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**CALL TO ORDER**

[Time: 00:00:01]

Mayor Ortega: I call the December 5, 2023 City Council Regular Meeting and Work Study Session to order. City Clerk, Ben Lane, please conduct the roll call.

**ROLL CALL**

[Time: 00:00:13]

City Clerk Ben Lane: Thank you, Mayor. Mayor David Ortega.

Mayor Ortega: Present.

City Clerk Ben Lane: Vice Mayor Solange Whitehead.

Vice Mayor Whitehead: Here.

City Clerk Ben Lane: Councilmembers Tammy Caputi.

Councilwoman Caputi: Here.

City Clerk Ben Lane: Tom Durham.

Councilmember Durham: Here.

City Clerk Ben Lane: Barry Graham.

Councilmember Graham: Here.

City Clerk Ben Lane: Betty Janik.

Councilwoman Janik: Here.

City Clerk Ben Lane: And Kathy Littlefield.

Councilwoman Littlefield: Here.

City Clerk Ben Lane: City Manager Jim Thompson.

Jim Thompson: Here.

City Clerk Ben Lane: City Attorney Sherry Scott.

Sherry Scott: Here.

City Clerk Ben Lane: City Treasurer Sonia Andrews.

Sonia Andrews: Here.

City Clerk Ben Lane: Acting City Auditor Lai Cluff.

Lai Cluff: Here.

City Clerk Ben Lane: And the Clerk is present. Thank you, Mayor.

Mayor Ortega: Excellent, we have Scottsdale Police Officer, Ryan Lowing, as well as Sergeant Brian Hiner and Firefighter Travis Radke should anyone need assistance.

**PLEDGE OF ALLEGIANCE**

[Time: 00:00:33]

Let's begin with the Pledge of Allegiance. I will call on Councilmember Durham.

Councilmember Durham: I pledge allegiance to the flag of the United States of America, and to the Republic for which it stands: One nation under God, indivisible, with liberty and justice for all.

**MAYOR'S REPORT**

[Time: 00:00:17]

Mayor Ortega: So at this time, certainly we are grateful for our City, state, and nation, but we do want to call to mind the war-torn areas in the world and countries which are literally fighting for their survival and for democracy as well, so let's pause in reflection. Thank you.

Well, this morning, there was an awards ceremony as well as recognition at the Scottsdale Police Department. And families were there, grandparents of officers' families, spouses, and a deep appreciation for all of the heroic events that occurred, one that was mentioned was the police response to the Diamond fire, where they were able to evacuate hundreds of people, as Scottsdale Police went door-to-door and secured our safety. Other instances regarding saving people's lives. So, I do want to call attention to what keeps us safe and those people and families who support them.

So moving on, it is possible we will have an Executive Session during tonight's meeting, the Council may make a motion to recess into Executive Session to obtain legal advice on any applicable item on the agenda. If authorized by the Council, the Executive Session will be immediately held and will not be open to the public. The public meeting would resume following the Executive Session.

Also, per our Council Rules of Procedure, citizens attending City Council Meetings shall observe the same rules of decorum applicable to members of the Council and City staff. Unauthorized remarks or demonstrations from the audience, such as applause, stamping of feet, whistles, boos, yells, and/or other demonstrations shall not be permitted. Violation of these rules could result in removal from the meeting by security staff.

**PUBLIC COMMENT**

[Time: 00:04:01]

Our next item is Public Comment. Public Comment is reserved for Scottsdale citizens, Scottsdale business owners and/or property owners to comment on non-agendized items that are within the Council's jurisdiction. Advocacy for or against a candidate or ballot measure during Council Meeting is not allowed pursuant to state law, and is therefore, deemed not to be within the Council's jurisdiction. No official Council action can be taken on these items and speakers are limited to three minutes to address the Council.

If you wish to speak, please check with the Clerk, and we will list you and have possible speakers. Whether it is Public Comment and I see that there's none. Therefore, I will close Public Comment. However, you are welcome to comment on any agendized items, including Consent Agenda Items and we will call you forward as the agenda items are announced.

**MINUTES**

[Time: 00:05:10]

Next, we have approval of the Minutes. I request a motion to approve Special Meeting Minutes of

November 13, 2023, Executive Session Minutes of also November 13, 2023, Regular Meeting and Work Study Session Minutes of November 13, 2023. We were busy that day.

Councilwoman Janik: So moved.

Mayor Ortega: Thank you.

Vice Mayor Whitehead: Second.

Mayor Ortega: So, we have a motion and a second. Any other comment? If not, please record your vote. Unanimous. Thank you.

### **CONSENT AGENDA**

[Time: 00:05:48]

Next, we move on to Consent Agenda Items 1 through 9, and all of these Items are properly posted, we have back up files and so forth. And there was a request by Council to move Item Number 1 and Item Number 3 to the Regular Agenda. I see there was one speaker for Item Number 3. So that has been removed from, and you will have an opportunity to speak during Regular Agenda when those are brought forward.

At this point, I would entertain, I would ask if there's any other item that a Councilmember may seek to place on the Regular Agenda. Seeing none, therefore, I would be open to a motion for Consent Agenda Items, excluding Item Number 1 and 3 at this time. Those are Consent Agenda Items, 2, 4, 5, 6, 7, 8, and 9.

Councilwoman Janik: So moved.

Vice Mayor Whitehead: Second.

Mayor Ortega: A motion and a second. And by the way there was no other Public Comment on any of other items on the Consent Agenda. So please record your vote. Thank you, unanimous.

### **REGULAR AGENDA**

#### **ITEM 1 – FIRE STATION 612 AND WELL 160 MUNICIPAL USE MASTER PLAN (3-UP-2023)**

[Time: 00:07:10]

Next, we will move to Item Number 1, which was shown on the Consent Agenda. This pertains to a fire station, the 612 and Well 160. That is Case Number 3-UP-2023.

Principal Planner Greg Bloemberg: Thank you, Mayor Ortega and Councilmembers, Greg Bloemberg Principal Planner here to give you a brief presentation on Case 3-UP-2023, Fire Station 612 and Well 160. Let me see if I can get this thing to work properly.

**DECEMBER 5, 2023 REGULAR MEETING AND WORK STUDY SESSION  
CLOSED CAPTION TRANSCRIPT**

So, the site is located basically at the northeast corner of Hayden Road and Mayo Boulevard. There is single family to the south, the property to the east and to the north is owned by Axon. And to the west is state owned property. And forgive me as I, here we go. This is a closer look at the site. A good third of the site to the south is dedicated to regional drainage channel and there is eventually going also be a new sewer line installed in that area, it was Mayo Boulevard but that has since been eliminated.

So, I will give you a brief summary of what we are looking at here. Because this site is on a site that is greater than 1 acre, the Development Review Board, Planning Commission, and City Council are required to take action on it, which is why we are here tonight. The request is for approval of the site plan only. The overall project design, building elevations, landscaping, open space, will return to the Development Review Board, tentatively this coming Thursday, assuming it goes well tonight. Because this station, I guess, is a pretty high priority.

[Time: 00:09:16]

Again, a fire station and an aquifer storage and recovery well site is proposed. The proposal does comply with all applicable I-1 development standards and there were a couple of public comments received which are at the back of your report.

So, this is the site plan. The fire station is here. It's approximately 200 feet or so from the fire station itself to the single family to the south. Boy, I hate this mouse. There we go. There are two points of access presently. The vehicles entering the site will come in here at the northwest corner of the site, make basically a u-turn all through the site and then the engines themselves and the paramedic vehicles will come out this way. The median in Hayden Road is going to need to be modified to allow for left turn movements out of that driveway. Right now, it's right in and right out only.

There was, there is still plans to have an access point over here off of Axon Way. Although at this point, there is no timeline for Axon Way. That is the responsibility of Axon to build, and we have, there are construction plans in the system. But we do not know when they will pull permits to build that site, or that street, so we had to work on an alternative scenario which is why we have this here. And then the well site is right here on the east side of the site. And just to show you a little bit what is going on with the open space, again, there's quite a bit of open space along the south portion of the property. It's not proposed to be lushly landscaped primarily again because it's a very large drainage channel and then there is going to be a sewer line in that area. So, it's difficult to plant anything that's going to have deep roots that might affect the sewer line that is going to be installed there eventually.

As I mentioned on October 19, 2023, the Development Review Board recommended approval at 7-0 vote and on November 8, the Planning Commission also recommended approval with a 7-0 vote. That concludes staff's presentation. I know the fire department staff is here to answer some questions and I'm also available if you have any questions for me.

Mayor Ortega: Councilmember Graham did you have any reference questions?

Councilmember Graham: No, thank you Mayor, I will be brief. I'm happy this project is moving forward and coming to fruition. So, the Fire Department's response times, which I think it kind of has suffered in this part of the area can be finally improved. The project has been somewhat of a moving target, and I think it's confused some of the residents, perhaps even some members on Council.

So, just a couple quick questions to the benefit of those watching and can you identify evolution of milestones? Cost, design, kind of how things went through the process, or I can answer more pointed questions. This is a one-story facility?

Greg Bloemberg: Mayor Ortega, members of Council, and Councilmember Graham, yes, it's a one-story facility. There is no second story.

Councilmember Graham: Okay. And to the best of your knowledge, is the fire department satisfied with the amount of space and design of the facility?

[Time: 00:12:43]

Greg Bloemberg: Mayor Ortega, Councilmembers, and Councilmember Graham, to my knowledge, yes. We didn't get quite as much land as we anticipated, so there had to be some adjustments made to the design, but yes, as far as I know they are satisfied with the design.

Councilmember Graham: The, speaking of not getting as much land as we expected, was there any sort of teachable moments or things we would have done differently if we could go back? Because we talked a little bit about, we thought we were going to get x number of acres or maybe this much acreage, and now it's less developable.

Greg Bloemberg: Mayor Ortega, Council, and Councilman Graham, I really can't comment on that. I don't have a lot of history on those negotiations and what occurred.

Councilmember Graham: City Manager, did you want to add anything to that?

City Manager Jim Thompson: Mayor, members of Council, Councilmember Graham, really nothing to add at this point, I mean we are where we are. I think that we have gone through a lot of different changes at this site. One on the water side, the other on a two-story to a single-story and many discussions. You have to the south utilities where the road right-of-way is at and so it hampered our abilities. We moved the building to the north at the request of the residents to the south, rather than on the south end of the property. So we did all we could to address the concerns that were raised. I think we are where we are today, and we are prepared to move forward and get it built.

Councilmember Graham: And now Greg said that maybe one day when Axon Way is constructed, we will have another driveway for access, entry and access for the fire station. Will that affect response times when that's finally built to your knowledge?

Jim Thompson: I would defer to the Fire Department to respond to that.

Councilmember Graham: Chief Shannon thanks for being here.

[Time: 00:14:38]

Fire Chief Tom Shannon: Mr. Mayor, members of the Council, Councilmember Graham, certainly any access points either east or west will improve response times. We're north of about 8 minutes right now. I have a wonky map I could show you, but it, over the last four or five years, we have hovered around 8 plus minutes or more to that area, because no one really owns it as a first do area. So, when Axon decides what they want to do with their property and that is continued, it will provide us another route instead of having to go around.

Councilmember Graham: Right. I guess that's my concern. It would be nice sooner than later, right?

Tom Shannon: Right and we are working obviously very collaboratively with them and their folks for what their planning interests are, and we are ready to use any route to get to folks we can get at.

Councilmember Graham: And do the building designs, since I have you up here, if I may ask, do the building design and features meet your satisfaction?

Tom Shannon: They do. We've, for several years now, we have gone to kind of a template fire station. No real changes whether it's a north station, central station, or south station, and this station is going to house approximately eight people at all times. So somewhere between, you know, 6 and 8 people, and so it provides plenty of space.

Councilmember Graham: Okay. I'm sure people in that area are very excited for it. Thanks for being here tonight.

Tom Shannon: You bet.

Councilmember Graham: And thanks Greg for your presentation. So, thank you Mayor.

Mayor Ortega: Sure. So, we are reviewing the site plan and it has gone through every department. Most importantly, as a City is a client as well, so we are obligated to build half streets and we are obligated to do landscaping, just like any other private property wishing to develop in this town. Certainly, this is a great part of our infrastructure. With that, I move to adopt Resolution Number 12989 for approval of Municipal Use Master Site Plan for a new Fire Station and Well Site on a 4-point, plus or minus, 4.6-acre site with Planned Community District, Industrial Park, P-C I-1 zoning located at 18455 North Hayden Road.

Councilwoman Caputi: Second.

Mayor Ortega: Thank you, I don't see any public to ask questions. Therefore, we will call for the vote. Please record your vote. Thank you. Unanimous.

**ITEM 3 – PARKING LEASE AGREEMENT AND SUBLEASE AGREEMENT**

[Time: 00:17:20]

Next, we will move on to Item Number 3, which was previously on Consent Agenda and now we're reviewing it on Regular Agenda then we will resume our Regular Agenda schedule.

Councilmember Graham: Programming?

Community Services Executive Director Nick Molinari: Good evening, Mayor Ortega, members of City Council. I'm Nick Molinari, Community Services Executive Director and I do not have a presentation this evening, but I'm available to answer any questions that anyone might have about the parking lot agreement and sublease with Scottsdale Arts for the space on the southwest corner of Drinkwater and Second Street.

Mayor Ortega: Excuse me, at this point, and you know, I do have some history with this property, and we can get into that, but I believe what we'll do is move on to Public Comment.

**PUBLIC COMMENT**

[Time: 00:18:17]

There were two speakers requesting to speak. One is French Thompson. And the other is Bob Pejman. So, let's start there. While you are walking up, you may. For many years the senior center was operated there by the City. And it was convenient to the Civic Center campus and certainly to the hospital, but in the year 2000, the City passed a bond, major bond that included the Granite Reef Senior Center and many other amenities we couldn't live without. Like the McDowell Aquatics Center, and Appaloosa and on and on. So, apparently in the process, of course, of surplussing that property, Scottsdale sold the property in, I think 2011, once, of course the Granite Reef Center was open. That served the city very well. Subsequently, they sold it to the Honor Health and then Honor Health has leased it back for the tidy sum of zero per year. So that's where we are at. And certainly, we have, so if we have some comments or questions, please come forward, French, and then Bob Pejman.

French Thompson: Good evening Mr. Mayor and City Council members. First off, I would like to wish you guys all happy holidays because it's coming up real quick. This is a little bit unusual for me, because I'm going to come out and tell you that I'm in favor of adoption of this resolution. But it's like putting a Band-Aid on a wound that really needs major surgery.

The City and their partners have spent \$60 million to increase the capacity of the Giant's spring training stadium. And now holds 12,000 people, which is the largest in the Cactus League. Where are they all going to park? This small space only has about 100 parking places and it's temporary at best. The City has also just recently spent about \$35 million to remodel the Civic Center Plaza and then more than

double the amount of events and increase the capacity, plus they added a 3,000 person amphitheater.

Since 2005, not one parking place has been added to the City's Old Town parking inventory. And yet almost a \$100 million, \$100 million, \$100 million has been spent to increase the demand and the capacity for people to attend events at this stadium and at the Civic Center Plaza. And not one penny has been spent to add more parking. \$100 million and nothing is spent for new parking. It just, it boggles my mind.

So the property of this resolution refers to was sold by the City to Scottsdale Memorial and now Honor Health and they're now leasing it back. So, I have looked all through this. So is this just a gift from Honor Health to the City that they get to use this for free? And since the lease is only a year-to-year lease, you know, it's in a 90-day agreement, they can just cancel it if they want to, if they decide they want to build on that property. So, you know, this whole thing is just a temporary little Band-Aid to try to fix a major problem. We really need the City to spend the bond money that's already been approved and build parking in this area now. This resolution is proof that more parking is needed, and that this is a short-term partial solution for a much larger longer lasting shortage of parking.

Now, I know that there's a little bit of restriping of parking lot by the police station. But if you look at what just happened, there was a little events space put in the stadium that took away 50 spots. So if you are restriping and saying you are putting in another 70 spots, you are really only putting in 20 because you just took away 50. So, you know, when you count up this stuff, you say well, we are giving you 120 parking places, but we took away 50, you know, these numbers just don't jive. So I would like, really, the City to build a parking structure in the Old Town area, where it was intended, south of Indian School, that the Giant Stadium can use and the Civic Center Plaza can use. And thank you very much.

Mayor Ortega: Thank you, French, and I also wish you happy holidays. Maybe you can correct me if I'm wrong, I thought the Museum of the West had some public parking in it, which is fairly close to where you are. And I can certainly agree with what you are saying, but I think they might have added some underneath the Museum of the West. But no, no, it's okay. I'm just saying there was some added since '05 and it happens to be sort of in your neighborhoods. Go ahead, Bob.

[Time: 00:23:40]

Bob Pejman: Hi, good evening, Mayor Ortega, Councilmembers, my name is Bob Pejman, and address is on the record. And I too am I'm in favor of adopting, approving Council Item Number 3, but I want to put it in a larger perspective. So, I'm glad Mayor Ortega, you went through the history. So, but not many people have talk, I've talked to a lot of people, not many people remembered that this used to be the site of the old senior center. And in 2011, under the Lane administration this was sold, this parcel, which is 1.7 acres, was sold for a mere \$1.5 million, including the improvements.

Can I use the projector? Okay. So up here, that's the lot and that's the senior center that was on it. And you look at this here, that's where they scraped the senior center and that's what it is. Now, it's hard to figure out why the City sold it. Or they could have sold it and repurposed it into a parking lot,

which they didn't do, which brings us up to 2020. So in 2020, there was an agreement made with Honor Health to lease the parking lot empty scraped area of this, for the use by spring training and Scottsdale Arts events. And that lease is coming to an end shortly and what's before you now is a one-year extension to that lease. But, you know, I don't want to hear later, oh, yeah, we got Honor Health to give us this land like it's forever, it's for one year. It has a 60 or 90-day termination clause and they have no obligation to renew it. It requires mutual consent.

Now I want to bring your attention also, put this up, to what's happened since 2020 to the Civic Center. So the City invested \$35 million and part of that was to increase the number of events from 35 to 85 whopping events per season and the amphitheater can now hold up to 3,000 people. And I want to be clear on this. We love that. We love more people. We love more events, and there's nothing that we have against them. But the fact that the City has to resort to lease a property that they don't own to provide some of the parking means that we're under parked. So, the City made a long-term permanent solution to expand the Civic Center, which we love. They should also make a long, permanent solution to provide the parking it needs and the only chip that's left, the only card that left to play is the bond money to add the two levels on top of the farmer's market. That land can be taken away. It's temporary. And why would you want to put yourself in that position to be at the mercy of are they going to renew it again. There is a permanent solution on the table, and I hope that the Council plays that card and adds the parking where it should go. Thank you.

[Time: 00:27:06]

Mayor Ortega: Thank you very much. Therefore, I will close public comment. Staff remains available to answer any questions. I see Councilmember Graham.

Councilmember Graham: Thank you, Mayor. Nick, thank you for being here tonight. How much are we paying, just for the record, how much are we paying for this lease for the year?

Nick Molinari: Mayor Ortega, members of Council, Councilmember Graham, we are not paying anything. The lease amount for the lease with Honor Health is zero.

Councilmember Graham: Is that like a normal transaction the City does? How did we get it for zero dollars? Is there, are there other considerations?

Nick Molinari: Councilmember Graham, we have a close working relationship with Honor Health and Honor Health currently is not using that space as part of their building plans. So, they have worked with us to provide that space to the City of Scottsdale for parking for spring training, for events at the Scottsdale Civic Center.

Councilmember Graham: And just for the public, how many spaces are we renting?

Nick Molinari: There's approximately 100 spaces on that lot.

Councilmember Graham: Okay and how many years have we been renting, I guess not really renting, but has Honor Health been letting us use their parking facility there.

Nick Molinari: Councilmember Graham, 2020 was the first year that we entered into a parking lease agreement with Honor Health. So, we have been operating under a current agreement with extensions since 2020.

Councilmember Graham: Are you concerned that they're going to, because they can cancel it with 60-some odd days that expansion plans at the hospital or anything, do you have any concerns like that?

Nick Molinari: I personally don't have immediate concerns considering long-term expansion of the hospital would require some long-term planning and Honor Health has been a good partner with us. So, the fact that they not only leased the space to the City of Scottsdale for zero dollars, but they allow us to sublease that space to Scottsdale Arts at no cost, and work with Scottsdale Arts to provide additional parking has been a benefit and has been a great example of collaboration between the City and Honor Health.

Councilmember Graham: We've got some good negotiators getting a parking spot for nothing, right? What, my next question was, is, you know, I guess we just, down there it feels like we are putting ourselves in a little bit of a precarious spot with a one-year lease. Do you have any concerns what might happen with our events season if we were to, if Honor Health was to withdraw those spots? Do you think we have parking elsewhere to absorb that?

[Time 00:29:50]

Nick Molinari: Councilmember Graham: 100 parking spots in the true sense of downtown is, it's a great benefit to Scottsdale Stadium and to Scottsdale Arts. If they were to exercise their right to cancel the agreement, we would work to find additional parking. I don't think it would be a tremendous hit, all things considered but.

Councilmember Graham: So, you don't think that we are in any sort of vulnerable position if they were to withdraw it and we lost that in the middle of February or the middle of spring training season.

Nick Molinari: We would certainly be 100 spots down from where we are at right now without a doubt. So would be something that visitors of Scottsdale Stadium would certainly feel, but they would, we've had parking issues. We've had parking considerations all around Scottsdale Stadium for several years.

Councilmember Graham: Do you think that would have an adverse effect on our tourism?

Nick Molinari: I can't speak to whether it would have any real impact on tourism or tourism revenue coming into the City of Scottsdale.

Councilmember Graham: Okay, well and the last question is the Civic Center just opened up. So we kind

of turbo charged the Civic Center, which is great and I know you've done a lot with that and we've got more events coming there. And we've got more Scottsdale Arts is expanding and we have a lot more buzz and like I said, turbo charging our downtown. So is this kind of a key component, this parking is part of a wider strategy to get enough parking in that area for the new season, that we don't, this will be a brand-new season with more events.

Nick Molinari: Councilmember Graham, I would not say that. We had entered into this lease agreement with Honor Health in 2020, prior to the Civic Center opening. And it provides with us some overflow parking, 100 spaces of overflow parking. We have not had any issues with parking, considering some very large events at Civic Center recently. So at this point, we're not considering this lease with Honor Health as part of a long-term parking strategy, or a long-term event strategy. It is simply an example of a partnership with Honor Health where they provide us the space so that we have some additional parking in a geographically ideal location for Scottsdale Center for the Performing Arts, the stadium, and the Civic Center.

Councilmember Graham: Thank you, Nick. Thank you, Mayor.

Mayor Ortega: Sure, Councilwoman Littlefield, Vice Mayor Whitehead.

[Time: 00:32:28]

Councilwoman Littlefield: Thank you Mayor. This is a great lease and definitely support it and all the comments that have been made thus far. It works for the benefit of the City tremendously, especially during our heavy peak seasons when people are there parking their cars so they can enjoy all of our festivities. But I would bring to your attention that this land is not owned by the City and it's a year-long lease only that can be discontinued at Honor Health's instigation on a 60-day notice. So that does leave us vulnerable for these parking spaces.

Also, at the end of this term, there is no obligation to renew the lease. It is all up to Honor Health. We are basically renters on a year-to-year lease with them and it's a good lease. It's very positive for the City, but we have no say in whether or not it's going to come back to us again next year. So that is an important thing.

For any kind of surety in that downtown area that we have adequate parking for all of our events, we need to make sure we have a parking facility that's ours and that with we can control. We need to construct the promised parking garage on the City-owned land that our citizens voted for. And I think that that's something that we need to be considering and putting on a to-do list without any questions or pause, as soon as we possibly can get that done. So, I'm not saying we shouldn't continue doing what we are doing. It works out great, but we definitely need to make ourselves more independent and self-reliant. Thank you.

Mayor Ortega: Yes, Vice Mayor Whitehead.

Vice Mayor Whitehead: Yeah, I do want to jump in on this. Listen, we decide on parking based on parking need, not the success of our tourism industry. And the last thing our taxpayers want is for us to spend 30 million of their dollars for a parking garage that we need for four weeks of the year. So I just want to remind all of my colleagues that we have always been diligent about using our resources very carefully, and this is just another great example. If we can get 100 parking spots for free, because we have good relations with other businesses in the area, and in this case the hospital, of course, we are going to do that and we have yet to over, need more.

I know there have been maybe one or two days, but what I want to remind everybody is we're doing a parking study. Because we need to only spend the dollars to solve the problems we have. We don't want to spend dollars on a parking structure we don't need. I believe that our incredible success and expanding our tourism beyond three months will probably result in another parking garage. But I also want to point out about this independence notion. You know, again because we are very resourceful and we like to deliver the most for the least amount of tax dollars for years, the City relied on state trust lands to handle the parking for our big events in the north. That state trust land is gone and guess what, we have better parking, we had better parking last year than we did when we had all the state trust land. I had fewer residents complaining about traffic jams.

And not only that, talk about turning lemons into lemonade, we used the opportunity of losing the state trust lands to require those event organizers to pay us for the parking. So, yeah, a lot of lemonade came out of that problem. So, I am confident we're going to solve this problem, but to Kathy Littlefield's comments, I am not about to spend \$30 million without knowing what we're doing, but I know that she agrees with me, and we support the City Manager's decision to do a parking study. Thank you.

[Time: 00:36:45]

Mayor Ortega: Okay. So, I have a couple of comments, I do want to make a motion. First of all, the City Council 20 years ago, D.R. Board 20 years ago, approved a master site plan for Honor Health. That's on file. You can see how those landscaping elements were planned and they're all available for anyone to see. Whether or not they build, for instance, they took over the old post office and built that wonderful neurological center there, that happened, that's part of the complete blueprint that we have. So they are a very ordered partner to the City for blue, sorry I want to say blue skies, but certainly the blue health program. And so that's all available. This is compatible use, obviously, it's to our favor and then the entire scheduling of what happens. I was really impressed when we had Wilco and we had Midland over here.

What the City has done, is they have lanes right here on Benny Gonzales Way which is the designated drop-off for Lyft and Uber. And that's it. They take up maybe one side angle area and that's the only place that Lyft and Uber are allowed to drop off. All of those provisions went through transportation, and they helped with the overall picture, whether it's spring training or major events. So we are, I am pretty proud of the way the special events people and the way it's gone so far. With that I would move for approval and adopt Resolution Number 12992 authorizing Parking Lot Lease Agreement, Number 2023-195-COS with Honor Health for the use of the parking lot at Drinkwater Boulevard and Second

Street and authorizing parking lot sublease agreement Number 2023-196-City of Scottsdale with Scottsdale Arts for the use of parking lot at Drinkwater Boulevard and Second Street.

Vice Mayor Whitehead: Second.

Mayor Ortega: Oh, and I do have Betty Janik. Sorry, Councilwoman Janik.

Councilwoman Janik: Thank you, Mayor. A question. Do we have a trolley system in the downtown area that services the stadium during spring training? Is Nick available to answer that or, I'm not sure who.

Nick Molinari: Mayor Ortega, members of City Council, I would have to defer to transportation about whether or not we currently have a trolley in the downtown area. I don't know that we currently do.

[Time: 00:39:48]

Jim Thompson: Mayor, members of Council, Councilwoman Janik, we have trolleys operating in the downtown, not the route that is in question, I think the one that's been brought up in the past. That one is not activated. Again, we did activate during the events season again. So we did have special routes downtown during that but outside of that, we're trying to direct our, again, expenditures towards those where we have ridership and not otherwise that exist. So that's where we are at with that item specifically in the downtown area.

One additional note, I know it came up and I would just like to share is that we have been working through various opportunities with the bond monies. Keep in mind that we obligated a portion of the bond money to acquire the parking from the Artisan when they moved forward at 39989 space, which probably at today's market is 15,000 to 20,000 less a space for that when they move forward. We also have already paid in our development agreement with Museum Square so when they move forward, we will receive those additional spots. But we are looking at what to use the remaining of the bond funds that are available there by looking at a study, looking at the various areas in downtown where the needs exactly exist and looking at potentially multiple projects associated with that and spreading it out. But we will be back after the first of the year to have an in-depth discussion on that.

Some of the history, some of those places. We have had recent discussions with the Artisan and Museum Square associated with their parking as well and where they are at with their project. There are some timelines they have to meet, otherwise they have to go all over back through the process, so I suspect that we will move forward. But we will come back after the first of the year to get in the depth of that just so we can update you where we are at and where we are moving forward.

Keep in mind additionally that the parking structure in downtown was, or Old Town, was not at the top of the list. If you recall, a lot of our discussion in 2017, '16, '18, associated with the bond projects was timing of them. And the parking structure as well as the bridge at Thompson Peak and some of the other heavy infrastructure projects were towards the tail end because we did not want to issue debt to increase the secondary property tax over where it was at the time. That was one of the commitments

we made to the voters at the time. So we had to spread out the cost of those projects over multiple years. And so, again, we're still a couple of years out before we would be moving forward with the structure in downtown anyhow, and so we're thankful that Honor Health is offered at no charge for us to retain those hundred spaces for use. So thank you for allowing me to go a little bit more in-depth there.

Councilwoman Janik: Real quick, the reason I ask, should there be a need that could be met by a trolley service during spring training, is that something that could be considered if we have a parking issue?

Jim Thompson: Yes, we can. Like we did in the past, if you remember, the original, which was years ago, and prior to my time, but my understanding is part of the trolley system was implemented for just that reason, for some of the employees in downtown and to bring them in, and then it's expanded throughout the City. So, thank you.

Councilwoman Janik: Thank you.

Mayor Ortega: Okay. We have a motion and a second. I also have a hand up from Councilmember Graham.

Councilmember Graham: Thank you, Mayor. Real quick. City Manager, you brought it up. So when do you expect the parking study? Do you have a timeline on that?

Jim Thompson: No, I do not. So we have to-

Councilmember Graham: You have-

Jim Thompson: Well, let me go this direction. We have to go out to bid and then that takes a few months. We have to draft the bid specs. We are in the process of drafting bid specs. We are looking at our options and we also went out and started to get some greater costs associated with decking. The-

Councilmember Graham: The farmer's market.

[Time: 00:43:44]

Jim Thompson: Yeah, farmer's market, livery stable next door right and it already has the portion of the lower deck and then the main level. But then decking that, what that cost would look like and if it's within, and then if it's one floor or two stories and what that looks like, and the costs associated with that.

We also then looked at what you would call probably the northeast quadrant of Old Town and we looked at that area on our 6th Street parking lot and looked at what if we put one deck on that, what would that cost? And right now, preliminarily, I will just share that, we'll come back and share in greater detail, if we put one deck on the livery stable, paid Artisan because they intend to move forward next

year, and the Museum Square now is intending to move forward next year as well, we have already paid for that, that we would achieve parking numbers there. We could also add a deck. There is, there would be an additional cost of just over 6 million at this point. So, we're looking at all our options. If we double deck the other, we wouldn't have sufficient funds either to do a double deck on the other.

So, we will come back and share up all of those numbers in January. But we are putting all that together at the same time we are bidding out the study, but it may not be necessary if we address both those areas. Past studies have showed that area to the northeast was the area of concern. But that was at a time prior to today with different workforce needs and with other issues. In fact, part of the bussing issue-

Councilmember Graham: You said northeast. You said northeast. Do you mean northeast right? The northeast quadrant?

Jim Thompson: Yeah, it would be up on 6<sup>th</sup> in that the area is the area that I'm talking about where we have two lots in fact, we have one to the south and one to the north, the north is the larger of the two. We would look to deck the north one, not the south one. Divided by 6<sup>th</sup>. So that's kind of where we are at. We'll come back and give an update the first of the year, but we want to get through that. We want to get to where we are at on our study. The estimates on the study are coming in higher than we anticipated, as with many things. So, we'll be back in January, February to talk about all that.

Councilmember Graham: Well, January will be good. And it's, I think some 70% of voters said they want a downtown parking garage. The voter packet clearly said, enumerated a few areas that were all south of Indian School, that's what the voters were told, and we have a lot of money waiting to be deployed. I know we didn't want to raise the secondary property tax and we wanted to even that, space that out, so I look forward to resuming the conversation in January. Thank you, Mayor.

Jim Thompson: Thank you.

Mayor Ortega: Okay, Vice Mayor Whitehead

[Time: 00:46:20]

Vice Mayor Whitehead: Just really quick and thank you Councilwoman Janik for bringing that up. But we did give direction to, so perhaps when you come back in January for the discussion, give us an update on using trolleys to better use downtown parking garages that exist to meet that need. Also, do we have, I mean certainly, I would advise the gentleman who spoke, people to submit days that they notice, I go downtown a lot looking for parking problems. And I'm not there working like you gentlemen are, so it would be really helpful if there are days that you can submit and say, "Okay, there's no parking." But I have yet to go on a day and not find parking, even during our events that I often attend, but I think that would be just anecdotally to have that kind of focus, so that when we do do a parking study, we know when and where to look in addition to an extensive study for parking issues.

And I do, one more thing, sorry, Mayor. I'm very appreciative of the changes you made in the 6th Avenue Parking Garage because that has made a big difference, I'm told because of course the last thing we want is private parties using our public parking. So, thank you for that.

Mayor Ortega: Okay, so in closing, I do want to make it clear that the new Council when we took office in 2021 instigated ordinance changes for the Downtown, and voted on those and got those done, and found many deficiencies and tackled that head on. I do sympathize and know that we are, as a downtowner, I have been interested in additional parking, so I do hear you on that. And finally, there will be a retreat in February. So not only will we have some supplemental information to go on, we have a motion and second on, to approve Item Number Three, please record your vote.

Councilmember Graham: Thanks, Nick.

Mayor Ortega: Thank you, unanimous.

**ITEM 10 – FISCAL YEAR (FY) 2022/23 ANNUAL FINANCIAL AUDIT**

[Time: 00:48:36]

Next, we will move on to Regular Agenda Item number 10. Item Number 10 involves the Fiscal Year 2022/23 Annual Financial Audit. The presenters are Lai Cluff, Acting City Auditor and Brittney Williams representing the CPA. Please come forward and I just thought I would mention that I don't see any Public Comment requests on this item. Okay, proceed. Thank you, Brittney Williams, thank you, with Heinfeld, Meech, and Company.

Lai Cluff: Mayor Ortega, members of the Council, I will do a brief introduction first, and then hand it over to Brittney Williams to go over the audit results. Brittany, would you mind going to the next slide for me? Thank you. By City Charter, the Council is required to designate a CPA to perform a financial audit. Our office manages the contract for the CPA firm, which is currently Heinfeld, Meech and it is the City Treasurer's staff, the Accounting Department, and Finance Department that actually put together all the financial reports that are being audited. The Fiscal Year 2022/23 Financial Audit Report was presented to the Audit Committee in the November 13<sup>th</sup> Audit Committee Meeting, and the Committee unanimously voted to recommend to the full City Council the acceptance of that report.

So with that, I will turn it over to Brittney and afterwards she will turn it back over to me to go over the last compliance piece that we need to talk about for this particular agenda item. Thank you.

[Time 00:50:16]

Brittney Williams – Heinfeld, Meech and Company: Thanks, Lai, Mayor Ortega, members of the City Council, thank you so much for having me here this evening. It's great to see some familiar faces from the Audit Committee Meeting. I will go ahead and go through the summary of the reports that we have issued to date, and then I will go ahead and open it up for any questions that you may have.

First of all, we provided our opinion, our auditor's opinion on the financial statements, the Annual Comprehensive Financial Report. We issued an unmodified opinion, which is a clean opinion. So, no issues with that. We also issued our auditor's opinion on the six different component units that the City presents each year. Five of those are the CFDs and then also the Municipal Property Corporation. So clean audits all around.

I also issue a communication to governance for the City and each of the component units and I send that directly through email to all the Audit Committee members so that they have an opportunity to read that and look through it. There's some key points that are addressed there such as significant estimates made by management in the financial statements. If there were any material audit adjustments or uncorrected adjustments or disagreements with management, or any other similar items, they would be noted in that letter. It also talks about governance, responsibility for fraud, and has a fraud check list that's included.

We also issued the single audit report. Our single audit report is a, has a couple of different components, one of which is the report on internal control and compliance based on the financial statement audit. There were no material weakness, which is the most severe type of finding that you can have with that. So that's good. We also issue a report on compliance, internal control, and expenditures of federal awards and there were no material weaknesses with that. However, we did have some significant deficiencies that are noted.

You can take a look at the schedule of expenditures of federal awards. The City spent almost \$36 million in federal grants in just fiscal year '23. So that's presented. And we issued an unmodified opinion on that. We have a couple other ancillary reports that we issue, one is the Highway User Revenue Fund Use Report, and that's just an accountant's report saying that the City complied with state requirements on that and that's pretty standard. And then we do have some other reports that we haven't completed yet and they are due March 31<sup>st</sup>. So, they have a later deadline, but they are upcoming and that would be the Annual Expenditure Limitation Report and some of the HUD react housing fund reports that are required to be filed with HUD. Before I turn it back over to Lai, I will go ahead and open it up for any questions that you might have for me.

[Time: 00:53:10]

Mayor Ortega: Okay, I see none. So please continue.

Councilmember Graham: Oh, Mayor, I'm sorry. I had a few questions.

Mayor Ortega: I see your, go ahead.

Councilmember Graham: It was a slow draw, sorry.

Mayor Ortega: It's alright, you are on. It's just you were a little late.

Councilmember Graham: Thank you, Mayor. Thank you, Brittney. Any ratios or trends stand out to you for the City that you can report to us?

Brittney Williams: Ratios or trends? Probably, just what you are seeing, you know, an increase in sales taxes, hospitality, those types of things are all on the rise. Federal monies are still rolling in at an exponential rate.

Councilmember Graham: But they are drying up or are they expecting them to dry up.

Brittney Williams: The coronavirus, state and local fiscal funds was probably the last of it this year, the influx that we are expecting in the coming years is Infrastructure Improvement Jobs Act monies and it's the largest amount of monies that will be released by the federal government. It's not Recovery Act monies.

Councilmember Graham: Which fiscal does that start?

Brittney Williams: It will be starting in fiscal year '24 and it's mainly related to climate change, transportation, bridges, and Internet-type stuff, cabling, and those.

Councilmember Graham: Any changes in our bond rating from prior years?

Brittney Williams: Not that I'm aware of. No.

Councilmember Graham: And then you mentioned no material weaknesses but significant deficiencies you said there were some. Can you talk a little more about that.

[Time: 00:54:37]

Brittney Williams: Sure, we tested three major federal programs this year. So, we tested the coronavirus, state, and local fiscal recovery funds, like I mentioned, and then we tested a couple of the housing grants. So, we tested the housing voucher cluster and the CDBG entitlement grants cluster and so we were over at the housing department for about a week. They had the pleasure of seeing us for a long period of time and digging into a lot of things. We haven't tested the CDBG program in several years. It's probably been four years since we looked at that. And many of the issues that arose were compliance issues related to various compliance requirements. And as you read through the findings, you'll see that most of it is due to staff turnover and a lot of vacancies that have happened. I can say that through the corrective action plans that are at the last few pages of the report, you can see that most of those errors have been corrected and the people that are in place now over in the housing department have many years of experience, they are working directly with HUD, they are definitely cleaning things up and I think it will look a lot better.

Councilmember Graham: So, the CDBG area, there were some deficiencies noted.

Brittney Williams: Yes, and housing voucher cluster.

Councilmember Graham: Any other programs you noted deficiencies or control?

Brittney Williams: No, just those two for this year. We tested the three programs and had deficiencies in the two.

Councilmember Graham: Okay. Are there any major changes with GASB or government accounting standards this year coming up that is going to change the way we read financial statements.

Brittney Williams: So in this report, well, in this report I'm not sure because you guys early implemented the 96 and so the City is always really good about early implementing standards that everybody else kind of waits a little bit longer. There are some things coming down the pike. Nothing major in the next couple of years but after that the entire financial reporting model is being revamped and revenue and expense recognition criteria is being revamped as well. And so, in 2025, 2026, you are going to see some big, big changes.

Councilmember Graham: Can't wait.

Brittney Williams: I know, luckily Anna already went through drafting under a new method. She was asked directly by GASB to do a practice run and so she's had the experience of going through that.

Councilmember Graham: So, we are the GASB guinea pig?

Brittney Williams: Yeah.

Councilmember Graham: Wow. Thank you, Anna. Sharpen your pencil. Thanks, Brittney. Thank you, Mayor.

Mayor Ortega: Good. Vice Mayor Whitehead.

[Time: 00:57:18]

Vice Mayor Whitehead: Yeah, I just want to ditto what Councilman Graham said. I mean we appreciate what you've done. In our Audit Committee Meeting, three of us are on the Audit Committee, you mentioned that in fact our financial policies are used to train other cities. I don't know if you want to comment on that. I was pleased to hear that and thank you, Anna for being ahead of the game here.

Brittney Williams: I don't have any additional comments on that just that the City of Scottsdale is impeccable in their financial reporting, and they are always the first of many of our clients to issue and early implement things and other municipalities definitely look to this report to make sure they are doing it right. So, it's really good.

Mayor Ortega: Okay, Councilwoman Littlefield, also a member and Chair of the Audit Committee.

Councilwoman Littlefield: Thank you. And I just wanted to say thank you for all that you have done. Ever since I have been on the Audit Committee, which is when I first came to Council, you have done a tremendous job in helping us and keeping us on the straight and narrow and making sure that all of our T's were crossed our I's were dotted. And that anything that came up in the way of changes and modifications or anything like that, you were right there and helped us to make sure that we ended up being in compliance with all of the state laws and rules and regulations. So, I wanted to thank you very much for all of your hard work on behalf of our beautiful City.

Brittney Williams: Oh, thank you Councilwoman Littlefield, I appreciate that.

Mayor Ortega: Very good. We will continue with the presentation with Lai Cluff.

Lai Cluff: Thank you. In that same legislation that now requires a CPA firm to present the audit results at a regular meeting to the governing board, the Arizona Revised Statute also requires the governing body to demonstrate compliance with Section 41-1494. This A.R.S. subsection prohibits cities, towns, and political subdivisions in Arizona from requiring an employee to engage in training, orientation, or therapy that presents any form of blame or judgment on the basis of race, ethnicity, or sex and also prohibits the City from spending public monies for that purpose.

So to assist with this requirement, we have asked the Human Resources Department, Diversity Director and City departments of training coordinators to review their training and orientation offerings and identify any potential relevant trainings and assess whether they comply with the ARS requirement. So, staff has reported back that the City trainings do comply with the statutory requirement. So we are reporting this information to Council to request an action on that item. Brittney, would you mind moving? Thank you. So, the two items that we are requesting action for tonight is number one acceptance of Fiscal Year 2022/23 Financial Audit Reports submitted by the City's external auditors Heinfeld, Meech and secondly to accept the staff's report on the City's Compliance with A.R.S. 41-1494, thank you.

Councilwoman Littlefield: Move we accept.

Vice Mayor Whitehead: I will second that.

Mayor Ortega: So, you are moving to accept both the-

Councilwoman Littlefield: One and two.

Mayor Ortega: Okay. Thank you. We have a motion. We have a second. Any further discussion? Okay. Light is on. Let's vote. Thank you. Unanimous. Job well done and happy new year. I get to say it. Okay, we will then move on to the next agenda item.

**PUBLIC COMMENT**

[Time: 01:01:000]

The next agenda item involves Public Comment, the second opportunity for the public to step forward and on any non-agendized item. Seeing none, therefore I will open and close the second session for Public Comment.

**CITIZEN PETITION**

[Time: 01:01:18]

The next item on our agenda pertains to Citizen Petition. It's within our charter that any petition could be submitted to the Clerk and then forwarded for our action. Seeing none, therefore, I will close Item Number 11. We are headed towards the Work Study. I do want to call Council's attention to Item Number 12, that is Mayor and Council Item. I am going to defer action on Item Number 12 until after our Work Study. It pertains to the periodic review of the permanent base adjustment, which we will be discussing as well as other items. So, indulge me on that. We will therefore move into the Work Study, as presented by our Treasurer. Thank you.

**WORK STUDY SESSION**

[Time: 01:02:09]

Sonia Andrews: Thank you Mayor, thank you Council. You just heard from the auditors about our year-end audit and now I am going to present the year-end financial results basically, what's in that audit report. Next slide.

So, I wanted to start out by sharing this for the audience that might not know or might not be aware. Our fiscal year ends on June 30<sup>th</sup>. We do provide preliminary results to Council of our general fund in August, and then we go through a period of preparing for the audit, and actually being, you know, audited by the external auditors. In November, we do present, as you just heard, the financial report to the Audit Committee, and this is the final step of our year-end process, where we're presenting the financial results to Council. I'm happy to report that the final results, there's no significant change from the preliminary results that we presented back in August. Next slide.

So, before I start, I wanted to give a huge thank you to my accounting staff, led by Anna Henthorn and Sarah Delgado who is in the audience tonight for their excellent work. It takes a lot of specialized knowledge and skill to comply with all the GASB requirements, the government accounting requirements and make sure we get through the audit and have a clean audit and prepare for this audit report which we receive an award every year for 51 consecutive years. So, thank you very much. Next slide.

So, this year's report to Council is a little longer than usual. I have two parts to this year's report. The first part is the results of our financial position and how we performed financially for the fiscal year 2022/23 and the second part of this report, I will talk about the state-imposed expenditure limitation. Next slide. Next slide.

So, let's start with the City's finances. So, our balance sheet improved at June 30<sup>th</sup> of 2023, compared to the prior year. As you can see on this chart of numbers, most of our assets, really over 80% of our assets is in capital, net of depreciation. That's our infrastructure. And since infrastructure assets are not liquid assets, we have to have a strong cash position. And that's really important so that not just that we can pay our bills but that we have enough to cover any unexpected expenses and as you can see, our cash position improved at June 30, 2023.

Our liabilities increased but not as much as our expenditures. So that's good news. The largest category of our liabilities is our bonds and loans that we, those are the debt that we issue for our infrastructure assets. The next largest category of liabilities is our pension liabilities. So, I wanted to go back to capital assets for a minute. We have almost \$6.4 billion in capital assets, that's a book value, not market value or replacement values, just the book value, net of depreciation. Most of which is in land. So, I'm sorry, next slide.

So here you can see the graph of what our net book value of capital assets, the \$6.4 billion is made up of, over 85% of our capital assets is in land, our water and sewer systems, and our street and storm drain systems. Within the land is about a billion or 962 million of book value for the preserve land, and all the improvements, the trail improvements that were constructed.

And given our investments in our assets, it is important that we take good care of them. We have a lot of new infrastructure that requires new ongoing maintenance and also older infrastructure that requires increased maintenance, and in some cases replacement because they are past their useful lives. We have paid a lot of money for this, these assets, both in cash and in debt and even though we have over 6 billion in capital assets, we have less than a billion in debt remaining that we issued to finance these assets. Next slide.

[Time: 01:06:41]

So, the debt that we have outstanding at June 30<sup>th</sup> totaled \$820.2 million. And as you can see most of it is water and wastewater debt that is repaid from our water and wastewater revenues. The next largest category of debt is our preserve debt, which is used to buy the land in our preserve and that is repaid from our preserve sales tax. And then the rest of the debt is really between the general fund and property tax-supported debt. And as you can see, only the third graph, 168 million, that's the only remaining outstanding debt that our general fund supports and some of that is also repaid for with the bed tax that we have, and the last two columns, those are property tax-supported debt. So aside from debt, the other significant liability on our books is our pension liability. Next slide.

Our pension liability is something we watch very, very closely, because we rely on the plan administrators, the actuaries to manage the plan and calculate what is the required contribution and invest the plan assets. It's a little bit out of our control, how this liability either grows or shrinks. The only control we have is in making the required contributions or making extra contributions to buy down or pay down the liability.

Our police pension plan, so the green part of the chart is our Arizona State Retirement System. So that's the pension liability for nonpublic safety employees and the blue part of the bar chart is the PSPRS, and that's the Public Safety Personnel Retirement System for our police and fire. So, our police pension plan is 65% funded, based on last valuation in 2022. And the fire pension plan is 85% funded. So, one of our financial goals is to pay down these pension liabilities and increase the funded statuses for our police and the fire plans. So as you recall, in the last few budget cycles we have proposed one-time pay downs for these pension plans in order to manage this liability. Next slide.

So moving on to our revenues and expenditures, our revenues have covered expenditures and that's really important to know that our revenues are covering our expenditures for the year. But the difference is mainly timing differences, and expenditures savings such as like vacancy savings. So, the difference that you see, even though our revenues look higher than our expenditures, it's really because of vacancy savings and in some cases timing differences. We haven't spent the revenues that we anticipate to spend, so will probably be spent in the following years. Next slide.

So, the previous slide I showed was our governmental funds. That's the general funds, the transportation funds and such. These are our enterprise funds which is our water, sewer, solid waste, and airport aviation. So as you can see, the operating revenues are also covering expenses in these funds. And let's see. Next slide.

The other good news for 22/23 is we maintained our policy reserves at the end of the year. We maintained these reserves to protect our bond rating and to also cover any unexpected expenditures that we may have and we're happy to report that we did not have to dip into any of these reserves. Next slide.

And then finally, we maintained our AAA Bond Rating for our 22/23 year. And all the things I just mentioned is what the rating agencies look at when they give us our AAA Bond Rating which is like the highest credit rating that we can have. Next slide.

[Time: 01:10:38]

As part of our year-end process we also have to file an Audited Expenditure Limitation Report with the State Auditor General. That report is in progress right now, we will probably be finishing that report and the auditors will probably finish auditing that report in the next few months. So for fiscal year 22/23, we expect to be at 94% of our expenditure limitation and the \$502.5 million preliminary estimate that we have right now, since we're still working on this report, but it's pretty close to what we think the actual will be. Those are primarily operating expenses with some exclusions. So next slide.

So the expenditure limitations, expenditures that are subject to the state imposed limitation, are pretty much all of our operating expenditures. These are the items that can be excluded from that expenditure limitation, capital improvements, like infrastructure expenditures, but not capital as in vehicles and equipment. Those have to be included. Expenditures that are funded by grants and other non-local

revenues can be excluded because they are not considered local revenues. Debt service payments can be excluded. Expenditures spent with our highway gas tax money can be excluded. And there's some minor other miscellaneous expenditures that are specifically allowed to be excluded under state law, but in general, pretty much most of our operating expenses with the exception of these exclusions have to be calculated and considered part of that expenditure limitations. So before I go to part two, which I will dive into what our state-imposed expenditure limitation is, I wanted to kind of pause to see if any of you had questions regarding the financial results that we just went through.

Mayor Ortega: Councilwoman Janik.

Councilwoman Janik: Thank you, Mayor. Thank you, very nice report. I have a question on page 12, where you talk about our policy reserves, and you have given absolute numbers. Can you tell me what percent of the fund is in reserve? Is it about 20%? 15%? I know we had set some more aggressive goals over the past year or two.

Sonia Andrews: Yes, Mayor, Councilwoman Janik, Councilmembers, the general state fund stabilization and emergency reserves total 25% of our operating expenditures. And 25% is three months. And it's industry standard and best practice as well to have about, at least three months of operating reserves. For the transportation fund, that's 10%. For the enterprise funds, so water and wastewater is also 25%, which is three months. For solid waste, it's 15%. And then the debt service reserve is 10% of our debt service for general obligation. And 5 million for the excise tax debt. And then self-insurance reserve we are at 75% of the confidence level of the reserves that's calculated by the actuaries for the self-insurance.

Councilwoman Janik: Do you feel that you have met all the goals you have set for increasing our reserves?

Sonia Andrews: Yes, I feel that we are in good shape.

Councilwoman Janik: Okay, thank you.

Mayor Ortega: Thank you. We have Councilwoman Caputi and then Councilmember Graham.

Councilwoman Caputi: Just really quick, Sonia, you used a term. You said something was due to vacancy savings. What is that? I have never heard that.

[Time: 01:14:23]

Sonia Andrews: Yes, so if you go back to slide 10. So if you can see the general fund, our revenues and sources of funds came in at \$451 million, but our expenditures is only \$416 million. And I was just trying to make the point that we are not overcharging and over collecting revenues that we don't need. It's because the expenditures are lower because we haven't filled all of our positions. We have probably 300 vacancies.

Councilwoman Caputi: Job vacancies, okay.

Sonia Andrews: So, we don't have the expenditures for that because the positions are vacant.

Councilwoman Caputi: Thank you.

Mayor Ortega: Thank you, Councilmember Graham.

Councilmember Graham: But don't you estimate a vacancy reserve at the beginning of the year and you're saying that the reserve is underestimated?

Sonia Andrews: Yes, Councilmember Graham, yes, we absolutely do. We have vacancies every single year. So, we do count on those vacancies to balance our budget.

Councilmember Graham: I was just going to ask, Sonia, in the fiscal year, fiscal '23, any red flag conditions? Any negative leading indicators? Anything catch your attention as far as, that could be foreboding or ominous about the future?

Sonia Andrews: Yes, Mayor, Councilmember Graham, Councilmembers thank you for that question thank you very much for that question. The City is in strong financial shape. We are very, very healthy, but we have a lot of uncertainties ahead. The thing that jumps out as the red flag is the significant increase in our revenues in the last three years, we had over 30% increase in our sales tax revenues due to the pandemic spending spree, and sort of a bubble that is happening there. And so, the concern and the red flag would be what is coming ahead? The other red flag that, in this year, is the state expenditure limitation, which we're bumping up against, which we will talk about in a minute. Those are pretty much the two big red flags that we probably have is I'm not sure how much the level of revenues will continue in the future, and also that we're bumping up against the state expenditure limitation.

Councilmember Graham: You pounced on that opportunity, didn't you? Thank you, Mayor.

Mayor Ortega: Ok, thank you. Please continue with the rest of the part two.

Sonia Andrews: So, let's go into part two of our presentation. Next slide. So this can be kind of a complicated subject for me to explain, so I will try to go slow and please feel free to ask any questions if I'm not making any sense to you. But my hope is that I can explain what is the state-imposed expenditure limitation and I can hopefully go through these slides and explain what is a permanent base adjustment and why is a permanent base adjustment needed. Okay, next slide.

[Time: 01:17:26]

So, the City is subject to something called the state-imposed expenditure limitation, basically it's a cap on local government expenditures imposed by the State in 1979-1980 to limit our spending of local

revenues. And as we talked about earlier, it's mainly our operating expenses that is being limited here. The City's operating expenditures that are subject to limitations, which we talked about earlier, we cannot exceed this cap, this state-imposed cap. It doesn't matter how much revenues we collect. We can collect 600 million in revenues for these expenditures, but if our cap is 542, that's all we can spend. Because it's a cap that the State imposed on us, based on a 1979-1980 constitution. There is penalty for exceeding this limitation, and the penalty includes the State withholding state-shared income taxes from the City. So, we really don't want to exceed this limitation, in fact we cannot by law exceed it because constitutionally, we're required to stay within this limitation. So next slide.

So how is this limitation calculated or determined? It was based on a state formula that was based on services and programs in place back in 1979-1980. So, when this constitutional, when this law came about, whatever programs and services and expenses that we had in place back in 1979-1980, that was our base. And then every year, the State will adjust this base for population and inflation changes, and that's all they adjust it for. They don't adjust it for any increases in services like new programs or new services or new revenues that voters might approve or anything that is above and beyond population and inflation. They don't adjust for that. They only do population and inflation. So, what happens when you have increases that go above population and inflation? Well, the state does provide a process for us to reset that 1979-1980 base for these types of increases, and that's called a permanent base adjustment. And it requires a vote of the people, the voters' approval. So next slide.

So, what I wanted to share is there's every City goes through the need to increase the base, because every City increases their programs and services over time to their citizens. And also, costs increases over time, like pension costs. Pension costs has increased significantly. Insurance costs have increased significantly. Cybersecurity costs have increased back in, you know, 1979-1980, probably wasn't the type of cybersecurity needs that we have today. And the technology was significantly different than we have today. And we didn't have to worry about a lot of things that we have to worry about today. We didn't have one of those emergency operating centers after 9/11, back in 1978 there wasn't anything like that, so there's a lot of changes over the years.

And so cities, every City has to go through a permanent base adjustment to increase the base, to reflect increases in operating costs for new facilities, increasing costs above population and inflation, new programs that's, you know, that citizens want. So, as you can see, the City of Scottsdale has one of the lowest limitations among our peer cities. We have two previous permanent base adjustments which I will talk about in a minute. The last permanent base adjustment we had was in 2006. And as you can see, on a per capita basis, we are second to last on this list of cities, yet we provide a higher level of service than many of these cities and we also have significantly more tourism activity and tourism expenditures when compared to these cities. So, we are kind of bumping up against this limitation and it's probably time to take a look at increasing the base limit. Next slide.

[Time: 01:21:55]

So, as I said, Scottsdale has had two voter approved permanent base adjustments since 1979-1980. We had one in 1998, and we adjusted the expenditure limitation base for increase in public safety

service levels, transit, refuse recycling programs, operating costs of new water treatment facility, new neighborhood services program and such. In 2006, we adjusted our expenditure limitation again for increased public safety cost which was funded by .1% voter approved sales tax. Also, for a new fire department that we implemented in 2005, new operating costs of facilities that was built with the bond 2000 projects, and new operating costs of technology projects. Next slide.

So, it's been 15 years since the 2006 permanent base adjustment. And so, I wanted to go over with you how this permanent base adjustment affected our state-imposed limitation and what our state-imposed limitation did after that. So, in 06/07, before the 2006 permanent base adjustment, our expenditure limitation was 289.9 million. Almost \$290 million. And then we had the voter approved 2006 permanent base adjustment which then increased our state-imposed limitation to \$404.7 million so most of that 40% increase was due to the 2006 voter approved permanent base adjustment. So for the last -- the next 15 years from 2008 to 2023, our state imposed limitation increased by about less than 2% a year based on the population and inflation adjustment done by the state and then most recently, as you all know, with the inflation that we have experienced our 23/24 limitation went up to \$586.3 million because we got a much larger increase on inflation. So, we had a bump up of 8.07% of our state limitation. Next slide.

So, our biggest challenge in terms of cost increases is, one of our biggest challenges is the significant increase in visitors that we experience. So, what the slide shows you is even though the population only increased 11% from 06/07 to 2022, that's the 2022 data, our total visitors have increased way more than that, over 30%. And in terms of total visitors, we only have data back to 2014 that's comparable. We use a Compass Longwood Visitor Profile Report they do for us each year, so the most recent data we have is 2022, and the earliest data we have is 2014. And just comparing those two years, is a 30% increase in our total visitors and the 2022 numbers may even be low because of pandemic. So, I can only imagine that in 2006, those visitor numbers may be even lower, and the percent of increase may be even higher.

A WestWorld attendance, we have seen a 35% increase and the Phoenix Open, we've seen also probably more than a 34% increase. The latest data that we have is in 2018. They stop tracking attendance in 2019, and so I think that, you know, our public safety personnel and our City Manager will say that we have observed significantly more than the 719 attendants for 2023. The increase in visitors, our economy is driven by, in part by our tourism industry. It's a very important industry for our economy. We enjoy the economic benefits of our visitors and tourists. We spend a lot of money on destination marketing and tourism-related activities and events. None of this is accounted for by population and inflation adjustments alone, we have to recognize that our expenditure base does not by just allowing the state to increase it, doesn't provide for any increase in these expenditures related to our tourism industry. Next slide.

[Time: 01:26:33]

We have also opened a lot of new facilities since 2006. This is a list of all the facilities that were the major ones, the major facilities that we built and opened up since 2010, and as I look down this list, it's a

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lot of facilities that, again, are for the benefit of not just our residents but our visitors, like our WestWorld Equidome expansion, our new Tony Nelssen Equestrian Center, our new Museum of the West in 2015, McCormick Stillman Railroad Museum, all of these facilities benefit our visitors and they come with operating costs. And because we have an economy that is driven by visitors, we have also prioritized public safety, because protecting our citizens and making sure the visitors are not creating havoc in our City is a priority for us. So public safety is very important as you can see, we have built new fire stations, new Police Special Investigations Building, new real time crime centers.

We have focused on providing public safety facilities for our residents. And also, water and wastewater facilities and our water and wastewater operations are incredibly important to our City as well. And as you can see, with the last 10, 15 years we have built the CAP Water Treatment Facility expansion, the Advanced Water Treatment Plant expansion, the new Thomas Groundwater Treatment Facility, Regional Wastewater Facility and 91<sup>st</sup> Street expansion. All of these come with increased costs that are above and beyond just population and inflation changes. Next slide.

This kind of summarizes sort of highlights the new facilities and infrastructure we have comparing 2006 to 2023. We have net of three new fire stations. We have almost 1 million new square feet of community facilities. We have almost 50 acres more of parks that we're maintaining. We have almost 20 more tennis pickleball courts that we're maintaining, and 475% increase in the trails, that's primarily the preserve trails, that we're maintaining and so on and so forth. I mean the fire hydrants, the sewer mains and the water mains, and also storm drains that we are maintaining. Next slide. Aside from all the new facilities and visitors and new operating costs that we have to absorb in this expenditure limitation, we also have other cost increases that is causing us to bump up against this expenditure limitation.

The one we talked about earlier is our pension costs. Our pension costs in 2006-2007 was \$5.3 million, and if we put the \$5.3 million in today's dollars that would be \$8 million in 2023 dollars, that would be \$8 million yet we are paying \$27.4 million in 22/23. And we have also, in 2022/23, added another \$10 million additional to pay down that pension liability that we talked about. Our water purchase costs is another one. Back in 2006, our water purchase costs was \$6 million. If we put that in today's dollars that's \$9 million, yet we're spending \$18.3 million in 22/23 and if you remember in 23/24 our budget for that is 20 something million for our CAP water purchase cost. So that's over 100% increase in our water purchase costs and also cost per million gallons delivered.

Tourism fund expenditures, as we talked about tourism being an important part of our economy. We spent \$7 million in 2006 and that's because our bed tax was only 3% in 2006, 2007. In 2010 our voters approved the increase of our bed tax from 3% to 5%. So today, we're spending \$35 million on, from our tourism fund and none of that is accounted for with the state expenditure limitation increase. Next slide.

[Time: 01:30:48]

We also have increases in revenues since then, like I talked about the bed tax increase. The State has also imposed some new taxes like the tax on remote Internet sellers. We are collecting some additional

revenues for that and also Council approved new fees over the years as well. Next slide. The next two slides I included because of a question that came up from a concerned citizen who asked, who inquired, why have we eroded our, the cushion between our expenditure limitation, our actual so quickly between 2020 and 2023, in the last three years, so I wanted to explain that. So, as you can see on this chart, the blue bars show what our expenditure limitation is, and the red bars show what the actual expenditures are that are subject to that limitation. Now, keep in mind these reports that we have to file are audited by our auditors, so these are audited expenditures.

So as you can see in 2019, we had quite a bit of cushion and then in 2020, it looks like we have quite a bit of cushion as well, and then you can see in 2021 it looks like we are maintaining that cushion, and then all of a sudden in 2022, it looks like we ate up that cushion, and then in 2023, it looks like we continued to eat that cushion up and in 2024, it disappeared. So let me explain that. So in 2020, as you can remember, that was when the pandemic started. So when we put the 2021 budget together, we put a pause on a lot of expenditures because we didn't know how the 2020 pandemic was going to impact us and whether we were going to have to shut down a lot of programs and services. So, our 2021 budget was very scaled back. We deferred a lot of things and then we started getting a significant amount of stimulus money.

In 2020, with we received \$17 million in CARES funds and that paid for public safety salaries and expenditures, which we could exclude because they were federal grants. And we didn't have to include it. If we didn't get those CARES money, we would have to include those expenditures in our expenditure limitation. So we wouldn't have such a cushion. In 2021, we got more stimulus money, we got 12.4 million in CARES money and so that also, and then again in 2021, we held off on a lot of expenditures. And we didn't spend the funds that we wanted to spend. And so, between that, holding off on our expenditures and receiving the CARES Fund had which we again used for public safety salaries, it looks like, it masked the fact that we were bumping up against our limitation.

In 2022, that looks like an eye opener, doesn't it? But really, we paid \$40 million down on our PSPRS pension liability and the pay down on our pension liability cannot be excluded. It has to be included. So our financial goal and our financial strategy of paying down our pension liability affects the expenditure that is subject to the limitation. We cannot continue our financial goals if we don't increase our expenditure limitation. We will have to pause on paying down that pension liability if we don't increase this expenditure limitation.

[Time: 01:34:14]

So, again, in 2022, the reason it looks like we all of a sudden ate up that cushion is because number one, we got \$14.6 million in another stimulus, round of stimulus, the American Recovery Act that offset the expenditures and on top of that, we spent \$40 million of expenditures subject to limitation on paying down PSPRS. In 2023, the same thing happened but this time we only spent \$10 million for the PSPRS pay down. And in 2024, I wanted to mention that the 2024 number is a budget number. It does not include budget savings. So we expect probably 30 million of budget savings and it also includes 10 million an extra 10 million of PSPRS pay down. But it doesn't include the fact that we have to spend

the Bell and 94<sup>th</sup> land sale proceeds within a specific amount of time. A big chunk of that money cannot be excluded. Like, I think \$18 million or \$20 million of that money cannot be excluded so that will also drive the use of that capacity up because we cannot exclude those expenditures as one time as well.

Another reason why it looks like we are bumping up against our expenditures, and we are, another reason why it looks kind of alarming, if you go to the next slide, is what's happened to the actual state expenditure limitation itself. So I apologize for an error here on fiscal year 2020, it says minus 2.7 for inflation. It should be 2.4. I was doing this at the last minute, 2 minutes before this meeting, to add these new slides so I apologize for that error. But the rest of the numbers are correct. So, for fiscal year 2020 that inflation should be 2.4% and I wanted to take you through this. So, the State adjusts this for population and inflation. As you can see our population has been growing at about 1%, a little over 1%. Then in 2023, there was a negative almost 3% adjustment to our state expenditure limitation because of the population adjustment down. So our population is still increasing but because it was based on over 2% increase estimate, when we finally had our 2020 census, they had to correct the population downward, it's still an increase but it was adjusted down. That adjusted our expenditure limitation downwards.

And then you can see we received the inflation adjustment starting in the large inflation that we were seeing, in 2022, we didn't really get that until 23, 24 and if you look at the far right column, where we had to give our employees the market and merit to keep up with labor cost increases. You can see that we gave the police 5% step program. We gave our employees the increase in market and merit in 2023, when the market was demanding that, yet we got only a 1.2% increase in our expenditure limitation because of the population adjustment that was negative. Does that make sense, or did I lose everybody? Thank you. Okay. So next slide.

So, I think it's time to consider another permanent base adjustment. It's been 15 years since our last permanent base adjustment. And you know to summarize, we've had significant increase in visitors, operating costs, and such, and also kind of a reduction in, if you might say, in our expenditure limitation. We are at 94% and we're at one of the lowest expenditure limitations among our peer cities, and yet we provide the highest level of service and have the highest number of visitors.

Now I want to launch what the permanent base adjustment is and isn't. So, it is not a tax increase. When voters vote for a permanent base adjustment, they do not allow us to increase our tax rates. A permanent base adjustment does not allow the City to increase our sales tax rate. It does not allow us to levy any additional property taxes. It is not a tax increase. Next slide. Oh, I'm sorry. This was my slide I was talking about. Next slide, please.

A permanent base adjustment is not a budget override. It doesn't allow the City to exceed our budget. It is not a temporary or permanent budget override. The City cannot spend more than the revenues we collect. It's called a balanced budget; our revenues have to equal expenditures. We are legally required to have a balanced budget and we are legally not allowed to spend more than our expenditure, our budget. Next slide.

[Time: 01:39:21]

And a permanent base adjustment is not an automatic expenditure increase or automatic budget increase. It doesn't allow the City to automatically increase our budget or our expenditures. Again, we can only spend the money that we collect, and we have to spend within our means. So if you remember in the previous slide, I had talked about the expenditure limitation being increased to \$404 million in '08, when we did the 40% bump. The expenditures that year came in about \$340 million. And the following year, it was \$350 million or something like that, so my point is we don't just increase our expenditure to \$404 million, whatever the expenditure limitation is, we can only increase our expenditures based on the revenues we collect and based on the adopted budget that Council approves. Next slide.

And there are consequences for not increasing our state-imposed limitation. We are at 94%. We cannot spend the revenues we collect. We collect more than what we spend right now, so all just go to reserves because of this limitation. We won't be able to spend it. The state-imposed limitation really should be at a level that allows the City to cover annual cost increases with our balanced budget, otherwise we would have to look at budget reductions in order to stay within the limitation because we have no capacity for growth. And it also delays, as we talked about our financial goals, most notably, paying down our PSPRS liability because we don't have the capacity to continue doing that. So, again, I kind of wanted to, next slide.

Again, I kind of wanted to reiterate these points that it has been 15 years. We had significant increases in costs, in more than one aspect, not just in operating costs, City costs, but costs we cannot control. We are bumping up against our limitation, and it's probably time to reset it so that we can continue City services and meet the future needs of our citizens and our visitors. Next slide. And again, this was the slide that shows where we are in comparison to our neighbors. And next slide.

And so, what a permanent, I just can't emphasize this more. I really want everybody to understand this, a permanent base adjustment resets the state-imposed expenditure limitation to allow the City to continue our high level of service and the state limitation really should be at a level that provides capacity for our current needs and future needs, maybe for the next five to ten years. And, again, it is not a tax increase. It doesn't change our sales tax; our property tax rates. It's not a budget override and it's not an automatic increase in our expenditures.

And finally, my last slide, this is the process to increase our expenditure limitation. So, we would have to have Council adopt a resolution to put the permanent base adjustment on the ballot. And then the City is required to submit an analysis to the State Auditor General along with all of our pamphlet information and all the information we provide so that they can analyze it and audit it and ensure that it is accurate and correct. Then after the election is held and assuming the voters approve it, the State Auditor General still has to approve this permanent base adjustment before it becomes effective for the following year. That ends my presentation. Thank you so much for sitting through all this. It's quite complicated but I appreciate that, and I can answer any questions that you might have.

[Time: 01:43:16]

Mayor Ortega: Thank you. I will lead off and then we have Councilwoman Caputi and then Councilwoman Janik. You know, first of all, Treasurer Andrews, thank you so much for highlighting this constitutionally mandated permanent base, which the City has to adhere to. And not only is it let's just say in a way a brick wall, but there's also a process for reevaluating or resetting that and that's what we are considering with this Work Study, as well as reviewing our current position.

The permanent baseline is embedded with our budget. You have shown that with all the graphs and so forth. In some ways, you have also pointed out that if we had money to pay down the retirements which this Council has done on two budgets, but if we hit that cap, we would not be entitled to spend it, and essentially pay down the debt just like our household would say want to pay down its debt, especially to our first responders.

Now, this is calling to mind two basic situations. One is the present and looking at that slim 6% margin and there again, if we had some sort of certain urgency to spend money beyond, that's unforeseen, we would technically be in default if this were not changed. The second thing that, so calling our attention is very important. The second thing that's very important is it appears as though, and I have searched there has been no policy. No policy for regular review by this body, and/or recommendation by our treasurer that would say we will resolutely decide that every five years or so we must evaluate where we are at. Now, this is not the same thing, but it's similar to our own household, okay? So, if I were to look at my credit card limit or \$400, 42 years ago, and think, gee, if it hadn't been changed or it had to go up 2% or whatever, I would be a long way from the credit limit that I need today. Why? Because the City is not static. The City is always broadening our services. Not only because we have more businesses and visitors and responsibilities and really, I want to say, in some cases, unfunded mandates that we have to follow. But they were never in existence 40 years ago or as you said.

The other thing of course is the capital improvements such as Bond 2000 did not include librarians, did not include the security, did not include the janitorial services for those four or five new libraries, and therefore, we have broadened the scope of what the City is doing. So primarily, from what I'm looking at here, is that we need to create a policy so that other Councils in the future will have the confidence to say we are coming to this boundary of spending.

Another thing that we have to confront is that we have to confront the actual situation we're in now. So, we are in the red zone when at the same time, our revenues are strong and so forth. And frankly, it's 17 years too long, or 15 years too long in reviewing that. So it would be, I'm, as we talk through this, I would ask for some consensus on two things. One is that we should have a regular policy review that we could give and adopt to on the recommendation of our finance directors and treasurer. So that would be the policy.

And the second thing is that we would actually have a working guide which is what our budget is as we are approaching the next six month. And so that we would say, what would be a suitable actionable item that we would have as a policy and then where would that, how would we cover ourselves or

future Councils with the expectations that our citizens, businesses and everyone expects. We're not going to just stretch the police force that we have and say, oh, we have added 30 more miles of streets and say, well, we are going to have to stretch, you know, their work. And so, we have to grow with that and because of our success. So as we discuss things, I will be asking for a consensus. Again, this is just working, work study. We have Councilwoman Caputi, Councilwoman Janik, and then Councilmember Durham. Ms. Caputi.

[Time: 01:48:53]

Councilwoman Caputi: Thank you, Mayor. First of all, yes, I agree we should have regular policy reviews. That makes sense. Thanks, Sonia. This is so much information and we have all been through it with you on a one-to-one basis too. Every time I see it, I have just a couple more questions. You have a slide that listed of all the different infrastructure improvements that we've had over the years, and then I remember, my ear picked up that you said the expenditure limit doesn't include infrastructure, though. So, what's the point?

Sonia Andrews: Slide 24 yes. Thank you so much for that question, Councilwoman Caputi, Mayor, Councilmembers, the operating costs that come along with these infrastructure. So you are absolutely right, constructing the infrastructure is excluded from the limitation, but we have to staff the facilities. We have, you know, operating costs, to keep the lights on, the janitorial costs, all kinds of costs that come along with the facility. So, all of those operating costs have to be included in the limitation.

Councilwoman Caputi: Okay. And then the other thing that popped into my head and I can probably not even read my own writing at this point. But so, suppose that we exceed the limit and there's extra money. It has, you said it goes into reserves, so suppose that we do generate more revenue. We have a cap. We have extra money. We have to put it into reserve? Is that what happens?

Sonia Andrews: Mayor, Councilwoman Caputi, we can spend it on expenses that are not subject to limitation. So, for example, we can use them as one-time monies for our capital projects. We can use them for debt service. But you are absolutely right, if we do not have expenditures for it, we cannot use it.

Councilwoman Caputi: And are the increased amounts that we already have in reserve, included in that limit?

Sonia Andrews: Reserves are not included in the limit.

Councilwoman Caputi: Okay. And then I guess I just want to make one point that this is complex and it's hard to explain and you just spent however many minutes. This is going to be interesting to try to explain it to the average voter, right? It's going to be our challenge how to make this, you know, simple and easy enough. We've started but I think we're still a long way to go from being able to have this in a digestible sound bite but great work so far. Thank you.

Mayor Ortega: Thank you. Councilwoman Janik and then Councilmember Durham.

[Time: 01:51:29]

Councilwoman Janik: Thank you, Mayor. First of all, I totally agree with the two suggestions the Mayor made that we need to have a regular policy where we review at regular intervals, and that we have to have a working guide to make sure that we are in compliance with the maximum amount we can spend. And I have a question on page 21. It looks to me like as you made the adjustments to the base, that you had to itemize what specific items were costing more so that you had actually justify any increase. You can't just say, "Well, I would like to have another several million." It has to be justified. Is that accurate?

Sonia Andrews: Mayor, Councilwoman Janik, Councilmembers, yes, we have to provide a detailed analysis to the State Auditor General, and to our citizens as well.

Councilwoman Janik: Okay. Then my next question is: On page 24, where you talked about operating cost are included, but now let's say we did the WestWorld Equidome expansion, and we're running it with more staff but we're making more money on it. Can we subtract from that amount that we pay from operation, can we subtract the money we take in in ticket sales or revenue?

Sonia Andrews: Mayor, Councilwoman Janik, no we cannot.

Councilwoman Janik: Wow. Okay. Then that pretty much is on slide, on page 36, it kind of outlines what I just asked you about, that you've got to justify, it gets reviewed, et cetera?

Sonia Andrews: I'm sorry, can you repeat that?

Councilwoman Janik: On page 36, that's where it indicates that twice during this whole process, the amount of money that we expand the limit by, it gets audited?

Sonia Andrews: Yes.

Councilwoman Janik: Okay. Thank you. Appreciate it.

Mayor Ortega: Councilmember Durham and then Vice Mayor Whitehead.

[Time: 01:53:42]

Councilmember Durham: Thank you, Mayor. Are there any limitations on how much we can expand the adjustment because presumably they don't want us to put a dollar over what we think our expenditures are going to be. So how does that work in submitting a proposed adjustment.

Sonia Andrews: Yeah, Mayor, Councilmember Durham, yes, we would have to put an analysis together

and determine what we need to raise our limit to. And it is, you know, it needs to mirror the local revenues that we collect and that we expect to collect in the future as well, so we have a capacity to grow.

Councilmember Durham: But we would set it sufficiently enough so that we wouldn't run into this in five years or ten years or?

Sonia Andrews: Absolutely, yes.

Councilmember Durham: Okay. All right. Thank you.

Mayor Ortega: Okay. Vice Mayor Whitehead and then Councilmember Graham.

Vice Mayor Whitehead: So, it looks like Councilwoman Janik and Councilmember Durham and I had the same question. But I just, and I appreciate that answer that it's not just a random number, but it will have room to grow. And I just want to point out as complicated as this may be, it boils down to local control. So, our residents have to decide whether the State decides how we spend our money or whether the City decides how we spend our money. It doesn't change our taxes. It's just simply local control. And I'm very confident knowing our constituents that they will want to have local control if we need to pay our police a salary that keeps our police in Scottsdale instead of going to Gilbert, I'm pretty sure, and we have the money to do it, I'm pretty sure they're going to want us to do just that.

And I have one other question. Oh yeah, on the - You mentioned the visitors and in a sense, we're the victims of our success because we're doing so well. There was some data, and I wish I remembered where, maybe MAG, it's not just visitors that we're dealing with that aren't counted in our population. One of the highest, one the biggest percentage of property sales in the City, at least for several years, was to snowbirds. So, again, these people infuse a lot of money into our city, but they don't count as population, and they definitely filled, in fact, all the apartment-to-condo conversions went to snowbirds, as far as I could tell. So I just, you know, I want to point that out as well, that was a significant, and I don't know if you have data on that.

Sonia Andrews: Mayor, Councilmembers, I don't have data on seasonal residents. Unless-

Vice Mayor Whitehead: I'm going to try to find it. There was someone who had some data on that. I will see if I can find that because that's something that we really need to share. But again, we just need to explain this is not a tax hike. This is about local control. And as far as turning this complicated subject into something very simple, Councilwoman Littlefield.

Councilwoman Janik: Real quick, the data you are referring to, I believe, MAG presented it at the meeting we had from Mr. Begley. He showed how many snowbirds we had and tourists so that you can get ahold of that number.

Vice Mayor Whitehead: Okay. Yeah. So, I do think that that needs to be part of it. But anyway, the best

person who summarized everything that you just discussed in literally less than a minute and a half was Councilwoman Littlefield at the Scottsdale Leadership event. And I am kicking myself that we didn't tape that. So, you are going to have to remember what you said. And we'll have to get that on tape. But it was so simplistic, and I saw the lights go on in everybody's eyes. It was like, "Oh, I get it." And so there is, she proved there's an easy way to explain this. But to me, it's local control. So, thanks.

Mayor Ortega: Councilmember Graham.

[Time: 01:58:14]

Councilmember Graham: Thank you Mayor. Councilmember Littlefield, I'm very interested in what you said because I was there, and I don't recall. But this was, it must have been some breathtaking insight that you might have had. Sonia, thank you for your presentation. You told us, but are enterprise funds are those expenditures go against the limit?

Sonia Andrews: Absolutely, Mayor, Councilmember Graham, actually those are the expenditures that increased quite a bit as well as our water, wastewater, aviation, and solid waste. So those all count towards the expenditure limitation.

Councilmember Graham: We got close there on slide 28. We talked about this a little bit like in one of our meetings, but I would like to see, as we move down this path, I would like to see our expenditures over time, actually even more longitudinally than the last trailing five years, expenditures as a percentage of the limit would be nice.

Sonia Andrews: Absolutely, we can provide that for you.

Councilmember Graham: I would also like to see, we talked a little bit about this, but expenditures as spending per capita over the years would be helpful. Is that possible?

Sonia Andrews: Yes, absolutely. We will provide that as well.

Councilmember Graham: You mentioned a couple seconds, or a few minutes ago, I asked you about some red flags and you said pandemic spending and all the sort of, you know, high throughput of revenues that we're getting, and this is pandemic spending, so it's local money we're bringing in and spending. So, if you talked about that, your concern is that bubble is kind of going to go down. You see how there's kind of a contradiction there a little bit or it could be perceived?

[Time: 02:00:24]

Sonia Andrews: So, Mayor, Councilmember Graham, most of that pandemic bubble money that we received had been used for one-time capital expenditures that are not subject to the limitation.

Councilmember Graham: Right, but we're talking about the reason the sales tax exploded, the sales tax

revenues went up. Right, so we spent that on all of that stuff.

Sonia Andrews: We actually spent most of that on capital improvements that are not subject to it and also to increase our reserves that are also not subject to the limitation.

Councilmember Graham: Okay.

Sonia Andrews: So we have been very, very careful in spending the massive expansion of sales tax because we do anticipate that to go away. So when we, whenever we anticipate sales tax increases or any revenue increases to be a bubble, we usually reserve those as one-time revenues because we don't see that as an increase in our base. So, we use a lot of that for one-time expenditures. So, to the extent that it paid for some one-time operating expenditures, it might happen most of it went to capital and reserves.

Councilmember Graham: Well, we'll look at that as we move down the process, and we do some more analysis. I want to read into the record the former City Treasurer, he said, he wrote us, and he sent us a letter and said, the Arizona State expenditure limitation does not limit local expenditures it serves as a wakeup call to citizens if the selected group of local expenditures grow at a faster pace than the combination of inflation and population. The last time Scottsdale voters were asked to increase the base was 2006, probably for the new fire department. Voters approved a \$12 million increase. The last true up of population was the 2010 Federal Census. By the, I was going to ask do you expect another true up of the federal census at some point.

Sonia Andrews: Mayor, Councilmembers, every ten years.

Councilmember Graham: Right but he's saying, I thought he was saying that there was a true up from 2010, so the numbers we have are final?

Sonia Andrews: So if you look at slide 29, so the true up reduced our expenditure limitations by 3%.

[Time: 02:02:41]

Councilmember Graham: Very good. He went on to say that even with the reduction, Scottsdale's expenditure is subject to limitation in fiscal '12 was \$114 million below the state limitation. The questions to explore are: What are the specific cost categories that have increased Scottsdale's expenditures subject to limitation by 37% since fiscal 2021, thereby eroding the expected cushion to only \$3.8 million in the adopted fiscal '24 budget.

I know we talked those categories, and we are going to continue to explore this as we move forward. I suppose my, unless there's any follow-up to this, and I can respond to it, we are asking for citizens to allow us to spend more money and if we were to ask for sales tax increases or extensions, contemplate that at the same time we ask them to spend more, it may be confusing for them. So, we've got, we may have a, you know, I know that the Vice Mayor said it's simple, but I don't know if it's so simple. So, I look

forward to the process forward in convincing the voter. Thank you, Sonia. Thank you, Mayor.

Mayor Ortega: Well, sure and I will comment on your comment because as an accountant, I think we want clarity and there will be attempts to confuse what is actually the process that we are doing, according to state law. We are asking at this point that we be responsible and act in studying both the obsolete, and I will call it an obsolete cap that is 10, 15 years old. I also had asked where the other cities, how frequently they had revised their baseline. And those are much more recent.

So, Scottsdale is in arrears on taking care of this, in terms of providing a policy. And I started, when we started this discussion, I was hoping that we could get nods that we should have a frequent policy for accounting purposes. That's what this is about. Any confusion and that would be explained hopefully clearly and distinctly from any other matter which you have raised about preserve and other sales tax, which is not the issue tonight. So, I think that portion of it, I did see the nods, that it's a good business practice to have a horizon.

The second part of that is that is that we wouldn't want voters to vote every year on this cap. We wouldn't want a horizon that is at least, excuse me, we would want a projection that would make sense so we're not asking people to vote every two years like for your congressman or something like that. And have to understand that. So that's why our peer cities have all been able to explain it to their constituents and have had good understanding that as the demands increase in our City, that we meet them and we meet them responsibly. So, I got a nod there.

The second part of this is that we actually have, I want to call it a fire drill, but we actually have a red zone right now that we are approaching, preparing a, almost a borderline budget right now that would have a cap. Now, let me mention, and I can ask this question to Sonia while she's also directing. But one of the things we have been able to accomplish with our actions up here, is to complete some Bond 2019 projects. Here we are trying to build them in 2023, based on estimates that are six years old. Well, we have supplemented those with general fund dollars. And those general fund dollars would constitute would dig into the cap, right?

Councilmember Graham: No. No.

Mayor Ortega: So, this is one way that -

Councilmember Graham: No. Sorry.

Mayor Ortega: Excuse me? I'm talking about how general fund dollars help us to build the fire academy that we need and the police station and all of these other things. So, all of those are very important. And so the second part of this is discussion, we're going to be returning to an actionable item, but that is that we entrust our Treasurer to look forward to and prepare a policy and I will have a motion when we return to our Regular Meeting that would give us options and suit a rational preview and then whether there's a call to question or not on that policy that would, that's the policy set that we needed. If we had that policy eight years ago, it would have probably been reviewed twice before we got to this point.

[Time: 02:08:05]

So the second part of this review that we will be asking would be that we actually get an actual number that we're going to be barely be able to squeak through this because if the election is held, it would be held after we've adopted our budget for 2024/25. So that would mean that we are just sliding past this critical zone. This is why it's so important that any accounting measure would allow for this. And therefore, we would have a rational way to present it to the public and if there's any use of funds, I think it's all been proven very competent, 35-year plus awards of excellence, and I think that's kind of where we're at. I don't see any, I think everyone spoke and Kathy said that her questions were answered by others. So sorry, Councilwoman Littlefield. I think Councilmember Graham, did you just hit your button?

Councilmember Graham: Mayor, I was just going to ask, Sonia, what is the next step for this process, would you suppose? Thank you, Mayor.

Mayor Ortega: Well, I think I have outlined that our next step would be that we were going to return to regular session. She showed the outline of how it can happen...

Councilmember Graham: Oh, I meant timing, sorry.

Mayor Ortega: I'm just saying that we will, we are going to look at two questions, one is the fire drill that we are at but the other one is an overall policy as uncovering this. And we're not looking at specific calendar dates right now.

Councilmember Graham: Not yet.

Mayor Ortega: But that's how the process is, according to state statute. I don't see anyone else requesting to speak on this matter. So at this point, I would, was there any other closing that you might have Sonia, because I think we're done on Work Study.

## **ITEM 12 – MAYOR AND COUNCIL**

[Time: 02:10:05]

And for that matter, I would return us to our Regular Council Meeting to which I have Item Number 12. Item Number 12 was my request that we revisit this question and be able to take an action on an agenda, a future agenda. So with that, I would move that this Council have a discussion and action item on a future Council Meeting. I would request that we direct the City Manager and the City Treasurer to agendaize an item for future meeting, and in this case, I'm going to ask for it at the second meeting in January. Is that the 23<sup>rd</sup>?

City Clerk Ben Lane: That's correct, Mayor.

Mayor Ortega: That's what I had in my mind. So by the 23<sup>rd</sup>, we would just have the best professional

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proposals come to us on an agendized item, where the public can weigh in and so forth. And that it also be looking, of course, at the current urgency as just, we've already had that in our discussion tonight. So, I would move for that and to move forward and for Council to establish a new financial policy regarding regularly and periodic review of permanent-based adjustment.

Councilwoman Janik: Second.

Mayor Ortega: We have a motion and a second. Any other discussion? Thank you. Let's please vote. Okay. That's unanimous. Thank you very much. Again, an outstanding presentation and with the clarity that we really appreciate. At this point we have concluded our Regular Agenda Items, as well as Work Study. Do I have a motion to adjourn?

Councilwoman Littlefield: So moved.

Councilmember Graham: Second.

Mayor Ortega: Thank you, Councilwoman Littlefield and Graham. Please record your vote. Thank you. It is unanimous. We are adjourned.

**ADJOURNMENT**

[Time: 02:12:30]