

Fiscal Year 2021/22 Proposed Budget Transmittal

Honorable Mayor and City Council:

With a historic year behind us, I am pleased to present the proposed Fiscal Year 2021/22 budget for your consideration. The city is on solid financial footing and over the coming fiscal year, we expect to emerge from the COVID-19 global pandemic and once again return focus to a number of citywide priorities.

The current fiscal year budget was developed amidst incredible uncertainty, with the global pandemic touching every element of the city's economy, finances and services. When creating that budget, we curtailed revenue projections and took steps necessary to manage the city's finances, including eliminating contract positions and freezing most hiring across the city.

Those actions had the intended effect – Scottsdale recalibrated its budget to weather the financial difficulties, and we are now positioned to move forward in the new fiscal year.

Despite the continuing negative effects of the pandemic on our key travel and tourism sectors, revenue growth is projected to rebound substantially next fiscal year. Our spending will remain cautious, but projected growth will allow us to continue investing in our high-performance employees. Staff is analyzing the American Rescue Plan Act funds recently approved by the U.S. Congress that we are to account for in FY 2021/22 and 2022/23, and will be prepared to discuss proposed uses with the City Council prior to tentative budget adoption in May.

The most substantial new spending allocation comes in the form of a \$40.0 million pay down toward our unfunded public safety pension liability – the first significant payment from the General Fund PSPRS reserve designation that was established several years ago.

I am pleased to present a balanced budget proposal where ongoing sources exceed ongoing uses and is conservative in approach while being optimistic about continued growth in the year ahead.

Sources

General Fund sources are estimated to increase \$28.9 million from the adopted FY 2020/21 budget. That total projected increase comes from several different sources. Below highlights the sources contributing significantly to the change:

- \$21.6 million from a projected increase in general fund sales tax, including \$1.9 million for the portion dedicated to Public Safety.

- \$7.1 million from a projected increase in the city's proportionate slice of state shared sales tax and vehicle license fees; however, this estimate is subject to change as the state may update estimates later in the budget process.
- \$1.7 million from additional primary property tax collections (\$674,000 due to the allowable 2 percent statutory adjustment and \$652,000 for the statutory reach back for FY 2020/21, and \$375,000 due to new construction on the tax rolls).
- \$1.6 million from additional recreation fees as the city anticipates an increase in occupancy of recreation facilities and increased participation in recreation lessons and activities.
- \$0.8 million from a higher transfer from the Tourism Development Fund resulting from higher revenue anticipated and in accordance to Financial Policy 21A.
- \$0.6 million from miscellaneous revenue mostly related to a contract to provide Deputy Fire Chief services to Cave Creek and the recognition of new leases of vehicles as capital leases per Governmental Accounting Standards Board (GASB) requirements.
- \$0.7 million from Building Permit Fees & Charges due to an increase in anticipated construction activity in FY 2021/22, resulting in higher demand for real estate permits.
- \$0.4 million from higher enterprise franchise fee revenue anticipated from the Water & Water Reclamation Funds.
- \$0.3 million in the indirect cost allocation to cover increased costs of providing internal services (e.g. human resources and information technology to the Enterprise Funds).

The increase would have been greater but is being offset by:

- (\$3.4 million) decrease in the city's proportionate share of state income tax collections.
- (\$1.5 million) less interest earnings projected by the city's investment advisor using macroeconomic trends, all of which would have been transferred to the CIP.
- (\$0.5 million) from Electric & Gas Franchise Fee revenue related to the Tax Cuts and Jobs Act of 2017, which allowed APS to pass corporate tax cuts on to customers as savings.
- (\$0.3 million) in Photo Radar based on an anticipated decrease in filings resulting from the COVID-19 pandemic, which may continue into FY 2021/22.

The secondary property tax levy will increase \$1.7 million next fiscal year to \$35.1 million as a net result of paying off prior general obligation debt and completing the first issuance related to the

Bond 2019 program. Despite the increase to the levy, there was a minor secondary decrease from 0.5043 to 0.5042 due to expected increases in property values.

Uses

After adjusting for state and federal funding received for the COVID-19 pandemic, a large PSPRS paydown towards the city's unfunded pension liability, FY 2020/21 mid-year merit and market adjustments, and two significant transfers to the CIP, the proposed General Fund operating budget for next fiscal year increases spending by \$30.1 million from the FY 2020/21 adopted budget to address increasing costs and priority programs in a variety of areas.

The proposed FY 2021/22 operating budget includes funding to reflect the City Council's continuing commitment to invest in our high-performance organization and employees:

- A 2.0 percent market adjustment of \$4.0 million General Fund (\$5.0 million all funds). The proposed FY 2021/22 budget also includes \$3.0 million General Fund (\$3.7 million all funds) to address any employees whose salaries may have fallen below market comparisons.
- \$3.7 million General Fund (\$4.8 million all funds) for the citywide pay for performance program, through which employees may receive salary increases based on performance (up to the maximum in their salary range).

Addressing Pension Expenses

As mentioned earlier in the letter, the General Fund budget includes a \$40.0 million one-time payment (\$35.0 million Police and \$5.0 million Fire), and a \$3.5 million net increase in ongoing funding for pension related costs. Of this:

- \$2.4 million for increased Public Safety Personnel Retirement System (PSPRS) (for sworn police and fire employees) contribution rates.
- \$1.1 million for increased Arizona State Retirement System (ASRS) employer contribution rates.

CIP Transfers

The total FY 2021/22 CIP transfer from the General Fund operating budget is \$16.9 million and ensures compliance with Financial Policy No. 17. Worth noting when comparing the FY 2021/22 CIP Transfers Out to the FY 2020/21 Adopted CIP Transfers Out:

- \$8.0 million to fund two energy savings projects that will result in long term savings to the city.
- \$4.6 million from the food tax. The FY 2020/21 adopted budget did not include the food tax portion as a transfer to CIP, because it was transferred to the operating contingency so funds could be available for unforeseen expenses related to the COVID-19 pandemic.

Other General Fund Expenses

The proposed budget also includes \$0.7 million to add a net of 8.74 General Fund (14.74 all funds) full-time equivalent employees (FTEs). These additional employees in several divisions will provide more frontline customer service support, improve the city's cybersecurity program and address increased workloads in several maintenance, inspection and administrative areas.

Additionally, there was a change in methodology of how part-time positions are reported from being truncated after the second decimal in previous years to being rounded to the second decimal starting in FY 2021/22. The impact for this change to the General Fund is 1.82 FTE (2.06 FTE all funds).

In addition, the General Fund budget includes money for these priority items:

City Attorney

- \$0.1 million for outside counsel expenses to address rising litigation costs.

City Clerk:

- \$0.3 million one-time funding for 2021 Special Election costs.

City Treasurer

- \$0.4 million for maintenance costs related to the new enterprise resource management system.

Administrative Services

- \$0.3 million one-time funding to address operating impacts of two Bond 2019 program projects '11-Replace Document Management System to Improve Public Access to Information' and '8-Replace Website Management Software'.
- \$0.2 million for increase in software and lease costs.

Community & Economic Development:

- \$0.3 million to restore FY 2020/21 one-time budget reductions due to COVID-19.
- \$0.2 million to eliminate the staffing allocation to the CIP as stormwater capital projects are managed by the Public Works division.
- \$0.1 million annual increase per agreement with Scottsdale Arts

Community Services

- \$0.3 million to address operating impacts of Bond 2019 program project '53-Build Multi-Use Sports Fields in the area of Bell Road'.
- \$0.2 million one-time funding for contract labor costs for WestWorld event support.
- \$0.1 million for maintenance costs related to baseball facilities at Indian School Park moving under City of Scottsdale management.

Public Safety – Fire:

- \$0.6 million one-time funding to upgrade an aging fire truck to extend its service life and reduce maintenance costs.
- \$0.3 million for increased contract costs.
- \$0.2 million to cover the cost of 6 firefighter positions previously funded by the 2017 SAFER grant which will expire in November 2021, and an increase of matching funds required for the 2018 SAFER grant that currently covers the cost of another 6 firefighter positions.
- \$0.2 million to properly address attrition through training.
- \$0.2 million to reclassify positions to meet staffing needs.

Public Safety – Police:

- \$0.7 million to cover holiday overtime as a result of a change to pay for overtime which occurs in both actual and observed holidays, and to support the addition of Veteran's Day as a city paid holiday added in FY 2018/19 but for which funding was not previously added.
- \$0.3 million for municipal security contract increased costs.

Public Works:

- \$0.4 million to implement Americans with Disabilities Act (ADA) updates and modification to public facilities per the city's ADA transition plan.
- \$0.2 million one-time funding for citywide pole lighting retrofit and replacement.
- \$0.2 million one-time funding for citywide flooring replacement.

Capital Improvement Program

An estimated \$284 million will be spent on capital improvements in the upcoming fiscal year. These projects address City Council priorities and critical capital infrastructure needs in a variety of areas and are supported by different funding sources, including many directly supported by the city's voters through recent bond elections.

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

1-Replace Aging Infrastructure and Improve Public and Event Spaces on Civic Center Plaza - (FY 2021/22: \$27.0 million)

This project will rebuild the Scottsdale Civic Center Plaza as the community's signature special event and public gathering space while maintaining the park-like environment that residents enjoy year-round. Design would create an "event ready" venue that includes an iconic stage structure. With few regional competitors for large events in an outdoor setting, the new public space would place Scottsdale in a competitive position to attract large-scale events, such as Super Bowl Live, a multi-day event leading up to Super Bowl 2023.

Funding sources: Bond 2019, General Fund

53-Build Multi-Use Sports Fields in the area of Bell Road (FY 2021/22: \$37.7 million)

This project will build up to 13 full sized multi-use sports fields at two locations: 94th Street and Bell Road and Thompson Peak Parkway and McDowell Mountain Ranch Road. The fields are needed to meet the increased demand for lighted sports fields in the community and will create the ability for Scottsdale to host larger tournaments and increase revenue. The fields will be used as parking for special events for a few weeks each year to replace temporary parking lots on Arizona State Land that will become unavailable as the land is sold.

Funding sources: Bond 2019, General Fund

23-Repair Lakes and Irrigation at Vista del Camino Park at the Indian Bend Wash (FY 2021/22: \$11.0 million, \$23.5 total remaining budget)

This project will repair failing lakes and irrigation from McKellips Road to Thomas Road in the Indian Bend Wash. The lake system is showing signs of aging and failure due to punctures in the lake liner, erosion of the lake edges and leaks in the spillway system. The irrigation systems are outdated, undersized and perform inadequately. Updating materials and technologies will lower annual operating cost, enhance water conservation and quality, resolve lake edge erosion and allow more effective use of park open space areas.

Funding sources: Bond 2019

38-Build a new Fire Department Training Facility (FY 2021/22: \$3.6 million, \$18.2 million total remaining budget)

This project will build a modern fire department training facility to ensure Scottsdale Fire personnel are best prepared to handle the full range of medical and emergency response needs in the community. The current training complex, located on the grounds of the Tom Hontz Training Facility, is a hodgepodge of various buildings and resources including a prefabricated training tower and building, converted mobile storage units and a portable classroom building that is at the end of its useful life. This project will remove these outdated elements, design and build a new training complex on the current site to provide Scottsdale's fire and emergency medical responders with a learning and training environment worthy of our staff and the community.

Funding Sources: Bond 2019

7-Replace Outdated 9-1-1 Computer Aided Dispatch and Records Management to Improve Efficiency (FY 2021/22: \$2.1 million)

This project will replace the outdated Police Department Computer Aided Dispatch (CAD) and records management system which will interface with new applications and improve reporting and analytics capabilities. The upgrade will enhance mapping and radio capabilities, improve vehicle dispatching, upgrade text-to-9-1-1 capabilities, increase efficiency in report writing and provide better case management.

Funding Sources: Bond 2019, RICO, General Fund

63-Build Parking Structures in Old Town (FY 2021/22: \$4.4 million, \$21.0 million total remaining budget)

This project will increase the effective parking supply of parking for residents, visitors, and businesses in Old Town Scottsdale.

Funding Sources: Bond 2019

Runway 03/21 Rehabilitation/Reconstruction (FY 2021/22: \$11.0 million)

The runway at Scottsdale Airport will be rebuilt to better serve customers and allow the airport to continue its role as a substantial economic engine for the city.

Funding sources: Aviation Funds, Grants

Raintree Drive: Scottsdale Road to Hayden Road (FY 2021/22: \$30.4 million)

This project will design and rebuild a portion of Thunderbird/Redfield Road, 76th Place, Acoma Drive and 78th Way to create the extension of Raintree Drive west of Hayden Road.

Funding sources: Regional Sales Tax – Arterial Life Cycle Program, Transportation Sales Tax 0.1%, Transportation Sales Tax 0.2%, Downtown Cultural Trust, Bond 2000

Pima Road: Pinnacle Peak Road to Happy Valley Road (FY 2021/22: \$36.4 million)

This section of Pima Road will be expanded to a six-lane roadway that includes landscaped median, turn lanes, bike lanes, sidewalks, curb and gutter, roadway drainage and Intelligent Transportation Systems facilities.

Funding sources: Regional Sales Tax – Arterial Life Cycle Program, Transportation Sales Tax 0.1%, Transportation Sales Tax 0.2%, CIP Stormwater Fee

Happy Valley Road: Pima Road to Alma School Road (FY 2021/22: \$22.7 million)

Happy Valley Road from Pima Road to Alma School Road will be widened to two-lanes-per-direction with a raised median, bicycle lanes, sidewalk and trail to improve safety, capacity and accessibility safety for motor vehicles, bicycles, and pedestrians. Roundabouts at the Alma School Road and Golf Club Drive intersections are included. This segment of roadway is currently one lane in each direction with no center median.

Funding sources: Regional Sales Tax – Arterial Life Cycle Program, Transportation Sales Tax 0.1%, Transportation 0.2% Sales Tax, In Lieu Fees - Transportation

SROG Regional Wastewater Facilities (FY 2021/22: \$26.7 million, \$58.8 million total remaining budget)

This project will expand and improve the regional wastewater conveyance facilities and the 91st Avenue Wastewater Treatment Plant (located in Phoenix) according to existing intergovernmental agreements with the Sub-Regional Operating Group (SROG).

Funding sources: Sewer Rates

Water Treatment Facility Improvements (FY 2021/22: \$11.5 million, \$40.5 million total remaining budget)

This project will include minor design, maintenance and construction modifications to various water treatment plant infrastructure which is aging. In addition, design and replacement of pump stations and storage tanks will be conducted as identified in the Asset Management Program.

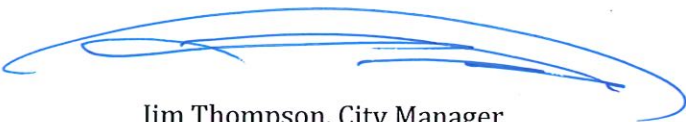
Funding sources: Water Rates

Conclusion

We learned many lessons during the COVID-19 pandemic which will continue to benefit our organization and our community: leveraging new technology to serve in different ways, upgrading facilities to improve public health, and adjusting policies and procedures within rapidly revolving circumstances.

The Fiscal Year 2021/22 budget proposal supports continuing many of those efforts and provides the basis to build upon them so Scottsdale can grow even stronger as we return to normalcy.

Sincerely,



Jim Thompson, City Manager