



City of Scottsdale Budget Review Commission Regular Meeting Minutes

Wednesday, March 19, 2025
City Hall Kiva Forum
3939 N. Drinkwater Boulevard
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: Sonia Andrews, City Treasurer / Chief Financial Officer
Greg Caton, Interim City Manager
Sherry Scott, City Attorney
Scott Selin, Budget Department Director

Call to Order

Chair Smith called the meeting to order at 2:00 p.m.

Roll Call

Members present as listed above.

Public Comment

Ms. Patty Badenoch indicated she had submitted twelve questions to the Commission and expressed frustration about the approval of high-rise facilities. She wanted the Commission to concentrate on bringing the population to a level which would preserve quality of life.

Chair's Report

Chair Smith welcomed Sherry Scott back as the City Attorney. He wondered about the tracking of items where staff indicated they would get back to the Commission with answers. City Treasurer / Chief Financial Officer Sonia Andrews replied staff is compiling responses to all questions, and they will be attached to the Chair's Report for the Commission's March 27, 2025 meeting.

Chair Smith asked about the process by which the Commission can vote on forwarding individual Commissioners' proposals to the City Council without violating Open Meeting Law. Ms. Andrews responded that staff will put together a process and present it to the Commission at a future meeting.

1. Approval of Minutes

Commissioner Carla said "Chair Stevens" on page 2 should read as "Commissioner Stevens". On page 6 paragraph 2, she suggested rewording the 2nd sentence to reflect, "the Chair thinks the City should be urged to eliminate it if it is not eliminated by the State legislature".

VICE-CHAIR SCHWEIKER MOVED TO APPROVE FEBRUARY 27, 2025, BUDGET REVIEW COMMISSION REGULAR MEETING MINUTES AS CORRECTED. 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.

Commissioner Stephens proposed striking the language, "and underfunding the plan", which appears at the end of the 3rd sentence in the 2nd to last paragraph on page 7 of the February 28, 2025 minutes. Discussion ensued regarding whether that language was factually accurate. Ms. Andrews indicated they could strike that language, and staff can research that matter and report back to the Commission about whether it would have been correct.

Commissioner Stephens recalled that upon his review of the recording of agenda item 6 of the minutes, he believes that the 1st sentence should be corrected to read, "all positions that have been unfilled for all 8 months and unfilled for 4 of those 8 months." Noting that the point he was making was that it was necessary to look at the unfilled positions in order to determine which ones should be eliminated.

COMMISSIONER STEPHENS MOVED TO APPROVE FEBRUARY 28, 2025, BUDGET REVIEW COMMISSION REGULAR MEETING MINUTES AS AMENDED. 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.

2. Fund Balance, Reserves and Contingencies

Ms. Andrews conducted a slideshow presentation and reviewed slides explaining the following reasons why the City has Fund Balance, Reserves and Contingencies:

- Provide for unexpected expenditure needs
- Ensure continuity of core services
- Meet bond rating agency requirements for AAA bond rating
- Set aside funds for expected future needs
- Carryover funds that will be used in the following years

Ms. Andrews continues with explaining the components of Fund Balance, gave examples of assigned fund balance and explained that the unassigned fund balance, which has its own line item in the budget, is often comprised of carryforward funds that will be used in future years.

In response to Commissioner questions, Ms. Andrews explained that Fund Balance is comprised of five components: reserves, contingencies, restricted fund balance, assigned fund balance, and unassigned fund balance. Ms. Andrews agreed with the Commissioner's description of fund balance as assets minus liabilities and noted the fund balance is broken up into each component, though some funds only have some of the five components while others may have all the components.

Commissioner Stephens thought it might be valuable for the Commission to see comparative data of the contingencies and fund balance from one year to the next to understand the change. Commissioner Carla concurred it would be helpful to know how much movement there has been in that time.

Ms. Andrews continued the presentation with a detailed discussion of Reserves, reviewing slides with the following titles: Common Reserves; Examples of Use of Reserves; Required Reserves per Financial Policy No. 2; and FY 24/25 Budgeted Reserves.

Ms. Andrews provided examples of when the four types of reserves might be used, noting that operating and emergency reserves are for extraordinary events not part of normal operations. She continued with debt service reserves which are required when debt is issued and self-insurance reserve amounts which are determined by actuaries based on the City's insurance claim experience as well as claims forecasts. In response to Commissioner Carla's query, she stated funds to rehabilitate areas in the Preserve destroyed by a hypothetical fire would first come from the Preserve allocation of the 0.15 percent Park and Preserve Tax, then from the General Fund if additional funds were needed. She noted that reserves are also relied upon for permanent losses of revenue, where expenditures cannot be reduced immediately.

Chair Smith inquired about a policy regarding rebuilding reserves. Ms. Andrews replied the policy requires that the department or operation which uses reserves must replenish them to the required level within two years. Chair Smith clarified his question was not about spent reserves but whether there is a policy addressing surplus revenue. Ms. Andrews said there is no policy requiring the City to use excess funds for reserves; instead, the policy directs them to be used for one-time operating or capital needs for the following year.

Commissioner Stephens requested further information about allocation of excess revenues. Ms. Andrews said many reserve levels are established in the policy approved by the City Council through the normal budgeting process. Commissioner Stephens noted the Commission may be only able to consider the unrestricted fund balance as it seems that is the only flexible source of funding not set by Council. Ms. Andrews agreed but clarified the Commission can make recommendations to the Council on the amount of contingency carried by the City. Additionally, they can recommend changes to any assigned fund balances whose amounts are not already contractually specified. The other components are pretty much set per policy or other requirements.

Ms. Andrews continued the presentation and reviewed the Operating Reserves Needed for AAA Bond Rating slide. She noted reserves are scored by ratings agencies separately from other financial metrics and explained that rating agencies assess the level of reserves showing Fitch Rating reserve of greater than or equal to 20% for a AAA rating

Discussion ensued regarding the factors used by ratings agencies to determine municipality bond ratings other than reserve levels, and whether the implications of maintaining an AAA rating should be considered before deciding that the City should maintain one. Ms. Andrews noted that in addition to the factors discussed, cities are also compared to similar cities with AAA ratings.

Vice-Chair Schweiker asked about the spread in interest rates between an AA rating and an AAA rating. Ms. Andrews responded she did not know that information, but it may vary depending on market conditions. The importance of a city's bond rating, she explained, is not only to save on interest but also to independently establish that city's financial credibility and financial strength. She felt the implications of having an AA rating should be understood before a decision is made to allow that to happen. Commissioner Stephens thought that option could provide a cushion in a catastrophe.

Ms. Andrews concluded the presentation on Reserves by reviewing the following slides: City Follows

GFOA Risk Based Analysis; Contingencies; Examples of Use of Contingencies; FY 24/25 Contingencies; Restricted Fund Balances; and Restricted Fund and Restricted Revenues. She explained that based on the GFOA template, the City scores in the range where a 17%-25% reserve level is recommended by GFOA.

Chair Smith commented that there are no asset replacement reserves shown on the slide and also questioned where the pension liability reserves are shown.

Ms. Andrews responded to Chair Smith's question by clarifying the funds set aside for pension liability are assigned funds, not reserves. Commissioner Newman clarified that there is \$63 million listed as asset replacement reserves shown on the slide. Chair Smith said he meant there was nothing under the General Fund for asset replacement reserves.

Ms. Andrews continues with a presentation of Contingencies, explaining that contingencies are used for unexpected and unavoidable expenditures that arise from the normal course of operations. She gave examples of the use of contingencies and presented a slide showing FY24/25 contingencies by fund. She explained the grant fund contingencies is high because there could be significant grants obtained during the year and grant funds cannot be spent if received unless there is the budget authority to do so and contingencies are used to provide for the budget authority. The tourism fund also has higher contingencies to provide for complying with the City's destination marketing contract.

Ms. Andrews concluded the presentation with a slide explaining Restricted Fund Balances and restricted revenues. In response to Commissioner Stephens' query, she broke down the components of the General Fund's contingency and reserves listed in the FY24/25 budget book.

3. Overview of Proposed FY2025/26 Five Year Capital Improvement Plan

Budget Director Scott Selin conducted a slideshow presentation and reviewed slides with the following titles: FY 2025/26 Proposed Capital Budget – By Program; FY 2025/26 Proposed Capital Budget – By Major Funding Sources; and Proposed 5-Year Capital Improvement Plan.

Mr. Selin confirmed the Transportation Tax is comprised of the 0.2 percent transportation sales tax and the 0.1 percent transportation tax for the arterial lifecycle program. Responding to Chair Smith's question, Mr. Selin explained that revenues from both the Highway User Revenue Fund and the 0.15 percent Preserve Tax are included in the "other" category. In response to Chair Smith's additional query, Ms. Andrews explained that the funding from the General Fund comes from excess funds transferred each year to cover capital projects which do not have dedicated funding sources. The \$180 million listed in the presentation represents the amount carried forward from prior years plus the amounts transferred and expected to be spent this year.

Ms. Andrews discussed the process and challenge of balancing operating and capital needs, both of which require General Fund money and the internal meetings with staff and management to determine which capital projects are funded and which are not. Mr. Caton listed some additional factors, such as increases in contractual and labor costs, as well as the pressure to increase wages on the operating side that reduces the amount available for capital projects from the General Fund. His philosophy is to put downward pressure on the operating side through efficiencies and innovation to allow for more flexibility on funding the capital side. Chair Smith emphasized two competing sets of needs between operating and capital. Mr. Caton pointed out that dedicated revenue sources are great opportunities but do not always meet expenditure needs.

Commissioner Stephens inquired about the \$400 million increase in the existing projects in capital improvement plan (CIP) budget between fiscal year FY2024/25 and FY2025/26 and inquired about a reconciliation between the two years to show the changes. Ms. Andrews explained that changes in the 2 years may be due to existing projects being completed, projects being deferred or moving from design to construction or inflation increases. She offered to provide a breakdown of projects completed over the last year and ones that advanced to new phases and show the different changes.

Commissioner Stephens suggested the Commission can add value by looking at the project management process and best practices to minimize surprises and requested to see projects rolling off and added during the year. Ms. Andrews replied that could be done, but it might take a little bit of time as it requires manual work from staff.

Discussion ensued about how staff can best convey to the Commission the changes made each year to the proposed CIP budget. Commissioner Newman suggested looking at the capital improvement plan from a cash flow standpoint. Ms. Andrews explained that the CIP budget in the slideshow was meant only to provide a high-level overview and snapshot of the FY2025/26 CIP. The CIP, she continued, was determined from a cash flow standpoint. All existing projects have been approved by the Council, though many of the projects listed have been carried forward from prior years. In response to Commissioner Newman's question, she indicated \$556 million was carried over from the previous year in this proposed budget. Commissioner Ransco suggested describing this as a work-in-progress forecast.

Further discussion ensued about the specific information that could be provided to the Commission to give them a clearer picture of the CIP. Commissioner Newman wondered about the effectiveness of a conservative planning approach where projects are budgeted that will likely get rolled over to the next year. Ms. Andrews suggested holding off a discussion on this matter until staff can return with more specific data.

Mr. Selin concluded the presentation by reviewing four slides entitled Presentation Layout for 3/9, 3/21, 3/27 Meetings. Commissioner Seitz asked for clarification about the prioritization and importance of each project that will be discussed. Ms. Andrews responded that projects funded by dedicated funding sources get prioritized internally within the departments. She said each department was asked to discuss all large projects over \$25 million while highlighting one or two others if departments did not have projects exceeding \$25 million.

4. Transportation Capital Improvement Projects and Related Maintenance Needs

Transportation Planning Manager Nathan Domme conducted a slideshow presentation and reviewed slides with the following titles: Transportation Projects; Transportation | Staffing Overview; and Streets | Staffing Overview.

Mr. Domme indicated one new project is a signalized improvement to the Goldwater Boulevard and Camelback Road intersection, for which federal funding has already been acquired. Two of the top priorities for projects, he explained, are when federal funds are available and when emergency maintenance needs exist. He reviewed the other three new projects anticipated for FY2025/26. He explained that the disparity between the amount listed in project slide and the pie chart from the previous presentation was due to differences in the revenue sources that comprised the two amounts.

Mr. Domme discussed the general duties and responsibilities of different divisions of Transportation and Street staff. Commissioner Carla asked about ensuring that construction decisions are made

contemplating maintenance. Mr. Domme explained the process of assessing the pavement condition index (PCI) and determining the treatment necessary. Pavement Preservation employees as well as consultants calculate goals based on the PCI determined for a project.

Mr. Domme concluded the presentation by reviewing the following slides: Circle of Life; Scottsdale/Drinkwater Intersection Improvement; Overlay Program; Pavement Maintenance; and Pavement Condition Index.

Mr. Domme explained the rationale behind the Scottsdale/Drinkwater intersection improvement project. In response to Commissioner Seitz's queries, he explained the need for this project is in response more to efficiency and congestion issues rather than safety concerns. He believed it would be possible to include operating cost projections in the budget.

Regarding the Pavement Overlay Program, Mr. Domme noted funds typically do not carry over each year, and staff tries to spend all funds allocated for each two-year period. He said the pavement budget has increased each year since FY 2011/2012 and acknowledged the increase in the proposed budget for FY 2025/26, while significant, is only \$12 million, not \$26 million. Mr. Caton added that this program is in alignment with the Council's priority for preservation. He explained the relationship between growth and maintenance, noting that the addition of roadways increases the need for replacement. Changes to the required PCI will impact the investment needed to maintain that level.

Vice-Chair Schweiker wondered whether the increases in funding were a result of the program being underfunded and about the potential benefits of outsourcing maintenance projects. Mr. Caton saw value in considering the prospect outsourcing even more than the City already does. Regarding the Vice-Chair's first question, he opined some increases are due to inflation, but discussions should take place about alternate solutions to address failed roadways that could potentially save money.

Commissioner Stephens inquired about the purpose of the \$100 million projection. Mr. Domme said the program addresses roads that require some level of treatment, and the Pavement Preservation team is currently putting together a list of specific roads. He pointed out the City has 910 lane miles of asphalt, so more funding can always be used, which he illustrated by reviewing the PCI slide chart. Commissioner Newman expressed support for the program. Vice-Chair Schweiker mentioned that Paradise Valley opted to go from a PCI of 77 to 73 but is dissatisfied with that and is planning to return to 77.

Chair Smith asked about historical PCI levels. Mr. Domme said that five years ago, the PCI was around 65, though it was likely in the 70s before that. 62 is historically low. Staff has an accounting of each roadway's PCI, he stated, and they have prioritized arterials and collectors due to the volume of traffic on those roads. Chair Smith requested that that information be provided at a future meeting.

Mr. Domme reviewed the process by which staff establishes the proposed budget, using factors such as the five-year plan and the capacity of the Pavement Preservation team. He said there are spring and fall schedules laying out when specific restriping projects are expected to take place; any increases in the budget will allow more projects to be added to the back end of these lists. He noted the specific annual budgets are reviewed and approved each year. Mr. Caton added that a survey will be done in about a month to obtain updated PCIs for all City roads, at which point discussions can take place establishing a desired PCI while taking into account the costs to maintain to those standards. Commissioner Ransco opined a 50-year plan could be devised based on the survey results.

Discussion ensued regarding potentially moving Agenda Item 5 to the next meeting. It was determined to proceed with it with the understanding that Mr. Domme will make himself available if needed to

continue on Friday morning.

5. Transportation Arterial Life Cycle Program (ALCP) and 0.10% Transportation Sales Tax

Mr. Domme conducted a slideshow production and reviewed slides with the following titles: Transportation Arterial Life Cycle Projects; Proposition 400; ALCP Overview; ALCP Local Level; ALCP Goals; Scottsdale ALCP Projects Under Prop 400; ...Standing as of Spring 2024; Remaining ALCP Projects in Construction; Remaining ALCP Projects in Design; Regional Construction Cost Trends; SB53 – Raintree Drive; SC01 – Pima Road; SE02 – Happy Valley Road; SG05 – Scottsdale Road; SH04 – Carefree Highway; SJ04 – Scottsdale Road; SI01 – Pima Road; and SK04 – Pima Road.

Mr. Domme indicated Prop 400 was passed in 2004, and staff is working to complete the remainder of the projects listed in it. He mentioned that three of the projects listed as "under construction" in the presentation have already been finished, and construction has already begun on the three of the "nearing construction" projects.

Mr. Domme noted surplus money from any Prop 400 projects will be reallocated to future ALCP projects. Not only have construction costs increased, he noted, but right-of-way acquisition and stormwater improvement costs have also increased. He remarked that SC01 was funded with the ALCP sales taxes, as well as flood control district money and stormwater fees. In addition to the same three causes of higher construction costs he previously mentioned, SG05 saw increases due to the need to pay to relocate high-voltage utility wires. He noted consultants are researching and evaluating the causes of cost increases to give staff a clear picture of what is needed moving forward. He explained the goals of various consultants in the planning process for the final three projects.

Mr. Domme confirmed Chair Smith's assertion that the City designs the projects and hires the labor, then billing the County for its 70 percent reimbursement of costs at completion. The Maricopa Association of Governments has recognized that costs are increasing everywhere and are understanding of those concerns. Regarding the expiration of the 1 percent Prop 400 sales tax, he believed it will generate a little more than needed before it expires, and Prop 79 will then take effect, which can be used for more ALCP projects.

Commissioner Newman asked about the Rio Verde Drive project. Mr. Domme said developers are handling that project, so it is not an ALCP project. Any future widening of that road will be within the City's purview, but it will be a long-term project. Commissioner Newman expressed concern that not enough funding was being allocated to keep up with maintenance of the roads addressed by these projects.

Commissioner Stephens expressed appreciation that stormwater and right-of-way considerations are being made on projects in their earlier stages.

In response to Commissioner Carla's comment about Rio Verde Drive, he indicated there is no timeline for that project yet.

6. Identification and Approval of Possible Future Agenda Items

Commissioner Carla brought up Commissioner Stephens' request for a discussion on possibly cutting unfilled full-time employee (FTE) positions, asking that the topics of overtime and staff burnout be added to that item. Additionally, requested an agenda item for Commissioners to communicate to the Chair where they are at. It was suggested that the FTE discussion could be included in the operating budget presentations in April. Commissioner Stephens indicated he would propose a more complete request for the FTE item at Friday's meeting.

Regarding Commissioner Carla's second request, City Attorney Sherry Scott said it would be best for Commissioner requests to be sent directly to staff, who would determine how best to include them in a future agenda.

COMMISSIONER STEPHENS MOVED TO ADJOURN THE MEETING. 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.

With no further business to discuss, being duly moved and seconded, the meeting adjourned at 5:00 p.m.

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