

TOPICS FOR COUNCIL CONSIDERATION ARISING FROM BRC REVIEW OF FY2025/26 PROPOSED BUDGET

Introduction

The Budget Review Commission (“BRC” or “the Commission”) was formed on January 14, 2025 under Ordinance 4660 which amended Article 5, Chapter 2, of the Scottsdale Revised Code by adding a new Division 17, establishing the BRC. Under the provisions of this Ordinance each of the 6 council members appointed one member to the Commission and the Mayor appointed a 7th member who serves as the Chairperson. Under the Ordinance the members of the commission are to act as an advisory body to the City Council by reviewing and making recommendations on the proposed budget. Prior to the tentative budget adoption, the Ordinance directs the Commission to provide written recommendations to the City Council regarding the following matters, listed in order of priority, as time and circumstances permit:

- (1) Operating Budget (Department and program/services funding)
- (2) Capital Budget
- (3) Major revenue forecast, taxes and fees
- (4) Budget governing policies

The Commission held its initial meeting on February 13, 2025 at which time its Bylaws were approved. Given the compressed timeline from the appointment of the Commission Members until the date our report was required, our procedures were even more limited than might be ideal for future years. The Commission members met approximately 8 times over a three-month period to receive City Staff presentations and materials with respect to the Proposed Budget for Fiscal 2025/26. Commission Members also met on occasion as either individual members or as a group of less than four Commission Members (generally 2 members) with City Staff to gain an understanding of certain components of the budget and reporting process elements. Where time permitted, individual Commissioners reviewed relevant City data and records, and also obtained explanations from various members of City Staff.

Commission Members

David N. Smith, Chairman
Daniel Schweiker, Vice Chairman
Carla, Commissioner
Brad Newman, Commissioner
Jim Ransco, Commissioner
Sharyn Seitz, Commissioner
Mark Stephens, Commissioner

Limitations with Respect to the FY2025/26 Commission Review

The compressed time frame, coupled with the need for Commissioners to gain adequate understanding of the overall budget process and various funds, limited the degree to which the Commission could execute this year’s review. Some, but not all, of the limitations with respect to the FY2025/26 review included:

- Enterprise Funds were largely excluded from the review of operating budgets given the perceived lower risk when compared to the Operating Budget and Capital Budget.
- Capital Improvement Plan reviews were made at a high level on processes in place and to a limited degree on elements of some of the larger projects. However, such reviews were

generally limited to discussions with City Staff and did not include reviews of the methods used to develop cost estimates or an actual review of some of the cost estimates.

- Operating Fund revenues and expenditures were largely a review and analysis of changes provided by City Staff. Commission Members made inquiries at public meetings, and to a much more limited extent by supplemental individual meetings with City Staff, to more deeply explore elements of the budget components for certain departments.

This report sets forth the initial findings and recommendations of the Scottsdale Budget Review Commission (“the Commission”) based on their limited review of the FY2025/26 Proposed Budget published on April 3, 2025.

Process of Developing Recommendations

In developing this report, the Commission met April 11, 2025 to review recommendations proposed by individual Commissioners. Each member of the Commission was instructed to provide, prior to that meeting, their respective recommendations to the City Attorney for accumulation. The accumulated comments were then organized by subject matter by the City Treasurer, exactly as they were submitted by Commission Members, and posted on the Commission website prior to their April 11, 2025 meeting.

At that meeting the Commissioners discussed the comments and proposed collective edits they deemed necessary to go into a draft of this report to be presented to City Council at a joint April 22, 2025 Work-Study. For those recommendations to which a majority of the Commission Members agreed, the recommendations have been included in this report (with dissenting votes, if any, noted parenthetically.)

Potential Areas of Commission Review for Future Periods

Some Commissioner recommendations may not be possible for the FY2025/26 Budget period or were not discussed in depth enough to merit a recommendation in this year’s report. So that they might be considered by the Commission in future Budget reviews they have been included as “Appendix A” as a “Parking Lot” of thoughts that may or may not be considered by the Commission in future reviews and do not represent the views of the Commission as a whole.

Topics for Council Consideration

A. CAPITAL PROJECTS FUNDING AND MANAGEMENT

I. Recommendations Related to Specific Capital Projects

1. **Advanced Purification Recycled Water (Project WL02)** – The project includes a proposed \$50.7million increase from \$17.0million to \$67.7million primarily due to new regulatory requirements (we are unsure whether this also includes any increased production/output). We advise that Council determine whether a supplemental cost/benefit consideration should be made.
2. **Cactus Park Pools and Buildings Replacements (Project BK06)** – This \$31.2 million Bond 2019 project received considerable Commission discussions with City staff and faces a variety of complexities potentially leading to significant cost increases and delays extending beyond the FY2026/27 budget period where it is presently resides. Therefore, we recommend:
 - a. Approximately \$250K be moved into the FY2025/26 Budget for a Feasibility Study to more thoroughly assess the scope, cost and timing
 - b. The balance of the currently estimated cost be moved to the future budget beyond the 5-year Capital Improvement Plan until accurate estimates of cost and timing are developed
3. **Bartlett Dam (Project W104)** - Consider assessing and mitigating the City’s ultimate financial liability for “modifying and raising Bartlett Dam” as described in the project details.
4. **Expanding Granite Reef Senior Center to Meet the Demand for Adult Care (Project BK05)** - Consider moving this Bond 2019 project to the future budget beyond the 5-year Capital Improvement Plan until a determination can be made of the programmatic implications of building, staffing and operating an adult care facility and the impact to the surrounding senior community of not doing it.
5. **Projects Funded with Preserve Tax Fund** - We recommend the following changes with respect to the Rio Verde Crossing project (subject to legal counsel concurrence that such expenditures are allowed uses of Preserve Funds), portions of which changes we understand are in the process of being made based on Commission discussions:
 - a. Move approximately \$250K from the Preservation Department’s funds up to the FY2025/26 category for a Rio Verde Crossing Feasibility Study
 - b. The current \$35M in the 5-Year Preserve Improvements Plan for the projected Rio Verde Overpass becomes a future budget item while a feasibility study is conducted
 - c. Consider obtaining opinion from legal counsel as to whether Preserve project TEMP3196 (wildlife overpass) and/or improvement projects like TEMP3190 or TEMP3195 (creating shaded gathering/education spaces) are allowed expenditures of Preserve funds under the limitations approved in Proposition 420 as memorialized in Scottsdale City Code Article 8, Section 13, to ensure compliance with the voter directive of 2018

II. **Recommendations Related to Capital Project Management and Processes**

1. **Capital Plan Prioritization** – The Commission observed significant movements of dollar amounts in project funding between budget years and we make the following recommendations:
 - a. Prioritize projects most impactful to residents and visitors to maximize value to keep Scottsdale a prime tourist destination
 - b. Consider whether the large number of managed projects impairs effectiveness of project completion efforts
 - c. Designate a portion of the highly needed and impactful projects as “critical projects” and evaluate whether differing levels of attention and resources should be directed toward them

2. **Project Cost Estimation and Project Execution “Tiger Team” Review** – With respect to the project cost estimate and expenditure timing development process for budget submission, the Commission recommends establishing a “Tiger Team” to review processes and controls over key elements of the Construction Management Area. Areas to be considered by such a cross-disciplinary team may include:
 - a. The processes and controls over how cost estimates are being quantified, reviewed and timed with likely differing policies and controls established based on predefined criteria for types of projects (likely by size and type)
 - b. Conducting a skills assessment inventory to identify gaps in expertise necessary for the review and/or execution of projects based on complexities
 - c. Merger of potentially adjacent projects for efficiency
 - d. Use of bonus or permitted incentives for contractor exceptional performance
 - e. Using project team meetings to enhance project communication
 - f. Incorporating update meetings with impacted parties/users on a project and frequency of such meetings
 - g. Identifying projects meriting additional review for timing assessments, contingency amounts based on risk, etc.
 - h. Using cost/benefit of independent project reviewer in finance or elsewhere

III. **Recommendations Related to Transportation Projects and ALCP**

1. **Roads Condition and Planning** – Given that road condition is key to resident satisfaction and tourism, the Commission offers the following recommendations:
 - a. Consider generating a 20-year roads program to ensure visibility to the public of the long-term planning that is derived from already known road conditions reporting
 - b. Establish goals for PCI (Pavement Condition Index) levels (possibly 75%-80%?)
 - c. Direct additional funding to street maintenance until the city-wide metric of PCI returns to a goal level to maintain an attractive visitor experience in support of the critical tourism aspect of our City
 - d. Prepare cost/benefit analysis for minor repairs and maintenance as in-house or contracted

2. **More Extensive Advance Project Scoping** – While project scoping can be challenging, we believe there may be benefit to more extensive scoping for large capital projects to achieve

more accurate estimates of cost and timing. The Commission noticed that redefinitions of current projects resulted in costly changes so consideration should be given to more tightly defining a project where higher risks exist.

B. RECOMMENDATIONS RELATED TO MAJOR OPERATING BUDGET REVENUES

1. **Grocery Tax Suspension (2 dissenting members)** - Consider suspending, by Council action, the City's 1.70% tax on groceries.
2. **Suspension of 0.15% Preserve Sales Tax** - Consider suspending, by Council action, the City's 2004 temporary 0.15% Preserve sales tax (once all Preserve debt and other liabilities have been repaid or provided for with Preserve fund cash reserves) to ensure future taxes are not collected from citizens for no approved obligations.
3. **Financial Sustainability Reporting to Council (one dissent, one member left and did not vote)** - Consider ways to determine if the Budget aligns with the goals of financial sustainability, quality of life and promotion of tourism. Every Council agenda report should have an affirmative statement assessing the impact of the requested initiative on financial sustainability and tourism.

C. RECOMMENDATIONS RELATED TO OPERATING DEPARTMENT BUDGETS

(Note: Two commission members had to leave at this time, as such only 6 members were present to vote on Items 1 through 5 and only 5 members were present to vote on item 6)

1. **Threat Assessment on Federal Funds** - Due to the current volatility and uncertainty with federal funding, particularly in the Community Services Departments, the City should maintain an ongoing Threat Assessment and procedures to ensure that the citizens' needs met by these funds continue.
2. **Open FTE Position Elimination** – We understand that various departments have their own processes for monitoring levels of FTEs and unfilled positions and that leadership is engaged in the matter. Given the magnitude of payroll in the city budget we recommend:
 - a. A formalized annual review of positions, with a specific focus on those unfilled for 180 or more days, to look for synergies possible by merging functions to lower FTEs
 - b. A quarterly update meeting with department heads for larger departments with unfilled positions with a focus on positions unfilled over 180 days
 - c. Along with, and equally important, departments should determine if there are other functions that benefit tourists and residents that they are not doing because of staffing or funding restraints
3. **Overtime** – Since overtime represents a significant cost at certain operating units, we suggest that consideration be given to a formalized and consistent process of City Manager and Treasurer review of overtime on a quarterly basis with those departments with larger usage.

4. **Contract Services** – It is our understanding that City Staff plans to do an extensive review of areas where contract services are used that might be more cost effectively performed inhouse. Given the significant increases in planned contracted services throughout the budget, as well as the overall volume of contract services, we encourage this initiative.

5. **Cost Recovery of City Services** – The City provides various services for outside entities and has cost recovery practices that vary. We recognize that this is a complex matter since users provide various levels of contribution to the community. However, consideration should be given to the propriety of reimbursement received in various areas possibly including:
 - a. Disclosing all unrecovered costs to Council for approval of programmatic decisions for tourism events, patrol of entertainment district, etc.
 - b. Consider charging school districts more for police services; with 29 schools inside city limits it appears that even more coverage may be necessary
 - c. Consider fully charging special events for the full police and fire team related efforts
 - d. Consider requiring larger special events to provide insurance coverage against larger scale incidents

6. **Supplemental Pension Funding Planned for FY2025/26 (one dissenting member)** – The proposed budget currently includes a \$50 million additional payment of the PSPRS unfunded liability from recently accumulated fund balances. Considering there is a high incidence of road deterioration and other deferred maintenance items on other City assets, we recommend Council review the economics of additional payment of the PSPRS unfunded liability to determine the degree to which it is the best use of accumulated fund balances and whether this amount should be lowered, increased or maintained at this planned level (the Commission did not come to a conclusion with respect to the level of additional payment). Our understanding is that at a \$50 million additional payment level:
 - a. A loss is incurred of approximately \$1.5-\$2.0 million relating to interest earnings no longer available to fund capital projects (3-4% interest earning rate foregone)
 - b. A benefit is received of lower pension expense of approximately \$4.0 million relating to the actuarial impact of additional fund assets and a 7.2% assumed rate of return
 - c. We also note that the City can borrow at interest rates in the low single digits but did not have time to evaluate whether that is also a potential option.

D. RECOMMENDATIONS RELATED TO FUND BALANCE AND GOVERNING POLICIES

(Note: Two commission members had left at this time, as such only 5 members were present to vote on these 2 items)

1. **Fund Balance Utilization and Reporting** - Consider including a schedule in the monthly financial reporting package showing the components of the various designated fund balance elements and any changes as a regular reminder of the available amounts and their current assigned potential uses. There were significant changes made in the FY2025/26 Proposed Budget and we recommend that all changes be highlighted to Council when the budget is presented to them. We further note:
 - a. The portion of fund balance designated for additional paydown of PSPRS pension unfunded liability was reduced by \$102.9million from \$129.5million to \$26.6million. Of that reduction \$50.0million relates to the proposed FY2025/26 additional paydown and

- the remaining \$52.9million relates to transfers to other fund balance designations including proposed new designations for FY2025/26
- b. New categories of designated funding were created in part as an outcome of Commission discussions which should be highlighted to Council
 - c. The Commission was not able to review the propriety of the proposed fund balance designations but understands that certain portions relate to desired amounts supporting bond rating metrics
2. **Developer Obligations** - Consider reviewing and updating the City policy/policies with respect to developer payments from "The overall community GOAL is to have new development pay for itself" to " the community REQUIREMENT is that new development must pay for itself".

APPENDIX A

Potential Areas of Commission Review for Future Periods

The following areas are noted for potential consideration by the Commission in future reviews. Several of these areas were discussed by the Commission to some degree but did not receive an extensive enough investigation or discussion to merit making a recommendation in this report. Others are ideas expressed by one or more Commissioners but not included in this year's review.

REVENUES AND COST RECOVERY

- Cost recovery program equity whenever the City provides services to outside groups
- Impact fee structures and practices for equitable financial contributions
- Water rates in light of aging infrastructure and City growth expectations
- Options with respect to property tax funding in light of increased public amenity needs
- Review a 10-year history of growth in each revenue component (sales tax, property tax, state shared, etc.) to ascertain how much the tax burdens have increased
- Consider assigning the BRC (or another appointed citizen group) to study the adequacy of current revenues to ensure long-term financial sustainability of the city
- Long range SWOT analysis on future funding levels with City lobbyists updates on potential impact of legislative actions that can increase or decrease City revenues
- Post Preserve 5-Year Improvements Plan considerations regarding planned development, potential recovery fund need and community engagement on next steps before tax sunset

CAPITAL PROJECTS

- Ability to require bidders to state their mark-up % including change orders in bids
- Terms on design-build/Construction Manager contracts preventing self-work
- Potential uses of City low cost of borrowing judiciously

OPERATING BUDGETS

- Review of larger Enterprise Funds
- Contract services review at some point after City Manager embarks on his plans in this area
- Sustainability and structural balance of City finances in light of operating expenses increasing at a rate higher than revenues in the FY2025/26 Budget
- Review of pension funding level adequacy and other excess fund balance alternatives
- Park maintenance funding adequacy
- Reviewing specific department programs including long-lived legacy programs
- Adequacy of actuarial inputs versus likely expectations
- PSRS Health Plan overfunding potential opportunities including settlement possibilities
- Manner in which pension obligations are reported to council versus other debts
- 20-year outlook for the various City Senior Centers and desired scope of services to provide

TREASURY

- Potential use of debt financing more liberally to ensure intergenerational equity
- Review of the treasury function to see if there is a potential for increased interest earnings

Budget Review Commission Report and Recommendations

City Council Work-Study
April 22, 2025

Budget Review Commission (BRC) Members

David N. Smith – Chair

Daniel Schweiker – Vice Chair

Carla

Brad Newman

Jim Ransco

Sharyn Seitz

Mark Stephens

Council Ordinance No.4660

Duties of the BRC

- Make recommendations on the Proposed Budget
- Each fiscal year before adoption of the Tentative Budget, provide written recommendations to the City Council regarding the following matters, listed in order of priority, as time and circumstances permit:
 - Operating Budget
 - Capital Budget
 - Major revenue forecast, taxes and fees.
 - Budget governing policies

BRC Chairman's Overview

- Limitations:
 - Compressed Time: 2 months, 8 public meetings
 - Capital Improvement Projects bias toward large changes and amounts
 - Operating Fund: staff overview presentation
 - Enterprise Funds: excluded as lower risk
- Goals of FY2025/26 Limited Review
 - Commissioner education
 - Emphasis on capital projects
 - Selective review of larger departments, funds and cost drivers

FY2025/26 Proposed Budget Summary

Changes from FY2024/25 Adopted Budget

(in millions)	FY23/24 Adopted	FY 24/25 Adopted	FY 25/26 Proposed	\$ Chng from P/Y	% Chng from P/Y
Operating Budget	\$ 729	\$ 762	\$ 811	\$ 49	6.5%
Moved from Capital Improvements			13	13	
PSPRS additional payment	10		50	50	
Fleet acquisition carryforward			12	12	
Total Operating Budget	\$ 739	\$ 762	\$ 886	\$ 124	16.3%
Capital Improvements	1,369	1,068	952	(116)	-10.9%
Reserves and Contingencies	425	465	370	(95)	-20.3%
Total Budget	\$2,533	\$2,295	\$2,208	(\$87)	-3.8%

Topics for Council Consideration Related to Specific Capital Projects

- Advanced Purification Recycled Water (#WL02)
- Cactus Park Pools and Buildings Replacements (#BK06)
- Bartlett Dam (#W104)
- Expanding Granite Reef Senior Center to Meet the Demand for Adult Care (#BK05)
- Projects Funded with Preserve Tax Fund:
 - Wildlife Overpass and Feasibility Study
 - Gateway Improvements

Topics for Council Consideration Related to Capital Project Management and Processes

- Capital Plan Prioritization
- Project Cost Estimation and Project Execution:
“Tiger Team” Review
- More Extensive Advance Project Scoping

Topics for Council Consideration Related to Major Operating Budget Revenues

- Suspension of 1.70% Grocery Sales Tax (5/2 vote)
- Suspension of 2004 0.15% Preserve Sales Tax
- Financial Sustainability Reporting to Council (5/1 vote)

Topics for Council Consideration Related to Operating Department Budgets

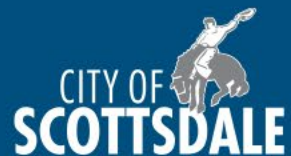
- Threat Assessments: Federal Funds
- Open FTE Positions
- Overtime
- Contract Services
- Cost Recovery of City Services

Topics for Council Consideration Related to Fund Balance And Governing Policies

- Fund Balance Utilization and Reporting
- Developer Obligations
- Supplemental Pension Funding (6/1 vote)

General Fund Reserves and Fund Balance

(in millions)	FY24/25 Adopted Budget	Proposed FY25/26 Budget
Operating and Emergency Reserves	\$ 94.1	\$ 115.0
Operating Contingencies	20.0	15.0
PSPRS	116.6	26.6
Development Agreements	9.8	16.2
General Plan Initiatives	15.0	-
Innovation Initiatives	0.5	-
Facilities Repair/Replacement Reserve	-	10.0
Revenue Loss Reserves	-	15.0
Unappropriated Fund Balance	0.5	0.6
Ending Fund Balance	\$ 256.5	\$ 198.4



Topics for Council Consideration

Future Studies: “Parking Lot”

- Revenues and Cost Recovery
- Capital Projects
- Operating Budgets
- Treasury
- Other, as assigned by Council

Report and Recommendations

CONCLUSION

- Individual Commissioner Reports
- Questions from Councilmembers