

Fiscal Year 2023/24 Proposed Budget Transmittal

Honorable Mayor and City Council:

The proposed Fiscal Year 2023/24 budget is provided here for your consideration. This annual financial plan lays the foundation for serving Scottsdale in the year ahead.

This balanced budget is possible due to the continuing strength of the local and state economy as the Valley comes off one of the busiest special events seasons in our history - much of that centered in Scottsdale. While revenue growth remained strong through the pandemic and this fiscal year, our proposed FY2023/24 budget anticipates a decline in local tax revenues in anticipation of an economic downturn and slowdown in consumer spending. Given the uncertainty of the economy, the proposed budget takes a cautious approach to the future. Our five-year financial forecasts anticipate revenues returning to normal historical growth trends and excess revenues collected are used as one-time revenues to address a number of needs in the proposed budget as detailed below. Expenditures in the proposed FY2023/24 budget are focused squarely on our workforce, inflationary increases impacting our core services and capital projects and funding Council and citizen priorities. Hiring and retaining skilled staff is crucial to providing quality service to our citizens and visitors. Increased competition for top quality people makes this a very competitive time across all job sectors. This budget prioritizes expenditures to hire and retain the top-quality city staff who provide service for our residents and visitors along with benefit adjustments to help Scottsdale remain an employer of choice as we seek to fill positions. The proposed budget also prioritizes funding cost inflation that impacts our services and capital projects. Capital project costs have increased as a result of materials and labor costs with the Producer Price Index - Construction for Government showing inflationary increases of 19% from July 2021 to July 2022 and another 5% through February 2023. The proposed budget also includes a number of program and projects to address Council and citizen priorities.

Notable programs and initiatives

The budget includes money for ongoing market and performance pay adjustment programs, detailed in the Uses section below, which will help city staff face rising inflation, and help the city compete to retain and attract top-quality people.

The proposed budget includes 36.52 new, General Fund funded full-time equivalent employees (FTEs) (50.00 FTEs all funds), as summarized in the FY 2023/24 Operating Expenditure Summary section of the budget document.

These new staff are critical to maintaining and improving performance in a number of priority areas including short-term rental licensing and compliance; cybersecurity; crime prevention, police crisis response, traffic enforcement and municipal security; maintenance and repair of sidewalks, paths and trails; solid waste collection; and water policy and planning.

The budget fully funds a comprehensive classification and compensation study to ensure city positions are appropriately compensated based upon internal and external benchmark comparisons. A more substantial expenditure to implement pay changes identified in the study is included as well.

New post-employment medical and parental leave programs are proposed as other initiatives focused on providing best practices benefits to ensure the city remains a competitive employer in the market.

Investments in the community include one-time funding for public art restoration (including repainting "The Path Most Travelled" along Loop 101), to replace critical library technology infrastructure, complete the Indian School Park Master Plan, fund a comprehensive Shade and Tree Master Plan, and modernize cooling towers at city buildings to improve efficiency and save water.

With \$100,000 in annual funding, the proposed Scottsdale Promise program would allow all eligible Scottsdale residents to attend Scottsdale Community College for two years with Arizona resident tuition and fees fully funded. This initiative was brought forward by the City Council Subcommittee on Education.

Details on these proposed expenditures and more are included in the Uses section below.

Sources

General Fund sources are estimated to increase by \$47.3 million from the adopted FY 2022/23 budget. That total projected increase comes from several different sources, including these items contributing significantly to the change:

- \$12.4 million from a projected increase in general fund sales tax, including \$1.1 million for the portion dedicated to Public Safety. While an increase in sales tax is reflected when compared to the FY 2022/23 adopted budget, the proposed FY 2023/24 sales tax will see a decrease when compared to the FY 2022/23 forecast. The FY 2022/23 sales tax was updated from the original budget (forecast) to reflect the significant increases the city was experiencing due to inflation, stimulus money continuing to work its way through the economy, pandemic spending sprees, etc. The city expects FY 2023/24 sales tax revenues

to decrease with the anticipated economic downturn and slowdown in consumer spending and over the five-year forecast, sales tax will realign with historical growth trends.

- \$20.3 million from a projected increase in the city's proportionate slices of state shared income tax, sales tax, and vehicle license fees.
- \$1.3 million from additional primary property tax collections (\$0.7 million due to the allowable 2 percent statutory adjustment and \$0.6 million due to new growth).
- \$2.3 million from Building Permit Fees & Charges to help cover inflationary costs and department operating costs to provide an excellent customer experience.
- \$0.5 million from WestWorld Equestrian Facility Fees based on anticipated events and establishing a more appropriate cost recovery formula used when developing WestWorld fees.
- \$1.2 million due to increased revenue from TPC Scottsdale and Scottsdale Stadium usage fees.
- \$0.5 million due to increases in the Advanced Life Support (ALS) Ambulance Contract; increased revenue associated with third-party fire protection system inspections; special events reimbursements; and rate and fee increases for afterhours fire inspections, fire plan reviews, and CPR/First Aid classes.
- \$0.5 million due to increased Recreation Fees with the opening of the WestWorld Sports Complex; and rate and fee changes to aquatics, patio rentals, and tennis and volleyball court rentals.
- \$1.0 million due to increased indirect costs for services provided by the General Fund to enterprise operations.
- \$6.3 million from a projected increase in interest earnings due to higher anticipated rates of return on investments.
- \$1.0 million due to a Transfers In from the Tourism Development Fund to pay for the painting of the public art wall 'The Path Most Travelled' on the Arizona State Loop 101.

Uses

The General Fund proposed operating budget for next fiscal year is a \$44.1 million increase from the FY 2022/23 adopted budget. Scottsdale is a people-powered service provider. As such, most expenses are related to funding for our high-performance workforce and providing pay and benefit packages that allow the city to retain and recruit employees. Significant personnel expenditures included in the proposed operating budget include:

- A 5.0 percent Step Program for Police sworn personnel of \$0.8 million.
- \$4.6 million (\$6.5 million all funds) for the citywide pay for performance program, through which employees may receive up to 5.0 percent salary increases based on performance (up to the maximum in their salary range).
- A 2.0 percent market adjustment of \$4.5 million (\$5.7 million all funds).
- \$6.8 million for the costs anticipated in implementing a comprehensive classification and compensation study (\$8.5 million all funds)
- \$1.1 million (\$1.3 million all funds) for the vacation buyback program for eligible employees.
- \$3.7 million (\$4.4 million all funds) for retirement cost increases.
- \$0.8 million (\$1.1 million all funds) for health and dental cost increases.
- \$10.0 million in additional public safety retirement contributions to paydown the unfunded liability.

While high quality staff are the engine that drives our organization, the proposed General Fund budget also includes money for these priority projects and programs across the city's operating and administrative departments:

City Manager:

- \$0.1 million to implement the Scottsdale Promise Program, which is a commitment from the city to its residents to allow all eligible Scottsdale residents to attend Scottsdale Community College for two years with Arizona resident tuition and fees fully funded.

Administrative Services:

- \$0.3 million for Information Technology contract increases.
- \$0.2 million of one-time funding to complete a comprehensive classification and compensation study.
- \$0.2 million of one-time funding to reconfigure the Human Resources Office to accommodate staffing changes within the existing space.

Community & Economic Development:

- \$0.4 million of one-time funding for public art restoration.
- \$0.3 million for increases in banking fees related to higher credit card processing fees. (The division is exploring ways to reduce this cost such as implementing a convenience fee when developers use credit cards.)
- \$0.3 million of one-time funding for a comprehensive Shade and Tree Master Plan. (Implementation of the plan is included in the Capital Improvement Plan (CIP).)
- \$0.2 million carry-over of one-time funding to provide an in-depth, independent review, assessment, and benchmarking of Planning & Development Services' rates and fees that was budgeted in FY 2022/23 but will not be completed until FY 2023/24.
- \$0.1 million of one-time funding to update or draft a new Character Area Plan.
- \$0.1 million for a 2 percent financial participation agreement increase with Scottsdale Arts for wages to remain competitive.

Community Services:

- \$0.4 million of one-time funding for the removal and disposal of organic waste material from WestWorld.
- \$0.4 million for an annual one-time contract labor request for events and custodial services at WestWorld.
- \$0.3 million of one-time funding to purchase equipment to maintain the WestWorld Sports Complex.
- \$0.3 million one-time funding to repair and replace aging portable horse stalls and material at WestWorld.
- \$0.2 million to increase the feed and bedding inventory at WestWorld.
- \$0.2 million of one-time funding to replace critical library infrastructure technology needs at Mustang and Civic Center Libraries.
- \$0.2 million of one-time funding to complete the Indian School Master Plan and begin the Cactus pool and Parks and Recreation master plans.
- \$0.1 million for equipment rentals at WestWorld to allow for faster response to equipment replacements on the weekends.
- \$0.1 million of one-time funding for replacing the WestWorld Equidome footing.

Public Safety- Fire:

- \$1.3 million of mostly one-time funding for overtime to provide backfill of 21 Firefighters while they attend paramedic training/ certification
- \$0.4 million for various contract increases.
- \$0.3 million of one-time funding to purchase hazardous material equipment and ladder extrication equipment.
- \$0.3 million of one-time funding for overtime to provide backfill while sworn staff attend specialty teams training.
- \$0.2 million of one-time funding to contract for landscaping for fuel mitigation.
- \$0.1 million to reclassify seven Firefighter positions to two Fire Captains and five Fire Engineers to properly align the needs within the division and decrease the impacts of mandatory hold overs on the workforce.

Public Safety - Police:

- \$1.0 for overtime for special events which will be reimbursed by the vendors.
- \$0.8 million contract increases for photo enforcement, leased vehicles, Maricopa County Jail services, and municipal security.
- \$0.4 million to continue a grant funded initiative for electronic citation (e-citation) and electronic collision (e-collision) platforms to increase efficiency in enforcing traffic-related violations and vehicular safety.

Public Works:

- \$1.0 million of one-time funding to paint the public art wall 'The Path Most Travelled' on the Arizona State Loop 101.
- \$0.2 million to paint the exterior of selected city facilities.
- \$0.2 million of one-time funding to purchase 24 cooling tower controllers for the Cooling Tower Water Reduction Project.
- \$0.1 million to cover Facilities Management price increases for parts, equipment, materials, and contractual services due to inflation.
- \$0.1 million for a contract increase in maintaining the city's automatic gates inventory.
- \$0.1 million to contract for land surveying, mapping, and compiling GIS data.

Capital Improvement Program

The proposed Capital Improvement Plan (CIP) budget for FY 2023/24 is \$1,428.0 million including contingencies. 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 2023/24 CIP transfer from the General Fund operating budget of \$68.5 million includes funds from the Bell Road property sale as well as additional one-time funding to cover cost inflation and other capital project costs.

Some notable projects proceeding next fiscal year are highlighted below. (The amounts reflected are the amounts budgeted in FY 2023/24 and not necessarily the total cost of the project.)

Information Technology Security Program (FY 2023/24: \$3.2 million)

This project addresses gaps and deficiencies to support a comprehensive, robust Cybersecurity Program. Solutions need to be added and/or enhanced to bring the city current with cybersecurity best practice frameworks.

Funding Source: General Fund

Transfer Station Enhancements (FY 2023/24: \$2.3 million)

This project is related to the expansion of the existing layout of the transfer station facility, including the addition of a stand-alone residential household hazardous materials facility, green waste disposal facility, and electronics storage building to be used as a drop off location. Additionally, project includes doubling the current tipping floor loading space to service new customers such as city residents and private haulers.

Funding Source: Sanitation Rates

McCormick-Stillman Railroad Park Roundhouse (FY 2023/24: \$3.9 million) - Funding Added for FY 2023/24

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

Kiva Modernization (FY 2023/24: \$1.6 million)

The City Hall Kiva is a symbol of the City of Scottsdale, community involvement and civic processes. Unfortunately, the facility is in desperate need of modernization. This project will modernize the City Hall Kiva to allow for effective in-person, virtual and hybrid meetings. This modernization would include renovation and technology upgrade phases. Aspects of this project include updated technology and equipment.

Funding Source: General Fund

Pima Park - Build Eight New Pickleball Courts (FY 2023/24: \$2.1 million)

This project would create eight new pickleball courts as well as the parking necessary to accommodate the influx of players. Pickleball is the fastest growing sport in the country, and the city has been inundated with requests to build additional pickleball courts. New courts are planned for north Scottsdale, and this project helps the city meet growing demand for more courts in south Scottsdale.

Funding Source: General Fund

68th Street Sidewalk-Arizona Canal to Camelback Road (FY 2023/24: \$0.5 million)

Design and build a sidewalk on both sides of 68th Street from the Arizona Canal to just south of Camelback Road. The project will improve pedestrian safety and enhance the accessibility to the Old Town area for pedestrians and bikes.

Funding Source: Transportation Sales Tax

Pavement Overlay Program (FY 2023/24: \$9.1 million) - Funding Added for FY 2023/24

The Pavement Overlay Program is an on-going project that addresses street pavement and public alley overlays and all associated improvements, which may include milling and surface treatments on existing roadways, traffic control, new pavement thickness, water valve and manhole lowering and raising, signal detection upgrades from loops to video, Americans with Disabilities Act (ADA) upgrades for concrete ramps and signal push buttons, concrete repairs to curbs and sidewalks, new striping plans, new striping and new signage for bike lanes and sidewalks.

Funding Sources: Transportation Sales Tax and Highway User Revenue Fund

Conclusion

The Fiscal Year 2023/24 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. Staff looks forward to discussing the contents of this proposal with City Council and the community over the coming months.

Sincerely,

Jim Thompson

Jim Thompson, City Manager