



**City of Scottsdale  
Budget Review Commission  
Regular Meeting Minutes**

Thursday, February 27, 2025  
City Hall Kiva Forum  
3839 N. Drinkwater Blvd.  
Scottsdale, AZ 85251

**PRESENT:** David Smith, Chair  
Daniel Schweiker, Vice-Chair  
Carla, Commissioner  
Brad Newman, Commissioner  
Jim Ransco, Commissioner  
Sharyn Seitz, Commissioner  
Mark Stephens, Commissioner

**STAFF:** Luis Santaella, Deputy City Attorney  
Greg Caton, Interim City Manager  
Scott Selin, Budget Department Director  
Sonia Andrews, City Treasurer / Chief Financial Officer

**Call to Order**

Chair Smith called the meeting to order at 3:30 p.m.

**Roll Call**

Members present as listed above.

**Public Comment:**

No members of the public wished to speak.

**Old Business:**

**1. Introductions**

Commissioner Stephens provided a brief introduction.

**New Business:**

## **2. Approval of Minutes**

Commissioner Carla noted Interim City Manager Caton's name was misspelled as "Canton". On page 4, item 6, bullet 2 should read "concerned" not "concerns" with sustainability.

Commissioner Stephens noted on page 4, item 6, bullet 4 should end with "and why they go south and so we will be judicious about what capital projects we actually look at."

Chair Smith clarified that on page 3, paragraph 3, his notation that the bed tax accounts for \$36 million in revenue with \$22 million in expenditures does not reflect that much of the rest of the funding is transferred out to the General Fund for debt service, capital projects, and other items. He recommended that the statement be adjusted to reflect that there was not an under-expenditure of the bed tax, and that it's all accounted for.

CHAIR SMITH REQUESTED COMMISSIONS TO VOTE ON APPROVAL OF THE MINUTES AS AMENDED. CHAIR SMITH, VICE-CHAIR SCHWEIKER, AND COMMISSIONERS CARLA, NEWMAN, RANSCO, SEITZ, AND STEPHENS VOTED IN THE AFFIRMATIVE. THERE WERE NO DISSENTING VOTES.

## **3. Discussion of Major Operating Budget Revenues**

Sonia Andrews, City Treasurer / Chief Financial Officer, presented and discussed the major operating budget revenues, including but not limited to the allocation of revenues, projections, and forecast for the Budget Review Commission. The Fiscal Year (FY) 2025/26 revenues projections are not completed; therefore for this presentation the FY 2024/25 budget revenues were used.

Thirty-eight percent of the City's revenues come from fees and charges associated with the enterprise funds, like water, sewer, solid waste, and airport and internal service funds, like self-insured health insurance and risk management funds. Approximately 75 percent of the revenues come from local sales tax, state-shared taxes, and property taxes.

None of the enterprise or internal service funds rely on taxes except for the jet fuel sales tax that goes into the Airport Fund, and the property taxes assessed for involuntary tort judgements go to the Risk Management Fund per Arizona Administration Code. Other revenues include items like interest earnings i, intergovernmental agreements like the agreement we have with Arizona Department of Water Resources and the Central Arizona Project to compensate the city for reducing water usage from Lake Mead. Other revenues also include such items as collections of employer and employee contributions in the Healthcare Fund.

Chair Smith noted the Commission may not address enterprise rates and fees for the coming budget but may in the future if they have a basis to make such recommendations. It was suggested that Ms. Andrews explain what is considered when the recommendation is made to the City Council on rates and fees.

Commissioner Stephens sought clarification on internal service funds, particularly within shared services, and inquired about whether the overall approach to revenue is consistently conservative.

Ms. Andrews noted the internal service funds are the healthcare self-insurance fund which is partially self-insured.. The other one is the self-insured risk management funds for workers' compensation,

property liability, and any other liabilities. The city carries stop loss insurance and excess insurance secured at an annual premium of approximately \$5 million. Additional information can be shared at the next meeting if the Commission so desires.

Commissioner Stephens commented on having an umbrella over the self-insurance and the Loss Trust Fund Board that addresses the propriety of the costs and the budget. Ms. Andrews explained the Loss Trust Fund Board helps establish the confidence level for the reserve requirements in the risk management fund. In addition, risk management fund activity reports are shared with the Loss Trust Fund Board.

Ms. Andrews continued with the presentation, noting the last internal service fund is fleet management. Where the internal service funds act like internal businesses for City departments, the fleet department which owns all fleet vehicles leases them to other departments and charges a rental rate. The rate covers the cost of the vehicle, replacement value, maintenance, operation, and fuel.

Chair Smith suggested discussing the considerations taken when making a recommendation for rate changes to the City Council.

Ms. Andrews explained the internal service funds are all cost reimbursement based and have no profit or excess except for the required reserves for the self-insured healthcare and Risk Management Fund. The reserve requirements are determined by an actuary that calculates the reserve requirements. The risk management and fleet fund have a rate model that calculates what they charge each department for services.

Ms. Andrews continues the presentation, discussing non-enterprise and non-internal service funds. The governmental fund covers core services like police, fire, community service, public works, human services, and other operations. These services are funded by three primary revenue sources: local taxes, state-shared taxes, and property taxes. The fees and charges and other indirect and direct revenues included in the General Fund were reviewed.

Additional revenue funds reviewed include the .2 percent Preserve tax for land purchase and the .15 Preserve sales tax to buy land and make improvements to the Preserve. To date all land purchases are complete and all but minor trail improvements have been completed; the funds collected are being used to repay the remaining \$180 million outstanding debt for land purchased. The transportation fund revenues include the .2 percent transportation sales tax and state shared highway user revenue fund which is used for all street maintenance and construction projects.

The tourism fund revenues consists primarily of the 5 percent bed tax, and it is used for tourism-related activities outlined by Council ordinance. Debt service fund revenues consist of the secondary property tax used to pay general obligation bonds and revenues use to pay excise tax supported obligations. Operating grant funds include revenues from the Housing Choice, community development block grant and all human service grants. Special programs funds are for special revenues that are designated and restricted for specific purposes. The Stadium Fund revenues include the Giants' contribution and other specific stadium revenues.

Commissioners were given an opportunity to comment and ask questions. Commissioner Carla asked about the Federal Funds freeze and Ms. Andrews advised that the city does receive federal grants, but she does not have that information available about which funds might be subject to the freeze or elimination for this meeting. The bulk of the grants are formula-based and received every year unless eliminated, at which time an internal conversation would be needed to determine if the function

continues. Presently the City does not believe any of its federal grants are subject to a freeze or elimination. A more robust conversation about grants, how they are considered, and how they fund operations can occur at the next meeting.

With the largest source of non-enterprise revenue being the 1.75 percent sales tax, it is budgeted and forecast by category as shown on the slide. Projections are based on historical trends, economic forecasts and any known events. Commissioner Newman asked about the methodology for internal service fund charges. There is a methodology to ensure departments are accurately charged for the use and/or benefit received from internal services. A reconciliation is conducted the following year to correct any over or under charges. Commissioner Newman sought a separate follow-up discussion about benchmarking actual costs and how they are competitively bid.

Chair Smith asked Ms. Andrews to provide a preview of what to expect for the FY 2025/26 budget. It was encouraged to be more aggressive with rates and fees during the review with the City Council to properly charge users and improve revenue.

Ms. Andrews continued the presentation, discussing revenue trends in sales tax and state-shared revenues. Over the last few years, significant growth has been seen in these taxes due to economic stimulus, pandemic spending, inflation, and consumer spending. It is anticipated the growth will slow down for FY 2025/26 as savings are spent down, credit card debt increases, and due to the impacts of legislative action and uncertainties with inflation or other political factors.

The City's total sales tax rate is 8.05 percent with 5.6 percent going to the State, known as the State sales tax, but a portion is allocated back to the City through the state-shared revenue. The County charges a .7 percent sales tax and the city's portion of the 8.05 percent is currently 1.75 percent. The various components of the sales tax, their percentage, and expiration were reviewed. The .2 percent preserve sales tax sunsets in June 2025, and the .15 percent Prop 490 Park and Preserve tax begins July 1, 2025.

Chair Smith noted the sales tax figures presented a total of \$272.1 million in revenues for the current year, contrary to the total shown on page 5 which has the five percent tourism tax included. Ms. Andrews concurred and further explained the differences.

Commissioner Stephens asked whether the public safety sales tax revenues are in essence General Fund monies because the public safety budgets exceed the revenues. Ms. Andrews confirmed that the .1 percent for public safety only generates \$16 to \$17 million, but the public safety budget far exceeds that. The .2 percent goes into a special transportation fund, and approximately 50 percent of the monies are transferred for street construction so it is safe to say that the .1 percent for public safety in the general fund is all spent on public safety. Other specific taxes are voter approved for specific purposes, and the monies must be spent for that purpose.

Commissioner Newman inquired whether the voter-approved wording directs that only a certain amount be spent or whether all of it must be. Ms. Andrews advised all must be spent specifically on voter-approved purposes. The tax percent is set by the voters and becomes a fixed number and is not adjusted annually.

Commissioner Ransco inquired about examples of when the City was unable to spend the money. Ms. Andrews explained if the money is not spent, it stays in the fund for future use. If there is no longer a need for the funds, it will be recommended that City Council sunset the tax.

Ms. Andrews continued the presentation with an overview of the revenue projections, noting normal trends show a 4 percent annual growth rate. Beginning in FY 2021, significant increases were seen in sales tax revenues until FY 2024 when a decrease was seen. It is forecasted the sales tax revenue will end the year at an estimated 1.7 percent growth over the prior year. A slight reduction is projected for FY 2025/26 with the elimination of the residential rental tax.

Chair Smith inquired if the \$196 million in slide 11 is the forecast of the \$183 million in the budget on slide 5. Ms. Andrews explained that based on continued growth in consumer spending, strong audit revenues, and an extra week of sales tax remitted by the state were factored into the forecasts, and it is forecasted that we will end this fiscal year at about \$196 million (unknown). Chair Smith inquired whether this is a sustainable number. Ms. Andrews advised the Commission that economic forecasts are used, and economists have forecasted a slowdown in consumer spending and a possible recession previously. Currently there is forecast of a slowdown, revenues will be projected at these levels, with the elimination of the residential rental tax. Projections will be adjusted accordingly should economic indicators change. Chair Smith commented on the Commission's difficulty providing an opinion on the upcoming budget when so much is unknown.

Vice-Chair Schweiker inquired how adjustments are made for legislative changes that affect revenue sources. Ms. Andrews advised projections are not adjusted unless a known factor is presented. Legislative actions that have not become law are not included in the projections.

Commissioner Stephens commented on the Department of Governmental Efficiency's actions and potential impacts, which create unusual challenges in preparing a budget. Ms. Andrews added that the last three to four years have been challenging due to many factors such as inflation and the pandemic. Our sale tax base is also affected by other variables such as other cities building retail centers and restaurants that take away spending in Scottsdale. However, Scottsdale is an affluent community which has kept consumer spending and thus sales tax strong.

Commissioner Newman inquired about the key factors that drive sales tax up or down and actions the City can take to even out a potential dip. Ms. Andrews noted the main driver of the sales tax is consumer spending, including in the retail, automotive, construction, restaurants, major department store, and hotel/motel industries. Where these make up 84 percent of the sales tax revenues, the City should continue to attract economic development and growth in the retail sector to protect the sales tax base. The factors that affect the various sales taxes were reviewed. Commissioner Newman inquired whether Scottsdale would be unusually vulnerable if there was an economic downturn due to a low property tax base and dependence on community activity. Ms. Andrews explained that Scottsdale has weathered recessions better given its affluent community, however no city is exempt from a downturn. The more stable categories are the residential rental and food for home consumption during a downturn, with the other categories more volatile during a recession.

Vice-Chair Schweiker asked whether the City is collecting what is due from e-commerce stores. Ms. Andrews explained the City collects from large retail stores with a large e-commerce presence and their systems and collection processes are typically more sophisticated and can be relied on. The smaller remote online retail stores may not be knowledgeable about the Arizona sales tax code, but both the Arizona Department of Revenue and the city's Tax and Licensing Department conduct audits. Vice-Chair Schweiker suggested keeping an eye on restaurant sales tax as it appears citizens are pulling back.

Chair Smith commented on the food tax, which is an optional tax the City chose to impose. Noting the regressive tax impacts on the neediest citizens, Chair Smith urges the City to eliminate it if it is not eliminated by the State Legislature.

Ms. Andrews continued the presentation discussing state-shared revenues, which is one of the larger revenue categories. A portion of the 5.6 percent sales tax collected by the State, 25% is allocated to cities and approximately 4.1 percent, is distributed back to Scottsdale.

Chair Smith inquired about the subtle differences in the state's growth rate compared to Scottsdale's. Ms. Andrews explained the growth in the city and state's sales tax do not align as the city has different industries for example tourism is stronger in Scottsdale than the state. The state sales tax is collected and distributed on a semi-monthly basis, determined by what is collected that fiscal year.

Ms. Andrews' continued the presentation, discussing corporate and individual income tax, the other state shared revenue. This tax is allocated based on collections from two years prior. Next year the City will receive approximately \$46.2 million based on collections in FY 2023/24. An overview of the fluctuations over the past five years was provided. Vehicle license tax is another state-shared tax that is received monthly and put into the General Fund. State gas tax is a state-shared tax that goes into the transportation fund for the restricted purpose of highway and street maintenance and construction.

Total property taxes paid by a property owner are allocated to schools and education, the County, and smaller special districts within the County as well as the city. The city's share of property taxes is about 8 percent for the primary property tax and 7 percent for the secondary property tax that pays for voter approved bond debt. State law restricts the growth in the primary levy to 2 percent plus new construction. The FY 2024/25 property tax revenues decreased by \$10 million due to the judgment for the Qasimyar lawsuit.

Chair Smith discussed the .15 percent Preserve land and improvement tax and inquired whether the City Council can reduce or sunset this tax. Mr. Santaella explained the question is asking for legal advice which is not given in public, and the answer is unknown because they are still consulting with the Bond Council. Commissioner Carla noted the Protect and Preserve Task Force had discussed this matter, and the remaining question was when it would occur.

Commissioner Stephens noted that, with many questions being asked and one and a half hours into the meeting, only one area has been covered. Concerns were raised if the current process would accomplish the desired outcome. It was suggested that one or two members research certain issues with staff and report back to the Commission. Chair Smith inquired whether the Commission could divide up the work product. Mr. Santaella expressed concern about possible Open Meeting Law violations due to serial conversations.

Commissioner Newman confirmed approximately \$180 million remains in preserve land debt. Ms. Andrews confirmed that amount and noted it will be closer to \$150 million at the end of FY 2024/25. The .15 percent Preserve land and improvement tax can be used to pay down the land debt.

Commissioner Carla noted the next agenda provides more opportunities to decide how to address this.

Commissioner Stephens inquired further whether one or two Commissioners could meet with staff to obtain better understanding, not talk to others, and only share the acquired information publicly at the next meeting. Mr. Santaella advised two members may work with staff to learn information and limit discussion to the two members until the item is heard before the full Commission in a public meeting.

#### **4. Discussion of Funding for Capital Projects and Capital Budget Revenues**

Sonia Andrews, City Treasurer / Chief Financial Officer, presented and discussed capital funding and revenues used for capital projects using the FY 2024/25 budget. The bulk of capital improvement programs are water and sewer projects with funding from rates and fees. Other sources of funding for capital projects include transportation sales tax, the Bond 2019, Municipal Property Corporation Debt, General Fund, and grants. Developers also provide infrastructure as they construct their projects.

Commissioner Carla inquired whether developers do 100 percent of the infrastructure and if they contribute to maintenance. Ms. Andrews noted they do not contribute to maintenance, and an answer to the first part of the question will be provided later.

Ms. Andrews continued the presentation noting capital projects are broken out by capital funding, such as dedicated funding or enterprise projects, and they are entirely supported by fees and charges. Options for funding water and sewer capital projects include pay-as-you-go using rates and fees and issuing debt that is repaid by rates and fees with 25 percent funded initially by cash per policy. Transportation projects have dedicated funding from the .2 percent transportation sales tax. Per policy, at least 50 percent of the .2 percent sales tax is used for capital infrastructure projects. The highway user revenue fund, the Arizona Department of Transportation, federal grants, and Bond 2019 are additional funding sources for transportation projects. The .1 percent Arterial Life Cycle Sales Tax provides a match to regional transportation sales tax money provided by the Maricopa Association of Government to fund approximately 28 projects to improve arterial roads.

Chair Smith inquired whether there is still money to be raised for the 28 outstanding transportation projects. Ms. Andrews explained the projects are still being worked on and the funds are 100 percent dedicated to the Arterial Life Cycle Projects (ALCP). Chair Smith inquired whether there will be an opportunity to terminate this tax. Ms. Andrews noted when the proposed capital improvement plan is presented to the Commission, there will be an opportunity to look deeper into the ALCP, programs, projects, and projections. The latest projection shows a need to continue collecting this tax until its expiration in 2029.

Ms. Andrews continued the presentation, noting stormwater flood control projects have dedicated funding but no General Fund support. These are pay-as-you-go projects which utilize storm water fees and funding through intergovernmental agreements with the Flood Control District. The McDowell Sonoran Preserve Capital Projects which includes trail head improvements are funded through the .15% Preserve tax and the land purchase continue to be repaid by both Preserve taxes.

Chair Smith clarified that the .15 percent tax is also used for trails as modified by the voters. Commissioner Carla noted a legal opinion would be necessary on what is covered.

Ms. Andrews continued the presentation, discussing capital projects without dedicated funding which rely on the General Fund and voter-approved bond programs, such as public safety and municipal facility projects. Parks and Recreation capital projects similarly rely on the General Fund as well as contributions or donations, fees and charges, and the Bond 2019. Beginning July 1, 2025, 51 percent of the Prop 490 Park and Preserve tax will be allocated to park improvements.

Commissioner Carla noted the Prop 490 tax will be pay-as-you-go, which will eliminate overage problems. Ms. Andrews noted that the fund is planned to be used as pay-as-you-go for capital improvements. Commissioner Newman inquired whether the Prop 490 tax allocation included operating

expenses. Ms. Andrews explained all capital projects include an estimate for operating impacts which are also included in the department's operating budget. The operating impacts of the Parks and Recreation projects are funded by the General Fund and park and recreation rates and fees, and the Prop 490 tax will also allocate 14 percent for park maintenance. Commissioner Newman commented on the need to solve the problem of not maintaining current facilities.

Mr. Caton explained the need to add parks to support the growing neighborhoods along with the discipline to provide maintenance and replacement at existing parks. Currently, routine maintenance and replacement are being identified through the capital program. Chair Smith suggested adding a line item for dedicated maintenance for all City assets. Mr. Caton provided a detailed response that notes there are more needs than resources. Vice-Chair Schweiker expressed concern about how the lack of maintenance on the roadways and parks and recreation impacts tourism. Ms. Andrews noted the .1 percent transportation tax is voter-approved and specifically for new arterial life cycle projects. The .2 percent transportation sales tax can be used for maintenance of those projects along with the highway user funds. More information will be provided when the proposed budget is presented in April.

Ms. Andrews continued the presentation on allocating money from the General Fund for projects, making note of the financial policy or budget governing guidance that allocates a portion of construction sales tax and all interest earnings from the General Fund to capital projects. She further explained that the construction sales taxes and interest earnings are volatile and should not be relied upon for operations, as such they are used for capital projects. Due to a significant increase in interest earnings and construction sales tax over the last few years, more funds have been allocated to capital projects. Tourism-related activities and projects can be funded by 25 percent of the Tourism Fund but must go through the Tourism Development Commission and City Council for approval.

Chair Smith noted that the City Council can issue MPC debt that is repaid by the tourism tax. It was noted that a spreadsheet was created showing the different categories of capital projects and where the funding comes from. This summarizes this presentation from a dollar amount standpoint.

Ms. Andrews responded to Commissioner Newman's question, noting that some projects are too large to be funded as pay-as-you go, thus requiring debt and that debt also allows large capital costs to be spread among multiple generations so the current citizens are not overburdened with projects that will benefit future residents. Chair Smith noted the City is conservative in debt issuance and effective to assign costs to the beneficiaries.

## **5. Identification and Approval of Possible Future Agenda Items**

Commissioner Carla noted tomorrow's agenda provides more specifics to suggest future agenda items. She inquired about the City Council's retreat. Mr. Caton advised the retreat is not confirmed and the Commission should not anticipate having that knowledge in advance. Commissioner Carla noted that the Mayor, in her address, stated she is looking for the Commission to recommend a 5 percent reduction in the budget. She wondered whether staff will provide recommendations for cuts. Mr. Caton explained it is the City Manager's responsibility to present a balanced budget. The budget presented will meet the priorities of many documents, such as the General Plan. Further, the City Manager's office has not received direction from the City Council regarding budgetary cuts.

Commissioner Stephens discussed a review of projects that were increased by \$1 million and 10% to gain an understanding of the nature of the changes.

COMMISSIONER STEPHENS MOVED TO REQUEST A REVIEW OF ALL PROJECTS WHERE COSTS CHANGED BY \$1 MILLION AND TEN PERCENT SINCE THE INITIAL APPROVAL FOR THE PERIOD OF FISCAL YEAR 2023/24 AND 2024/25 YEAR-TO-DATE, TO BE CONSIDERED AS A FUTURE AGENDA ITEM. VICE-CHAIR SCHWEIKER SECONDED THE MOTION, WHICH CARRIED SEVEN (7) TO ZERO (0). CHAIR SMITH, VICE-CHAIR SCHWEIKER, AND COMMISSIONERS CARLA, NEWMAN, RANSCO, SEITZ, AND STEPHENS VOTED IN THE AFFIRMATIVE. THERE WERE NO DISSENTING VOTES.

Commissioner Stephens suggested adding to a future agenda a review of personnel including compensation, overtime, and pensions. Mr. Caton noted the primary departments with overtime are Police and Fire, who will be presenting to the Commission at a future meeting.

### **Adjournment**

VICE-CHAIR SCHWEIKER MOVED TO ADJOURN THE MEETING. COMMISSIONER NEWMAN SECONDED THE MOTION, WHICH CARRIED SEVEN (7) TO ZERO (0). CHAIR SMITH, VICE-CHAIR SCHWEIKER, AND COMMISSIONERS CARLA, NEWMAN, RANSCO, SEITZ, AND STEPHENS VOTED IN THE AFFIRMATIVE. THERE WERE NO DISSENTING VOTES.

With no further business to discuss, being duly moved and seconded, the meeting adjourned at 5:44 p.m.

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