a handful of meetings January through March to review and prioritize capital project requests. The result of those meetings is the proposed FY 2019/20 through FY 2023/24 CIP funding recommendation to the City Council.

Additionally, the subcommittee evaluated various options to address remaining unmet priority capital needs and recommended that the City Council discuss and adopt a funding strategy. The City Council is scheduled to hold this discussion April 15.

### CIP transfers

The total FY 2019/20 CIP transfer from the General Fund operating budget is \$15.1 million, which consists of:

- \$5.8 million – per financial policy #17 food tax (Note: this transfer amount will be reduced in the FY 2019/20 Tentative Budget by \$0.7 million to \$5.1 million to offset administrative overhead costs that will no longer be charged to the Capital Improvement Plan and instead charged to the General Fund operating budget. This change in charging administrative overhead costs will also apply to the Transportation Fund. The FY 2019/20 Tentative Budget will also include a \$0.8 million shift in the charging of administrative overhead costs from the Transportation Fund capital budget to the Transportation Fund operating budget.
- \$4.0 million – per financial policy #17, transfer net interest income in excess of \$1.0 million
- \$2.7 million – per financial policy #25, transfer a minimum of 25 percent of construction sales tax
- \$2.5 million – stormwater fee of \$2.95 per month to fund Drainage and Flood Control CIP projects
- \$67,400 – per the city's Baseball Facilities agreement with the Scottsdale Charros and San Francisco Giants, which makes a capital improvement contribution of 40-cents per Spring Training ticket sold

Some notable capital improvement projects proceeding next fiscal year are highlighted below.

#### Build/rebuild fire stations (FY 2019/20: \$8.3 million)

In 2015, Scottsdale voters approved \$16.4 million in bond financing to build or rebuild four fire stations. Fire Stations 605 (75<sup>th</sup> Street and Shea) and 613 (North Hayden Road in Desert Foothills area) are complete.

The two remaining stations – Fire Station 616 (Desert Mountain) and Fire Station 603 (McCormick Ranch) will begin construction in the coming fiscal year

*Funding sources: G.O. Bond 2015 and General Fund*

#### Downtown sidewalk and lighting improvements (FY 2019/20: \$2.3 million)

Two separate projects currently under design will connect, widen, improve accessibility and enhance lighting to downtown sidewalks where needed. The new lighting will also include the addition of electrical outlets to support seasonal downtown lighting.

*Funding sources: Transportation Sales Tax and General Fund*

#### Granite Reef Watershed drainage improvements (FY 2019/20: \$6.7 million; \$37.7 million total remaining budget)

Drainage improvements will provide 100-year flood protection and eliminate the need for mandatory flood insurance for the structures in the Granite Reef Wash corridor between Thomas and McKellips roads. Construction of two of the three sections of Phase 1 are complete with the design of Phase 2 underway.

*Funding sources: General Fund, Maricopa County Flood Control District and Salt River Pima-Maricopa Indian Community*

Crossroads East Flood Control Phase I (FY 2019/20: \$15.1 million)

The city is working with the development company for Nationwide Insurance to design and build an open drainage channel to protect the future mixed-use development and other parcels downstream from a 100-year flood event.

*Funding sources: General Fund, Arizona State Land Department and MPC Bonds*

Drinkwater Bridge (FY 2019/20: \$7.6 million)

Reconstruction of the bridge is underway and it is anticipated to open in November 2019.

*Funding sources: Transportation Sales Tax and Regional Transportation Sales Tax (Prop 400)*

Pima Road: Pinnacle Peak to Happy Valley (FY 2019/20: \$22.1 million)

Design and right-of-way acquisition is underway; the project will expand the road to a major six-lane arterial street with landscaped median, turn lanes, bike lanes, sidewalks, curb and gutter, roadway drainage and Intelligent Transportation Systems facilities.

*Funding sources: Transportation Sales Tax and Regional Transportation Sales Tax (Prop. 400)*

Raintree Drive: Scottsdale to Hayden (FY 2019/20: \$16.0 million)

Construction of the first phase of the Raintree Drive project from Scottsdale Road to Hayden Road will begin. This project will provide a direct connection between the Loop 101 freeway and Scottsdale Road, simplify the route from Hayden Road to Scottsdale Road and help to relieve some traffic congestion currently experienced on Frank Lloyd Wright Boulevard in this area.

*Funding sources: Transportation Sales Tax and Regional Transportation Sales Tax (Prop 400)*

Thomas Groundwater Treatment Facility (FY 2019/20: \$23.3 million)

A new facility is being built to receive and treat a side stream of water discharged from the Groundwater Treatment Facility.

*Funding sources: Water Rates and Municipal Property Corporation Bonds*

## Conclusion

Also included in the proposed budget is an organization chart that reflects several organization changes which carry no fiscal impact - no additional dollars are needed. Changing these reporting relationships should further improve teamwork and increase efficiency. For example, Transportation will become part of Public Works so that those who design, build, and maintain the roads are in the same division. WestWorld will join Community Services to activate the facility in additional ways. The budget will reflect these changes by adjusting cost centers and accounts for some staff and programs. Some of these are included in the proposed budget presented here, while the remainder will be included with the tentative budget in May.

This proposed Fiscal Year 2019/20 budget provides the means for the City of Scottsdale to continue the high-quality city services our residents expect and deserve. It is a starting-off point for additional conversations with the City Council and the community.

Sincerely,

A handwritten signature in black ink, appearing to read "Jim Thompson", with a large, sweeping flourish underneath.

Jim Thompson, City Manager