

Fiscal Year 2024/25 Proposed Budget Transmittal

Honorable Mayor and City Council:

I am pleased to present to you the City of Scottsdale's proposed Fiscal Year 2024/25 budget and 2025 –2029 Capital Improvement Plan (CIP) for your consideration.

This budget is a balanced and conservative budget that provides our citizens with a great return on their tax dollars by funding core services and community priorities including new fire ambulance transportation services, continuing our high service levels, and keeping our taxes and fees low. This budget was achieved through the work and efforts of department and division directors and staff to ensure funding for council and organization goals while addressing restrictions under the city's state-imposed expenditure limitation.

The total FY 2024/25 Proposed Budget is \$2.29 billion consisting of the proposed Operating Budget including contingencies and reserves of \$1.20 billion and proposed FY 2024/25 Capital Budget including contingencies of \$1.09 billion. This budget is a 10% decrease from the adopted FY 2023/24 budget of \$2.53 billion. The budget anticipates reductions in sales tax revenues from the state's elimination of the residential rental tax offset by continued consumer spending, although at a slower pace as inflation risks persist despite being down considerably. Scottsdale's economy and tourism activities continue to be resilient, however with future uncertain economic conditions and anticipated reductions in state shared revenues, we must ensure the split between on-going sustainable revenues and one-time revenues is appropriate.

"Simply Better Service for a World-Class Community" is Scottsdale's mission statement, carried out each day by the city's staff. The job market remains very competitive, and so this budget prioritizes expenditures to hire and retain top-quality staff along with benefit adjustments to help Scottsdale remain an employer of choice.

Inflation continues to challenge the Capital Improvement Program. According to the Department of Labor's Producer Price Index (Construction for Government category), material and labor costs increased nearly 20% from July 2021 to July 2022 and rose another 4% through January 2024. This

impact is felt across the city's capital program; the proposed budget prioritizes funding to meet that challenge so that high priority projects are completed for the benefit of our residents, visitors and customers.

The city's five-year CIP for FY 2024/25 through FY 2028/29 totals \$2.24 billion consisting of \$962.49 million in water and wastewater projects, \$581.62 million in transportation projects, \$264.71 million in service facility projects, \$190.70 million in community facilities projects, \$128.64 million in public safety projects and \$108.76 million in flood control and other projects.

Staffing additions and notable programs and initiatives

The proposed budget includes 60.56 new full-time equivalents (FTEs) consisting of 56 new FTEs for the Fire department to staff the new fire station 612, the new fire training facility and the new ambulance transportation program; and 4.56 new FTEs for other city services as summarized in the FY 2024/25 Operating Expenditure Summary section of the budget document.

This budget proposal continues the ongoing market and performance pay adjustment programs for staff (detailed in the Uses section below), which will help employees face persistent inflation costs, and help the city retain top-quality people. The budget includes funds to implement the recommendations of the comprehensive classification and compensation study that was approved in FY 2023/24 to ensure city positions are appropriately compensated based upon internal and external benchmark comparisons and to ensure the city is competitive in attracting and hiring talent as we continue to see challenging conditions in recruiting and hiring the best talent.

Elsewhere, the city expects to receive a Water Conservation Grant that will allow Scottsdale Water to facilitate additional water reduction and efficiency efforts, especially through the residential grass removal incentive rebate program.

Other notable investments in the community include one-time funding to purchase new American for Disabilities Act (ADA) compliant bleachers for signature events at WestWorld, up-fitting Fire Department vehicles, and training and certification for Fire Department specialty.

Details on these proposed expenditures and more are included in the Uses section below.

Sources

General Fund revenue estimates reflect a modest net increase of \$5.0 million from the adopted FY 2023/24 budget. That total projected net increase comes from several different sources and factors, most notably:

- (\$12.8 million) is the projected decrease in the city's proportionate slices of state-shared income tax, sales tax, and vehicle license fees, primarily due to the state's switch to a flat income tax rate model.
- \$0.5 million is the increase projected in general fund sales tax. The previous budget reflected the significant revenue increases the city was experiencing due to inflation, post-pandemic spending, and other factors. The FY 2024/25 forecasts expect these revenues to realign with the historical trend; estimates also reflect the elimination of the residential rental tax that goes into effect in January 2025.
- \$0.8 million from a projected net increase in electric and gas franchise and cable TV fees.
- \$1.2 million from additional primary property tax collections (\$0.7 million due to the allowable 2 percent statutory adjustment and \$0.5 million due to new growth).
- \$1.4 million from Building Permit Fees & Charges to help cover inflationary costs and department operating costs to provide an excellent customer experience.
- \$0.6 million from WestWorld Equestrian Facility Fees based on anticipated events and establishing a more appropriate cost recovery formula that is used when developing WestWorld fees; increased revenue from TPC Scottsdale and Scottsdale Stadium usage fees are reflected here as well.
- \$4.5 million in additional revenue is expected in the Fire Department from the newly created ambulance transportation service, increases associated with third-party fire protection system inspections and from special events reimbursements.
- \$0.4 million from increased Recreation Fees associated with summer recreation sessions and facility rentals, and rental revenue at the new WestWorld Sports Complex.
- \$1.0 million due to increased indirect costs for services provided by the General Fund to enterprise operations.

- \$7.4 million from a projected increase in interest earnings due to higher anticipated rates of return on investments.

Uses

The General Fund proposed operating budget for next fiscal year shows a net increase in spending of \$1.0 million from the FY 2023/24 adopted budget. Below highlights significant personnel related net increases included in the proposed operating budget.

- \$2.8 million (\$4.1 million all funds) for the citywide pay for performance program, through which employees may receive up to 3.0 percent salary increases based on performance (up to the maximum in their salary range).
- \$4.7 million for the city 2.0 percent market adjustment (\$5.9 million all funds).
- \$8.0 million for the costs anticipated in implementing a comprehensive classification and compensation study (\$10.0 million all funds)
- \$1.0 million (\$1.1 million all funds) for the vacation buyback program for eligible employees.
- \$0.4 million (\$0.6 million all funds) for parental leave.
- (\$0.4 million) for retirement cost decreases (\$0.3 million all funds).
- \$0.1 million (\$0.1 million all funds) for health and dental cost increases.

In addition, the General Fund budget includes money for these priority items:

Administrative Services:

- \$0.1 million for Information Technology contract increases.
- \$0.2 million to hire a Human Resources Supervisor and a Human Resources Analyst to address the current backlog on administrative processing for federally regulated programs and increased human resources responsibilities.
- \$0.1 million to provide additional annual training for human resource staff members.
- \$0.1 million to assist migrating software applications from on premises to the cloud.

City Court

- \$0.1 million for increased costs associated with the public defender contract.

City Treasurer

- \$0.4 million to purchase annual subscriptions and licenses associated with Phase II and III of the Enterprise Resource Planning (ERP) implementation.
- \$0.2 million to accommodate changes in the distribution rate for work order credits to accurately reflect the hours and funding for each employee that provides support to other city programs or functions.
- \$0.1 million to carryover consultant service costs for developing an indirect cost allocation plan initially approved for FY 2023/24.
- \$0.1 million to address the increased costs for software contracts.

Community & Economic Development:

- \$0.1 million carry-over of one-time funding to provide an in-depth, independent review, assessment, and benchmarking of Planning & Development Services' rates and fees that was budgeted in FY 2023/24 but will not be completed until FY 2024/25.

Community Services:

- \$0.4 million for an annual one-time contract labor request for events and custodial services at WestWorld.
- \$0.3 million of annual one-time funding for the removal and disposal of organic waste material from WestWorld.
- \$0.1 million to increase the budgeted amount for overtime associated with an increased number of events occurring at WestWorld.
- \$0.1 million of annual one-time funding for increased overtime and contracted custodial workers needed for Barrett Jackson's newly planned annual event at WestWorld.
- \$0.1 million to increase operating hours and lifeguard coverage at aquatic centers.

Public Safety - Fire:

- \$5.6 million to establish Phase I of ambulance transportation operations. This includes hiring 29 additional staff.
- \$1.4 million to equip and staff the newly constructed Fire Station 612. This includes hiring 22 additional staff.
- \$0.6 million (primarily one-time funding) for overtime to provide backfill firefighters while they attend paramedic training/certification.
- \$0.5 million to adequately staff and provide overtime for the new training facility. This includes hiring five additional staff.
- \$0.4 million of one-time funding for overtime to provide backfill while sworn staff attend specialty teams training.
- \$0.3 million of one-time funding to properly up-fitting various fire apparatus vehicles.
- \$0.1 million to provide additional access to continued education and conferences for staff members.
- \$0.1 million for increases to the Phoenix Dispatch contract.

Public Works:

- \$1.0 million carryover of one-time funding from FY 2023/24 to repaint the public art wall 'The Path Most Travelled' on the Arizona State Loop 101.
- \$0.1 million to cover Facilities Management price increases related to the expected completion of capital projects such as the new Fire Department Training Facility, Ashler Hills Park, and the McCormick-Stillman Roundhouse.

Capital Improvement Program

The proposed five-year Capital Improvement Plan (CIP) totals \$2.24 billion with the Proposed CIP budget for FY 2024/25 at \$1.09 billion including contingencies. The projects highlighted below address City Council priorities and critical capital infrastructure needs in a variety of areas and are supported by different funding sources.

Capital project costs that do not have a dedicated funding source are funded by transfers from the General Fund. The total FY 2024/25 transfers to CIP from the General Fund operating budget is

\$42.1 million, which includes a \$17.8 million General Fund loan to the Solid Waste CIP Fund to support enhancements and expansion of the transfer station facility.

Notable projects proceeding next fiscal year are highlighted below. Please note that the amounts reflected are the amounts budgeted in FY 2024/25 and are not necessarily the total cost of the project.

Bond 2019 Program (FY2024/25: \$153.4 million)

The voter approved Bond 2019 program funded 58 projects with a total of \$319 million in bond funds. The city has completed 12 projects to date and included in the FY2024/25 budget is funding for 46 other Bond 2019 projects in various stages including the expansion of the Granite Reef Senior Center, building of new swimming pools and building at Cactus Pool, repairs to lakes and irrigation at Vista Del Camino Park, building of a new fire station near Hayden road and Loop 101 and renovation of the Via Linda police station.

Enterprise Resource Planning System Phases II and III (FY 2024/25: \$1.83 million)

This project replaces the outdated enterprise resource planning system to enable the effective administration of the city's financial, purchasing, and warehouse systems. Phases II and III will address HR, Payroll, Budget and Cashiering.

Funding Source: General Fund, Transportation 0.20% Sales Tax, CDBG, Water and Sewer Rates, Aviation Funds, Fleet Rates, Self Insurance Funds

National Fire Protection Association Station (FY 2024/25: \$1.1 million)

This project will renovate and enhance six fire stations to meet applicable National Fire Protection Association 1581 standards while meeting the operational needs of the Public Safety - Fire Division.

Funding Source: General Fund

WestWorld - Pave Parking Lots C, F, G, H (FY 2024/25: \$1.9 million)

This project addresses the need to replace existing asphalt in WestWorld's parking lots C, F, G, and H.

Funding Sources: General Fund

Transfer Station Enhancements (FY 2024/25: \$10.3 million)

This project includes expanding the layout of the Solid Waste transfer station facility, including adding a stand-alone residential household hazardous materials facility, green waste disposal facility, and electronics storage building to be used as a drop off location. This project will also double area of the current tipping floor loading space to service new customers such as city residents and private haulers.

Funding Sources: General Fund, Sanitation Rates

Arizona State Land Department Land Purchase (FY 2024/25: \$17.8 million)

Purchase a 17.46-acre parcel of land at the Arizona State Land Department auction for municipal uses including the location of the future green waste and household hazardous waste facilities that are planned as part of the transfer station expansion project, and the relocation of Transportation and Streets and Solid Waste storage for traffic signal and streetlight poles, associated equipment, and supply of residential and commercial containers to the west of the transfer station. This material is currently stored on the site of a future drainage channel that will be built as part of the Crossroads East drainage improvements.

Funding Source: Transportation Sales Tax

Gainey Ranch Treatment Plant (FY 2024/25: \$1.5 million)

This project is essential to enable more recycled water to be used in central Scottsdale for turf irrigation, thereby reducing drinking water system demands.

Funding Source: Water Reclamation Rates

Water Campus Electrical Substations Replacement (FY 2024/25: \$3.0 million)

Replace seven major electrical substation feeds to the reclamation plant. The electrical substations are essential to powering the Water Campus treatment systems and are over 25 years old. These substation feeds need replacement before the systems start to fail.

Funding Source: Water Reclamation Rates

Pavement Overlay Program (FY 2024/25: \$22.3 million) - Funding Added for FY 2023/24

The Pavement Overlay Program is an ongoing project that addresses street pavement and public alley overlays and all associated improvements, which may include milling and surface treatments on the existing roadway, traffic control, new pavement thickness, water valve and manhole lowering and raising, signal detection upgrades from loops to video, Americans with Disabilities Act (ADA) upgrades for concrete ramps and signal push buttons, concrete repairs to curbs and sidewalks, new striping plans, new striping and new signage for bike lanes and sidewalks.

Funding Source: Transportation Sales Tax and Highway User Revenue Fund

Reclamation Plant Expansion (FY 2024/25: \$46.0 million)

This project will address a Water Campus Reclamation Plant expansion to increase its capacity by five million gallons a day.

Funding Source: MPC Sewer Bonds

Water Distribution System Improvements (FY 2024/25: \$46.3 million)

The project includes replacing mains, pressure regulating valves, meters, and other valves, as well as design, easement acquisition, construction of new water mains at various locations throughout the distribution system to improve service, reducing operating costs and meeting fire flow requirements as set forth by city ordinance. This project will also include inspection, design, repair and replacement of water storage reservoirs and pump stations as driven by findings from the Asset Management Program.

Funding Source: Water Rates

Conclusion

I would like to thank the City Council for their guidance and support throughout the development of this proposed budget. And a special thanks to the Assistant City Managers, City Treasurer's Office, budget department staff, budget liaisons and all other staff who contributed to this budgeting process. This budget proposal supports the municipal organization and the community, and reflects the impacts of many factors that influence city operations and priorities on an annual

basis. Staff looks forward to discussing the contents of this proposal with City Council and the community over the coming months.

Sincerely,

Jim Thompson

Jim Thompson, City Manager