



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

Friday, February 28, 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 1:01 p.m.

Roll Call

Members present as listed above.

Public Comment:

No members of the public wished to speak.

Chair Smith noted going forward the first agenda item will cover outstanding items from prior meetings.

New Business:

1. Discussion of Budget Policies

Sonia Andrews, City Treasurer / Chief Financial Officer, presented and discussed the budget policies, noting that each member was provided with an entire set of the City's comprehensive financial policies. During this presentation, only policies that are germane to the budget will be reviewed.

Policy 1 relates to fiscal planning and budgeting. Ms. Andrews provided an overview of the policies and examples of the following policies:

- 1.05 Long-Range Financial Forecasts
- 1.07 Balanced Budget
- 1.09 Contingency
- 1.10 Budget Control
- 1.11 Budget Adjustments
- 1.12 Budget Deficits
- 1.13 Unspent Appropriations

Commissioner Carla inquired about the existing process of controls for cost overruns within a department. Ms. Andrews explained if it is within the general classification, the department, and the fund, the department would have discretion to go over the budget if they are under budget in another line item, which would be an offset. If the budget exceeds the general classification, department or fund, City Council approval is required to obtain budget authority from another fund, department or different classification. Budgets and actuals are reviewed monthly to project and identify overages and how best to absorb them within the department, or seek City Council approval if use contingency funds is needed, or if we need to move other budgeted monies to address the overage. Mr. Caton clarified there are different triggers and measures on the capital side.

Commissioner Stephens provided scenarios to aid in understanding the policies. Ms. Andrews noted they were accurate and reiterated any movement of money between major classifications of expenditure requires City Council approval. Commissioner Stephens inquired whether a de minimis threshold exists or if all amounts go to the City Council. Ms. Andrews noted if it was a small amount say \$500, the department would be encouraged to find savings to absorb the overage.

Chair Smith inquired whether the performance measures are incorporated in the end-of-year report to the City Council. Ms. Andrews advised that performance measures are tracked. Each department is tasked with developing performance measures related to their targets and goals for the budget. City Manager's office personnel review the performance measures and provide a community report. Mr. Caton noted that performance measures are tracked, and there is a performance reporting mechanism that is evolving. Chair Smith noted the Commission's recommendation will probably include a more robust reporting mechanism to evaluate instituted efficiencies in the organization.

Chair Smith commented on "striving for sustainability" which many of the Commissioners and their appointees are interested in. Included in the City's mission statement is "the provision and maintenance of public facilities", which is something many feel has not been adequately addressed by the City.

Ms. Andrews continued the presentation by reviewing and discussing Policy 2 which relates to reserves and fund balances. There is an operating reserve policy for the General Fund of 20 percent of operating uses excluding transfers out and debt service.

- Emergency Reserve of five percent
- Prop 490 Park and Preserve Tax Fund requires a 20 percent stabilization reserve
- Solid waste has a 15 percent reserve
- Risk management of liabilities, workers compensation reserves are based on an 80 percent confidence level of the actuarial calculation of reserve requirements
- Transportation fund operating reserve requirement of 10 percent
- Water, Wastewater, and Aviation Funds have 25 percent reserves
- Debt service reserves of ten percent for GO debt
- Debt service reserves of 25 percent of next year's debt service for excise tax bonds

Chair Smith inquired whether there is a reserve for maintenance and repair of assets. Ms. Andrews advised some of the funds include asset replacement reserves. Chair Smith clarified the reserve would be for major assets. If money is not set aside for maintenance and repair along with a reserve, the work will not get done. City Manager Caton discussed the method of "operating capital", where smaller elements are part of a life cycle plan where replacement funding occurs either at the end or incrementally depending on the lifespan or replacement cost. Discussions have begun internally but may not be ready for implementation in Fiscal Year 2025/26. Another important factor affecting maintenance is staffing. Mr. Caton suggested utilizing contract services that can be initiated after an analysis to determine cost benefits. Chair Smith noted the City must have an affirmative program for maintenance of assets.

Commissioner Carla commented in support of City Manager Caton's operating capital and life cycle plan recommendations for addressing maintenance and repair for assets. She inquired whether the Commission could recommend that the City have a policy requiring any department with a City asset to have a maintenance and repair fund and asked who currently decides if a department needs a maintenance fund or not. Mr. Caton noted maintenance takes a lot of discipline and the way to enforce it is with a policy along with one maintenance fund. Staff can draft a mechanism that balances allocating dollars and come back with recommendations.

Commissioner Seitz sought clarification on the difference between reserves and contingencies and how they are used. Ms. Andrews advised reserves are for extraordinary events that are not part of normal operations. Contingencies are for unanticipated or unexpected expenses that come about in the normal course of operations.

Commissioner Schweiker noted his support for the direction City Manager Caton is recommending.

Ms. Andrews continued the presentation and discussion with Policy 3 related to expenditure management, noting many policies have repetitive terms such as budget control and that the City Council's approval is required for moving budget appropriations. An overview and discussion was presented highlighting the following policies:

- 3.01c Mid-year Budget Adjustments
- 3.01d Position Control
- 3.01e Health Benefits
- 3.02c Funding Capital Projects
- 3.02e Pay-as-you-go

Chair Smith noted policy 3.02c discusses future operating and maintenance costs associated with capital approved by the City Council, indicating there was some intent to provide maintenance.

Ms. Andrews continued the presentation by explaining the policy requires future operating and maintenance costs for new capital projects to be forecasted and included in the operating budget and five-year plan. Unspent funds for inactive or completed projects will go back into the original funding source. If the cost of a capital project increases greater than ten percent and \$1 million, it must be presented to the City Council and receive approval.

The Commissioners, Mr. Caton, and Ms. Andrews engaged in a discussion related to maintenance, repair, and replacement.

Commissioner Carla inquired whether it is required to budget for future maintenance and sought clarification about the history of the park maintenance budget. Ms. Andrews explained this policy refers to annual operating impacts that are properly forecasted and budgeted for all capital projects. Chair Smith's comments and earlier discussions refer to funding future replacements and properly budgeting and accounting for major repair and replacement of a depreciating asset. Chair Smith noted the financial policy states "future operating and maintenance costs", that triggered Commissioner Carla's question of why the parks require remedial action.

Mr. Caton responded that maintenance can be interpreted as being met with minimal tasks, but replacement incorporates more significant infrastructure elements. Commissioner Carla reiterated the desire for the Commission to recommend a policy to address this issue.

Commissioner Stephens noted the importance of understanding the ten percent and \$1 million increases, when they are identified, and how the process works. Ms. Andrews explained that when a project goes over budget and requires additional dollars, it first goes to the Budget Department for approval of additional dollars, where the policy requirement is determined. A report and presentation are prepared for the City Council and mid-year or end-of-year budget adjustments will be requested as needed. Commissioner Stephens wondered whether there is a way for small adjustments to be made to get around the policy. Mr. Caton provided hypothetical scenarios and noted that increasing costs create independent challenges. Commissioner Stephens inquired whether there are realistic estimates to complete on longer projects that can be flagged when they start going over budget. Mr. Caton explained milestones are used, project managers are watching, and staff is tracking them as well.

Vice Chair Schweiker shared the difference between older freeways that did not have a dedicated maintenance fund and the new freeways with a dedicated fund. The best course of action is to ensure the projects have the repair and maintenance incorporated into the budget.

Commissioner Seitz commented that maintenance, repair, and replacement are getting tangled and emphasized the need to use the terminology correctly. Ms. Andrews reviewed policy 3.02c, which addresses maintenance costs, and 2.06, which addresses replacement costs and reserves. It is possible the policy needs to be tightened up and/or a specific replacement reserve needs to be developed. Commissioner Seitz noted maintenance versus repair remains unclear. Chair Smith

paraphrased prior comments explaining that terms maintenance, repair, and replacement are being used interchangeably.

Commissioner Newman discussed capital depletion as the missing category. Ms. Andrews noted enterprise funds develop their own infrastructure improvement plans and master plans which address repairs, replacement, and depreciation of assets. The bigger challenge is with nondedicated funding, those reliant on General Funds, or voter-approved bonds. Commissioner Newman discussed options for being more conservative with capital projects. Mr. Caton agreed with the concept but noted not all capital plans include needs rather than wants, which are often competing and need to be prioritized. Commissioner Newman noted it takes time and discipline.

Chair Smith noted this has been a long discussion, but maintenance is an important quality of life factor for citizens and an important feature of how tourists are attracted to the City.

Commissioner Carla suggested taking care of existing City features.

Ms. Andrews continued the presentation and discussion with Policy 4 related to revenue management. An overview of highlighted policies was provided:

- 4.03 Maintain a diversified and stable General Fund
- 4.05 User fees and charges, recovering costs of service delivery
- 4.06 Fleet and information technology replacement rates
- 4.08 Unanticipated one-time nonoperating revenues

Chair Smith inquired whether the City had financial policies on sales tax, particularly the imposition of temporary taxes to solve permanent problems. Ms. Andrews advised that the City does not have such a policy, but the Commission can recommend a policy. Chair Smith noted the City does not have anything that addresses the imposition of taxes and the appropriateness or equity of the tax structure.

Vice Chair Schweiker inquired how policies are established and how often they are reviewed, further suggesting the development of a policy that prevents the City from postponing action on issues such as the parks. Ms. Andrews explained the policies are reviewed annually and presented to the City Council for approval. The policies before the Commission are the edited version that will go before the City Council on March 4, 2025 for approval.

In response to Commissioner Ransco, Ms. Andrews agreed to provide the Commission with the version that has tracked changes.

Ms. Andrews continued the presentation and discussion with Policy 5 related to grant management. The policy ensures any match or additional funding requirement for receiving a grant is identified and communicated with the City Council. One-time grant funds will not be used or relied upon for ongoing operations.

Policy 6 is related to capital asset maintenance and replacement. Policy 6.02 establishes an ongoing source of funds to provide for and avoid deferral of critical asset maintenance, repair, renewal, and replacement needs, which relates to the Commission's discussion about postponing action. Policy 6.03 notes fleet and equipment reserves are determined as part of the annual budget process.

Chair Smith discussed policy 6.02, noting it addresses the Commission's concerns, but it needs to be enhanced with actionable items.

Ms. Andrews continued with Policy 8 related to debt management. An overview of the highlighted policies was provided:

- 8.02a Debt financing
- 8.02e Weighted average maturity
- 8.04c Property tax rate limit
- 8.04c Excise tax debt service

Policy 9 is related to enterprise funds and how they are budgeted and accounted for. An overview of the highlighted policies was provided:

- 9.02 Rates and fees
- 9.05 Debt financing
- 9.06 Debt coverage ratio

Policy 10 is related to the allocation of tourism development fund dollars, also known as the five percent bed tax. The tax is allocated in accordance with City Council-adopted Ordinance 4534.

Policy 11 is a new policy related the new park and preserve tax from Proposition 490. Allocation of this revenue stream is in accordance with the ordinance adopted by the City Council.

Policy 12 is related to economic development agreements and contracts the City enters into, which are included in the forecasting and budgeting process.

Policy 13 is related to risk management. An overview of policy 13.04 for self insurance reserves and 13.07 for involuntary tort judgments was provided.

Policy 15 is related to funding pensions. An overview of highlighted policies was provided:

- 15.01 Annual required contributions
- 15.03 Maintain acceptable level of funding for pension plans
- 15.04 Pension obligation bonds

In response to Chair Smith's question, Ms. Andrews explained levels of risk and speculation. The Government Finance Officers Association has an advisory against using pension bonds to pay unfunded liabilities.

Ms. Andrews continued the presentation discussing the appendix, referred to as the Budget Governing Guidance, which is not part of the policies but guidance on budget development. The dollars contemplated during budget development to fund the General Fund Capital Projects were reviewed.

Commissioner Stephens commented on the time spent on one agenda item and struggling to feel effective with the current process. A discussion could aid in reconsidering how to address and achieve the assigned task. The following suggestions were offered for the Commission's consideration:

1. Each member maintains a list of recommendations that will be discussed during a work session and possibly become recommendations to the City Council.
2. Members could read the material prior to the meetings and either provide questions and/or ask for a review of slides instead of going through each slide.

3. Rethink what is being focused on and have Commissioners possibly conduct individual homework with a report back to the Commission.

Commissioner Carla concurred with the need to find a more expedited way to obtain this information. The public has a right to hear, see, and understand what is being discussed.

Mr. Santaella clarified individual members could communicate directly with Ms. Andrews but must make sure they do not discuss the information outside of the meeting in a manner that would constitute a quorum.

Chair Smith commented on the time spent, noting the financial controls are the restrictions and guardrails in place to ensure the City is spending tax payer money in a judicious and equitable manner.

4. Discussion of Reserves and Contingencies

Commissioner Newman suggested reviewing Agenda Item 3 prior to Item 2.

COMMISSIONER STEPHENS MOVED TO REVIEW ITEM 3 "DISCUSSION OF PENSIONS" AT THIS TIME. 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.

5. Discussion on Pension Costs

Sonia Andrews, City Treasurer / Chief Financial Officer, presented an overview of the Arizona State Retirement System (ASRS) and Public Safety Personnel Retirement System (PSPRS).

The City's full-time nonpublic safety personnel all participate in the ASRS except for police, fire, the mayor, and the council. This is a cost sharing and multiple employer pension plan administered by the State with a pooled valuation. The most recent actuarial valuation shows the City is paying about 12 percent of member payroll to ASRS.

In response to Commissioner questions, Ms. Andrews noted she will get back to the Commission with the total number of participants in ASRS. Mr. Santaella advised ASRS is a trust fund and cannot be swept by the State. All employees must participate in the ASRS as constituted, and there are no other options for a defined contribution type plan.

Ms. Andrews continued the presentation with PSPRS, noting it is an agent multiple employer plan administered by the State and has separate valuations for each employer. An overview of PSPRS' background and history was provided. The last reform was in 2017 that added a new tier-3 employee classification, and the board, administrator, and investment managers were all replaced. The reform also updated actuarial life expectancy tables, and reduced payroll growth and investment return assumptions.

Commissioners commented and asked questions. In response, Ms. Andrews explained the payroll growth assumption is not the same as salary growth but is the total growth in payroll costs. The 5.5 percent projected payroll growth used by the actuaries was not realistic because actual payroll was only growing at about two percent. A chart for the last ten years will be provided to Commissioners. PSPRS report their annual investment returns within their annual reporting that can be reviewed to

determine if they align with their 7.2 percent return assumptions. The trends of employee compensation for PSPRS calculations can be reviewed to ensure spiking did not occur. The discount rate for PSPRS is seven percent. Data related to how many active and inactive employees are in Tiers 1, 2 and 3 will be shared with the Commission.

Ms. Andrews continued the presentation discussion on the identification of unfunded liabilities because of actuarial inaccuracies in the past and investment losses that were significantly underfunded the plans. The City is now making additional payments on top of the required contribution to pay down the unfunded liabilities. The current unfunded liability for the police PSPRS is \$143.8 million for Fiscal Year 2023/24.

In response to the Commissioner's questions, Ms. Andrews explained unfunded liability affects the required employer contribution rate is. The rate is also affected by investment returns and losses. At the current level of unfunded liability, the employer contribution percent is 52.55 percent of payroll to PSPRS for police which is not affordable or sustainable. If the unfunded liability is paid down, the percentage of payroll will become more reasonable and affordable for the city and our citizens. A discussion ensued with Commissioner Newman commenting on this plan removing the vulnerability and noting these are promises that were made and must be kept. Chair Smith expressed concern with choosing to pay down the liability instead of fixing the streets. Ms. Andrews noted all comments were relevant, and there is an opportunity to explore the best use for the \$114 million in reserves designated to further paydown the PSPRS unfunded liability.

Ms. Andrews continued the presentation with fire PSPRS that is above 80 percent funded with an unfunded liability of \$35.4 million and that some additional payments were made to keep it from growing too high.

In response to the Commissioners' questions, Ms. Andrews explained that, if the plan is maintained over 80 percent funded status, it is viewed as an appropriate level of funding and that we would also see what the contribution rate and unfunded liability are. The current funding level is just over 70 percent for police and 84 percent for fire. It is believed that a lateral movement does not require Scottsdale to take on the unfunded liability from previous employers.

Ms. Andrews continued the presentation, reviewing the contribution rate changes for police and fire and indicating that paying down the unfunded liability to bring the contribution rates closer to 30 percent. The \$28 to \$31 million is the annual pension expense paid to PSPRS for police and fire and does not include the additional contributions above the required contributions. Higher pension contribution costs make total personnel cost higher as well.

Chair Smith asked for the numbers to be presented in dollar amounts rather than percentages.

6. Identification and Approval of Possible Future Agenda Items

Commissioner Stephens suggested staff review all positions that are currently unfilled for all eight months, look at any of the positions that are unfilled for four of the eight months and conduct an internal assessment to determine if there is a way to eliminate any of the unfilled positions by merging key functions with another function, basically a restructuring as a way of helping the budget. Chair Smith suggested highlighting positions that are unfilled and not being recruited for.

Commissioners and staff engaged in a discussion regarding future meeting dates and topics.

7. 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 3:19 p.m.

Recorded and Transcribed by eScribers, LLC.