

Fiscal Year 2022/23 Proposed Budget Transmittal

Honorable Mayor and City Council:

I am pleased to present the proposed Fiscal Year 2022/23 budget for your consideration. For the past two budgets, the organizational, societal and financial impacts of the global pandemic have been front and center. As we look to the year ahead, we finally expect COVID-19 to be less of a factor.

This budget proposal, however, must account for the pandemic's continuing ripple effect on consumer spending, health care costs, financial markets, availability and cost of construction materials, and fuel – many of which are exacerbated by the new global uncertainty caused by the war in Ukraine.

Here at home, Scottsdale continues to deliver on our mission of Simply Better Service for a World-Class Community. This budget supports first-rate services for residents and the high-quality city employees who provide them.

City revenues spiked over the past year, caused by unusual circumstances related to the pandemic. Stimulus money was pumped into the economy, and the rising cost of goods resulted in higher sales tax collections. Pent-up demand and desire among the public resulted in higher revenue related to travel, entertainment and dining out. The city also saw additional one-time revenue via the AZ Cares and American Rescue Plan acts.

These positive revenue impacts were lessened to a degree because Scottsdale's population, per the 2020 decennial census, decreased from its original estimate resulting in a reduction in population-based state shared revenues.

The FY 2022/23 budget recognizes the impact of these competing factors. General Fund revenues are expected to increase in FY 2022/23. However, we are forecasting the additional stimulus funding to work its way through the economy and project a decrease in revenues in FY 2023/24 with a return to a normal trend line through the five-year forecast.

Notable programs and initiatives

Within that overall financial picture, this budget proposal funds a number of programs and initiatives that will allow the city to address priority areas in the year ahead.

While covering overall cost increases in the budget for contracts, commodities, and health care, the city's financial reserves will also be increased to further enhance Scottsdale's resiliency and ensure

that Scottsdale has sufficient financial capacity to face unexpected events such as cyberattacks, weather disruptions and pandemics.

The budget continues investing in the city's workforce: the ongoing market and merit pay adjustment programs, detailed in the Uses section below, will help city staff face rising inflation, and help the city compete to retain and attract top-quality people.

The General Fund budget includes a \$12 million one-time payment (\$10 million Police and \$2 million Fire) to continue addressing the Public Safety retirement unfunded liability.

With the Super Bowl returning to Arizona in February 2023, Scottsdale expects to take center stage for events and activities around this national event. The proposed budget includes funding for staff costs to support increased activity during Superbowl week and small downtown improvements to help the city look its best in the spotlight.

This proposal includes funding for General Fund initiatives that could be identified by the City Council during the fiscal year, and for Innovation Initiatives that will allow the City Manager to fund projects that benefit the community and support organization goals and City Council priorities.

The budget proposes adding 33 new full-time equivalent positions. Half of those are in the Police and Fire departments, funded with new Prop. 207 money from the Smart and Safe Arizona Fund. This revenue, collected from recreational marijuana, can only be used for personnel costs.

The Fire Department positions are needed to support constant staffing for that 24/7/365 service.

For the Police Department positions, based upon recommendations from a Short-Term Rental Working Group, this budget proposal funds a new unit to address increased enforcement and investigation demands around vacation and short-term rental properties. Additional police positions will augment services in city parks and the Scottsdale McDowell Sonoran Preserve.

I am pleased to present this balanced budget proposal. It provides the financial basis for Scottsdale's continued success in the year to come.

Sources

General Fund sources are estimated to increase by \$52.3 million from the adopted FY 2021/22 budget. That total projected increase comes from several different sources. Below highlights the sources contributing significantly to the change:

- \$23.5 million from a projected increase in general fund sales tax, including \$2.3 million for the portion dedicated to Public Safety.
- \$17.9 million from a projected increase in the city's proportionate slice of state shared income tax, sales tax and vehicle license fees.
- \$1.1 million from additional primary property tax collections (\$0.7 million due to the allowable 2 percent statutory adjustment and \$0.4 million due to new growth).
- \$0.9 million from Building Permit Fees & Charges to help cover inflationary costs and department operating costs to provide an excellent customer experience.
- \$0.3 million from WestWorld Equestrian Facility Fees to cover a pilot program for rental of the polo fields, increases in facility fees to allow for cost recovery, and increases in parking lot fees to meet demand.
- \$0.7 million due to increased revenue for the Tournament Players Club and for rent collected from agencies using the Paiute Neighborhood Center.
- \$0.3 million due to increases in the Advanced Life Support (ALS) Ambulance Contract; increased revenue associated with third-party fire protection system inspections, testing and maintenance; and rate and fee increases for CPR/First Aid and Babysitting, and a new class for Preserve/Outdoor First Aid.
- \$0.2 million due to increased Photo Enforcement filings which have gone up post COVID-19 and increases in photo enforced defensive driving filings.
- \$4.1 million due to Transfers In from the Tourism Development Fund to comply with Financial Policy 10 (12 percent of the transient occupancy/bed tax revenues); year two of a three-year payback to reimburse the General Fund for the purchase of Arizona State Land at Bell Road and 96th Street for WestWorld; and funding to support Super Bowl related expenses.

Uses

The General Fund proposed operating budget for next fiscal year has a net decrease in spending by \$15.3 million from the FY 2021/22 adopted budget. Below highlights the significant increases/decreases that are contributing to the overall net decrease in the proposed operating budget.

- A 5.0 percent market adjustment of \$10.3 million (\$13.0 million all funds).
- \$5.4 million (\$6.9 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).
- \$1.3 million (\$1.6 million all funds) to reinstitute the vacation buyback program for eligible employees.
- \$3.2 million (\$3.5 million all funds) for retirement cost increases.
- \$1.5 million (\$2.0 million all funds) for health and dental cost increases.
- \$0.4 million (\$0.5 million all funds) to add Juneteenth to the City holiday schedule. The observed day is June 19th.
- -\$28.0 million decrease in additional public safety retirement contributions.
- -\$14.6 million decrease in police and fire personnel costs that will be charged to the ARPA grant.

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

City Court:

- \$0.2 million to restore FY 2020/21 reductions that were part of the response to the COVID-19 pandemic.

City Manager:

- \$0.3 million to fund a citizen engagement platform to facilitate communication and feedback with residents and visitors.

Administrative Services:

- \$1.0 million for Information Technology contract increases; adding a position to implement and operate the Bond 2019 project '17-Obtain a Citywide Data Management and Analytics Solution for Data-based Decision Making'; and project management program enhancements.

Community & Economic Development:

- \$0.6 million for contract worker services to meet increased workloads in Stormwater/Drainage, One-Stop Shop, Code Enforcement, and long-range planning businesses and talent.
- \$0.2 million to provide an in-depth, independent review, assessment, and benchmarking of Planning & Development Services' rates and fees.

- \$0.2 million for a 4.3 percent financial participation agreement increase with Scottsdale Arts for wages to remain competitive.
- \$0.2 million to paint the Drinkwater Boulevard underpass, the Marshall Way Bridge, and the Wells Fargo Parking Garage in preparation of the Super Bowl.

Community Services:

- \$0.4 million one-time funding to repair and replace aging portable horse stalls and material at WestWorld.
- \$0.2 million for one-time funding for an Indian School Park master plan, to design a park that meets current and future needs of residents and provides a roadmap for future capital planning.
- \$0.2 million for an annual one-time contract labor request for WestWorld.
- \$0.2 million to convert part-time to full-time positions to align with the competitive nature of the hiring market.

Public Safety - Fire:

- \$0.6 million one-time, carryover funding to provide budget authority for a Fire Truck Replacement that was initially budgeted in FY 2021/22 but due to supply chain delays, will not join the city fleet until FY 2022/23.
- \$0.3 million for a full-time and part-time Emergency Mitigation Coordinator (1.5 FTE) position to support public health needs and requirements and for a Payroll Specialist (1.0 FTE) position and Equipment Coordinator (1.0 FTE) position to support administrative and operational needs.
- \$0.2 million one-time funding to retrofit the Fire Department's Self-Contained Breathing Apparatus (SCBA) to meet updated industry safety standards and equipment compatibility.
- \$0.2 million one-time funding for aging equipment.

Public Safety - Police:

- \$0.1 million for the expansion of the Real Time Crime Center.
- \$0.2 million to fund the increase to the municipal security contract.

Public Works:

- \$0.3 million for Americans with Disabilities (ADA) updates and modifications to facilities.

The proposed budget includes 11.43 new, General Fund full-time equivalent employees (FTEs) (33.36 FTEs all funds), as summarized in the 'FY22/23 Operating Expenditure Summary' section.

Capital Improvement Program

The proposed Capital Improvement Plan (CIP) budget for FY 2022/23 is \$1,117.8 million including contingency reserves. The projects highlighted below address City Council priorities and critical capital infrastructure needs in a variety of areas and are supported by different funding sources.

The total FY 2022/23 CIP transfer from the General Fund operating budget of \$69.0 million includes additional available one-time fund balance and ensures compliance with the newly adopted Scottsdale's Financial Policies Appendix A – Budgeting Governing Guidance.

Some notable projects proceeding next fiscal year are highlighted below. (The amounts reflected are the amounts budgeted in FY 2022/23 and not necessarily the total cost of the project.)

Community Facility Upgrades (FY 2022/23: \$1.7 million – Funding Added for FY 2022/23)

The last phase of this project which upgrades various building with safety improvements related to the COVID-19 pandemic, including automatic doors, engineering for ultraviolet (UV) and disinfection technology and touch-free fixtures.

Funding Source: General Fund

Real Time Crime Center (FY 2022/23: \$0.3 million)

This project supports implementing a fully functional Real Time Crime Center, which will provide Scottsdale's law enforcement and first responders a comprehensive situational view as incidents unfold. As virtual responders, Real Time Crime Center Technicians are frequently the first on scene for public safety, on many occasions prior to the call being dispatched to patrol units. The Real Time Crime Center will enhance officer safety, supplying them with information about appropriate approaches to scenes, specific threats, or dangerous conditions as they draw near suspects or otherwise blind areas.

Funding Source: General Fund

McCormick-Stillman Railroad Park Bunkhouse (FY 2022/23: \$ 8.6 million)

This project would build an 8,000 square foot indoor interactive multi-use facility for families and children of all ages to engage in one-of-a-kind train-themed play structure. As part of this, the existing unused and outdated “bunkhouse” would be removed. This project would include the play structure; indoor/outdoor restrooms, party/event space, staff office space, shaded outdoor area and event lawn and plaza.

Funding Sources: Contributions, Special Programs Revenue, General Fund

Stagebrush Renovation (FY 2022/23: \$ 3.2 million)

This project is part of the public-private partnership to redevelop the area in and around Scottsdale’s Museum of the West in conjunction with the sale of city property and private sector development investment (Museum Square). At the time of the sale of city property to a private investor, the Stagebrush Theater will need to be reconfigured to allow for a shared public-private ingress/egress driveway as part of the private development anticipated to the east of the theater. The reconfiguration of the city owned property that houses the theater will add new restrooms that can be accessed internally by the theater and externally by the public during special tourism events intended in the area, a new theater lobby and major design update to the full façade of the building.

Funding Sources: General Fund, Downtown Cultural Trust

Inventory and Replacement of Water Service Lines (FY 2022/23: \$ 1.1 million)

This project would fulfill the requirements in the new federal Lead and Copper Rule (Revised). Service lines installed before 1987 must be inventoried, on both public and private side, and if material is determined to be lead or galvanized, replacement of the service line may be necessary.

Funding Source: Water Rates

City Court - Jail Court Construction (FY 2022/23: \$1.6 million)

The Jail Court Remodel project supports the Public Safety – Police previously approved Capital Improvement Project “Jail Dormitory.” The court’s current jail court limitations include safety issues, not allowing family members or victims adequate space for viewing and an inefficient processing model. The new jail court will allow ample room and a design that addresses user’s concerns.

Funding Source: Court Enhancement Fund

Central Arizona Project Canal Path - Scottsdale to Northsight (FY 2022/23: \$0.3 million)

This project would design and build a 1.7-mile long, 10-foot-wide concrete path on the south side of the Central Arizona Project Canal and north side of Frank Lloyd Wright Boulevard from Scottsdale Road to Northsight Boulevard. The project includes, design, minor right-of-way acquisition, utility relocations, path construction, new sidewalk ramps and wayfinding signage.

Funding Source: Transportation Sales Tax

Pedestrian Crossing Improvements Phase II (FY 2022/23: \$0.4 million)

Design and build up to three High-Intensity Activated crosswalk beacons (HAWKS), Rectangular Rapid Flash Beacons (RRFBs), and pedestrian refuges per year at sites recommended through various safety studies including a Pedestrian Crossing study completed for Scottsdale by the Maricopa Association of Governments in 2019 and through the city's Guidelines to Identify Pedestrian Crossing Treatments.

Funding Source: Transportation Sales Tax

Scottsdale Stadium Railings (FY 2022/23: \$0.7 million)

This project would replace the railings in the upper area of the Scottsdale Stadium. Railings in the lower area were replaced during Phase 1 of the Stadium renovation.

Funding Source: General Fund

Scottsdale Stadium Renovations Phase 2 (FY 2022/23: \$5.0 million - Funding Added for FY 2022/23)

This project will include the design and construction improvements not covered in Phase I that may include the left field berm and third base line seating, Gate A improvements and enhancements and seating bowl improvements. Phase 2 is focused on fan experience and enhancement of the potential for hosting and catering large events at the stadium. The stadium provides an economic hub in downtown due to the influx of fans for the spring training season. The Phase 2 improvements will benefit not only the spring training fans but other groups who may use the stadium for large events outside of the baseball season.

Funding Source: General Fund

Shade Structures for Police Department Horse Barn (FY 2022/23: \$0.1 million)

This project is to provide two shade structures for the vehicles and trailers at the Police Mounted Unit Horse Barn (located at WestWorld), allowing for safer ambient temperatures for the horses during loading and transport.

Funding Sources: General Fund (to be paid back by the Tourism Development Fund)

Various Bond 2019 Project Shortfalls: (FY 2022/23: \$16.8 million)

The FY 2022/23 Proposed CIP Budget also includes General Fund funding to cover budget shortfalls that have been identified due to supply chain delays, increased commodity prices and labor shortages. Below are the projects that are currently experiencing budget shortfalls.

- 26 - Replace Deteriorating Vehicle Training Track at the Police and Fire Training Facility
- 27 - Modernize and Expand the Police and Fire Training Facility
- 38 - Build a new Fire Department Training Facility
- 45 - Renovate WestWorld Horse Barns to Increase Rentable Space
- 53 - Build Multi-Use Sport Fields in the area of Bell Road

Conclusion

The Fiscal Year 2022/23 budget proposal supports the municipal organization and the community. The city's comprehensive approach to service delivery and improvement, capital investment and fiscal sustainability is evident throughout this proposal. Thank you to the Budget Department and division budget partners for their dedication and hard work in preparing this budget. Staff looks forward to discussing the contents of this proposal with City Council and the community over the coming months.

Sincerely,



Jim Thompson, City Manager