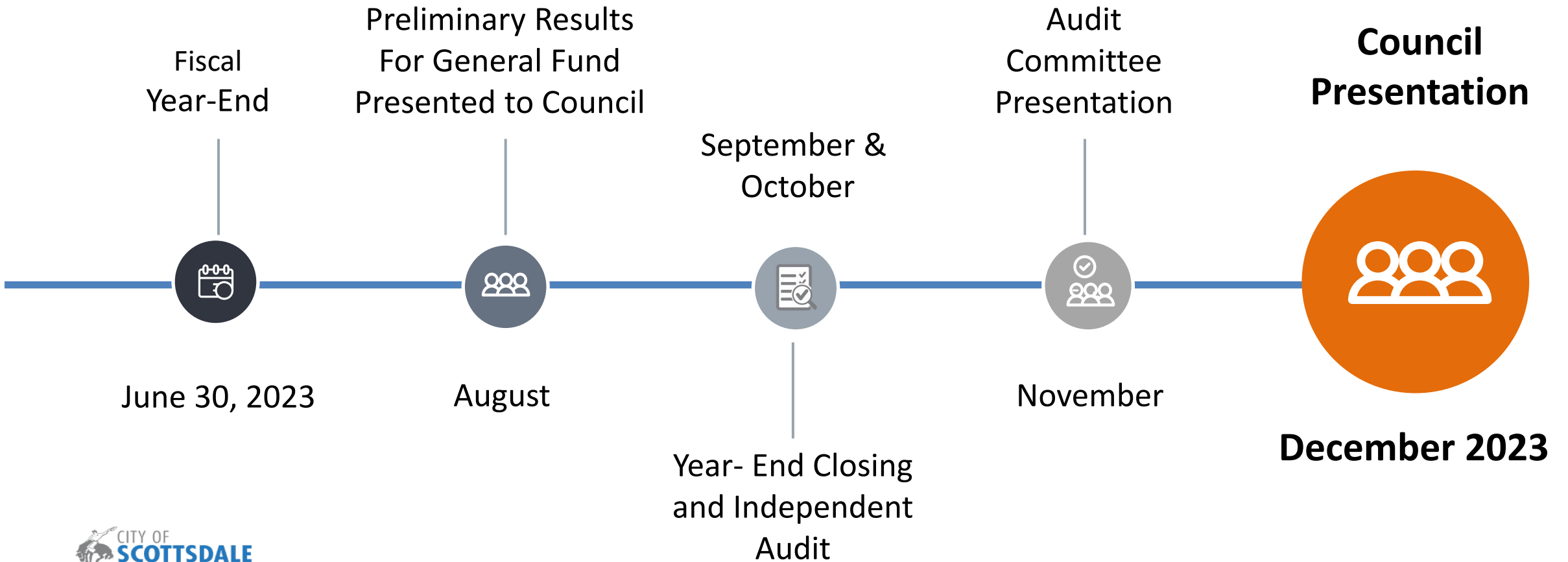


# *Fiscal Year 2022/23* Year-End Financial Report

*City Council Meeting, December 5, 2023*



# Year-End Financial Report Timeline

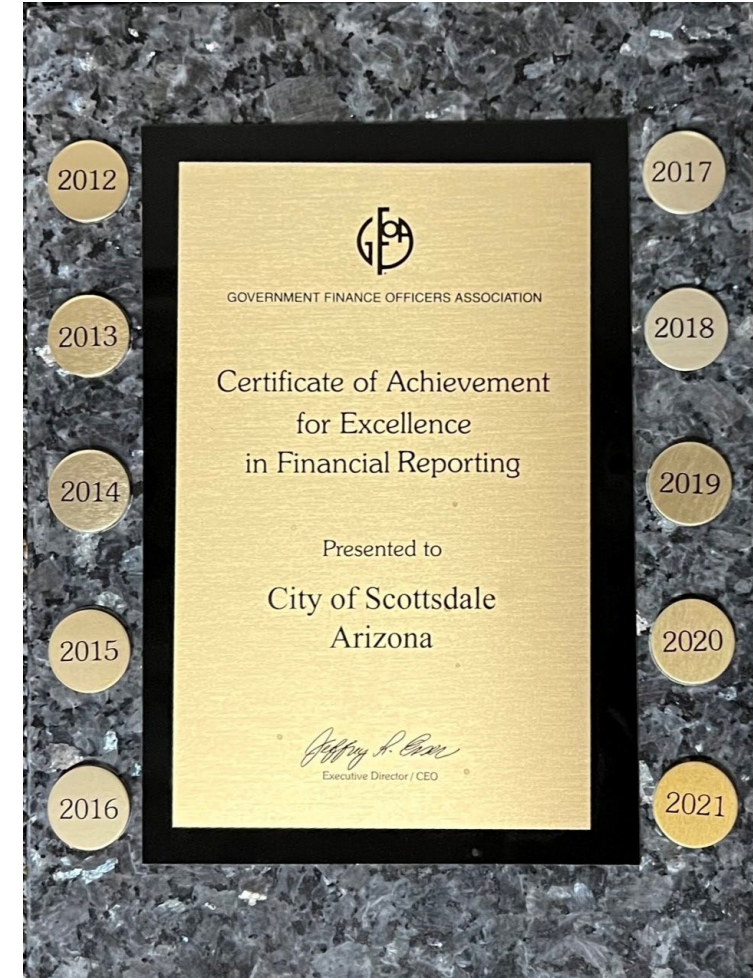


# FY2023 – 51<sup>st</sup> Consecutive Year for GFOA Excellence in Financial Reporting Award

**Thank you to our Accounting Team!**

Anna Henthorn – Accounting Director  
Sarah Delgado – Accounting Manager

Hank Dabibi – Senior Accountant  
Aleesa Coleman – Senior Accountant



# Presentation Outline

- Part 1 - Highlights from FY2022/23 Audited Financial Report
- Part 2 - State Imposed Expenditure Limitation



# Highlights from FY2022/23 Audited Financial Report

# Balance Sheet Improved in FY2022/23

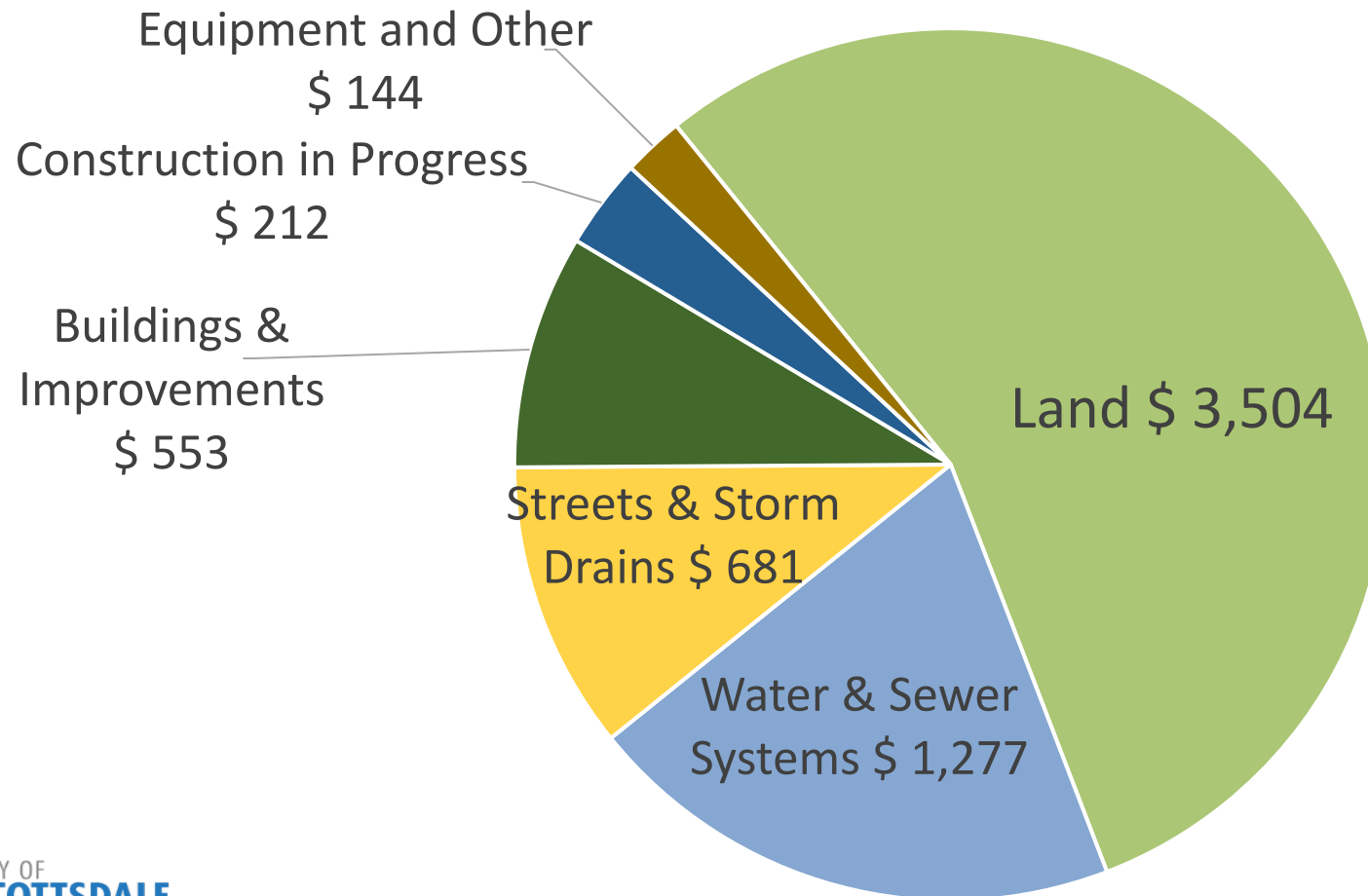
## Assets Increased over Liabilities

(Amounts in Millions)	Prior Year					
	6/30/22	6/30/23	Change			
Cash & Investments	\$ 823.1	\$ 999.8	\$ 176.7	21%		
Capital Assets, net of depreciation	6,207.1	6,370.7	163.6	3%		
Other Assets	582.9	516.9	(66.0)	-11%		
<b>TOTAL ASSETS</b>	<b>\$ 7,613.1</b>	<b>\$ 7,887.4</b>	<b>\$ 274.3</b>	<b>4%</b>		
Net Pension Liabilities	309.6	362.5	52.9	17%		
Bonds, Loans and Other Payables	922.2	899.2	(23.0)	-2%		
Other Liabilities	301.6	299.8	(1.8)	-1%		
<b>TOTAL LIABILITIES</b>	<b>\$ 1,533.4</b>	<b>\$ 1,561.5</b>	<b>\$ 28.1</b>	<b>2%</b>		

# Net Book Value of Capital Assets at 6/30/23

## \$6,370.7 Million

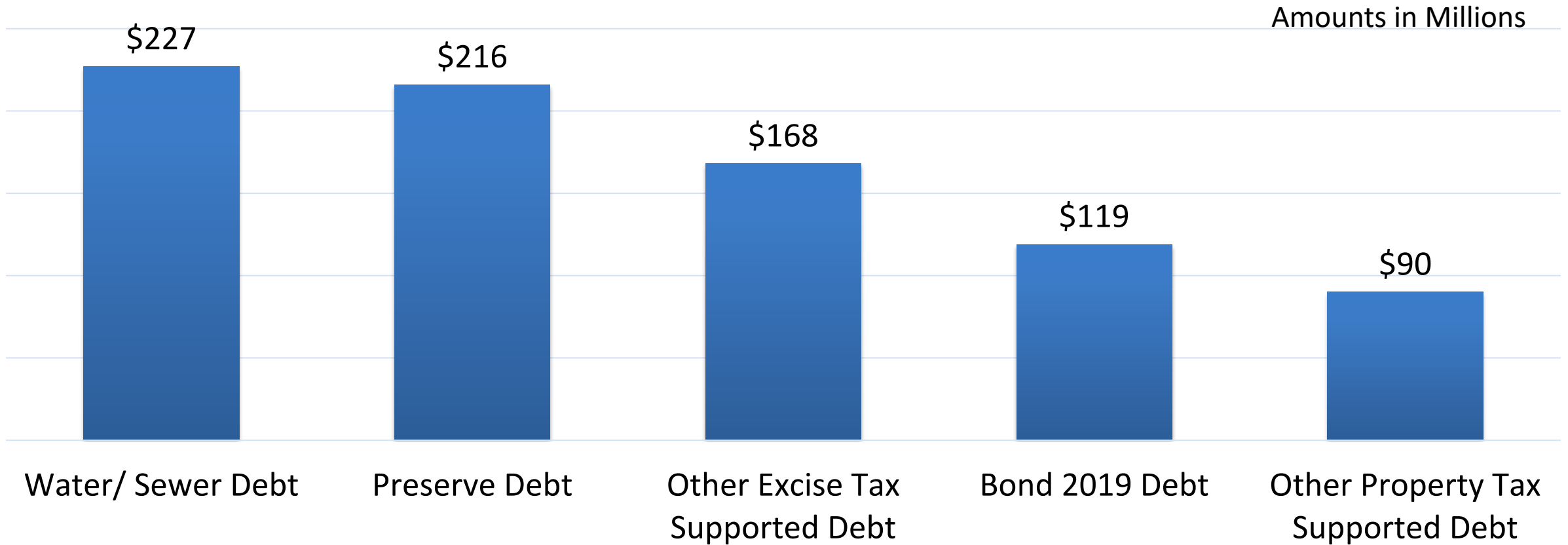
Amounts in Millions



Land includes \$962M book value for Preserve Land and improvements

# Debt Outstanding at 6/30/23

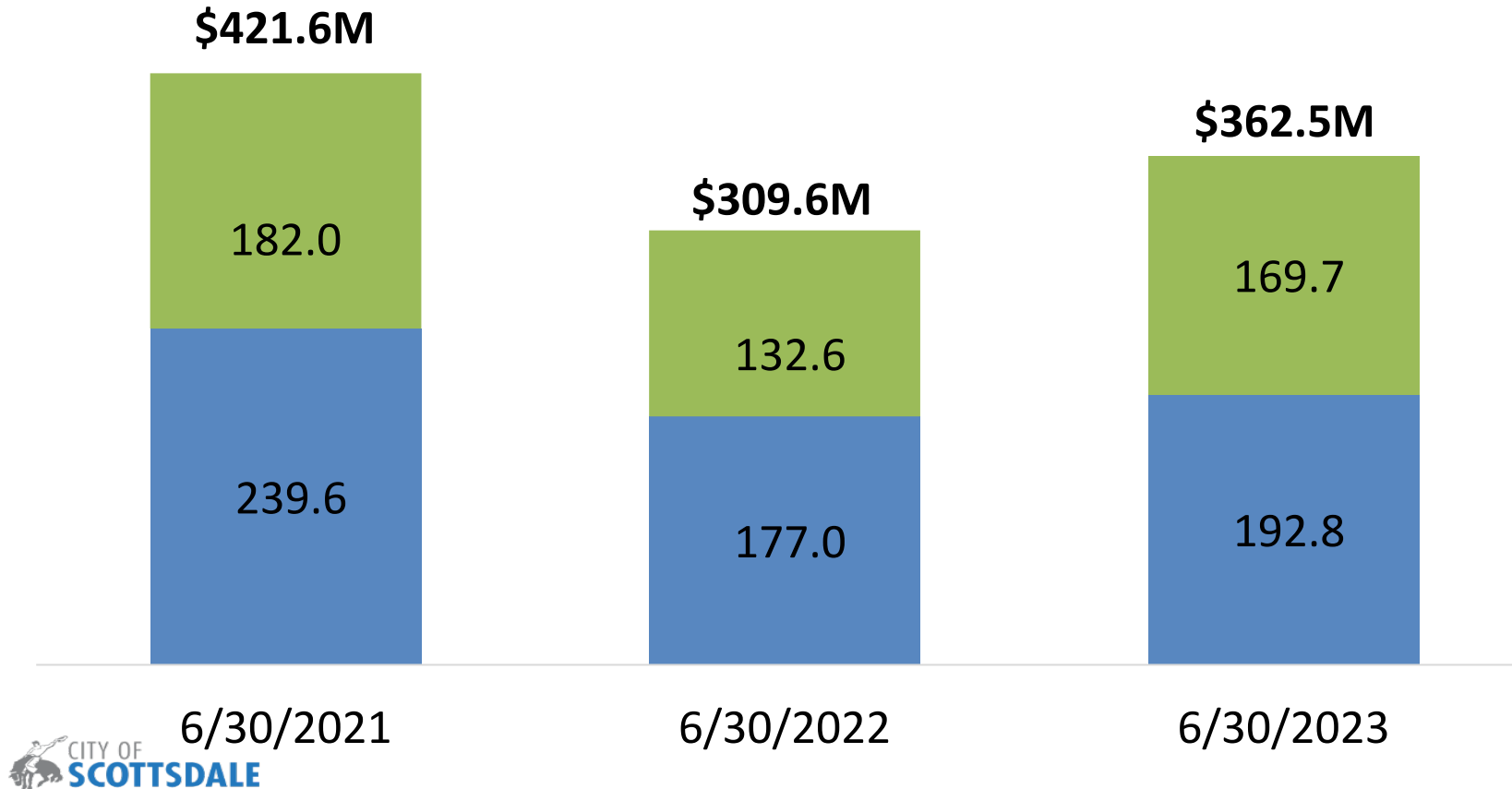
## \$820.2 Million





# Net Pension Liabilities at 6/30/23

■ ASRS - Arizona State Retirement System   ■ PSPRS - Public Safety Personnel Retirement System



- 6/30/23 Net Pension Liabilities increased mainly due to net investment and actuarial losses
- For PSPRS, net losses offset by \$40M paydown of pension liability in FY2022

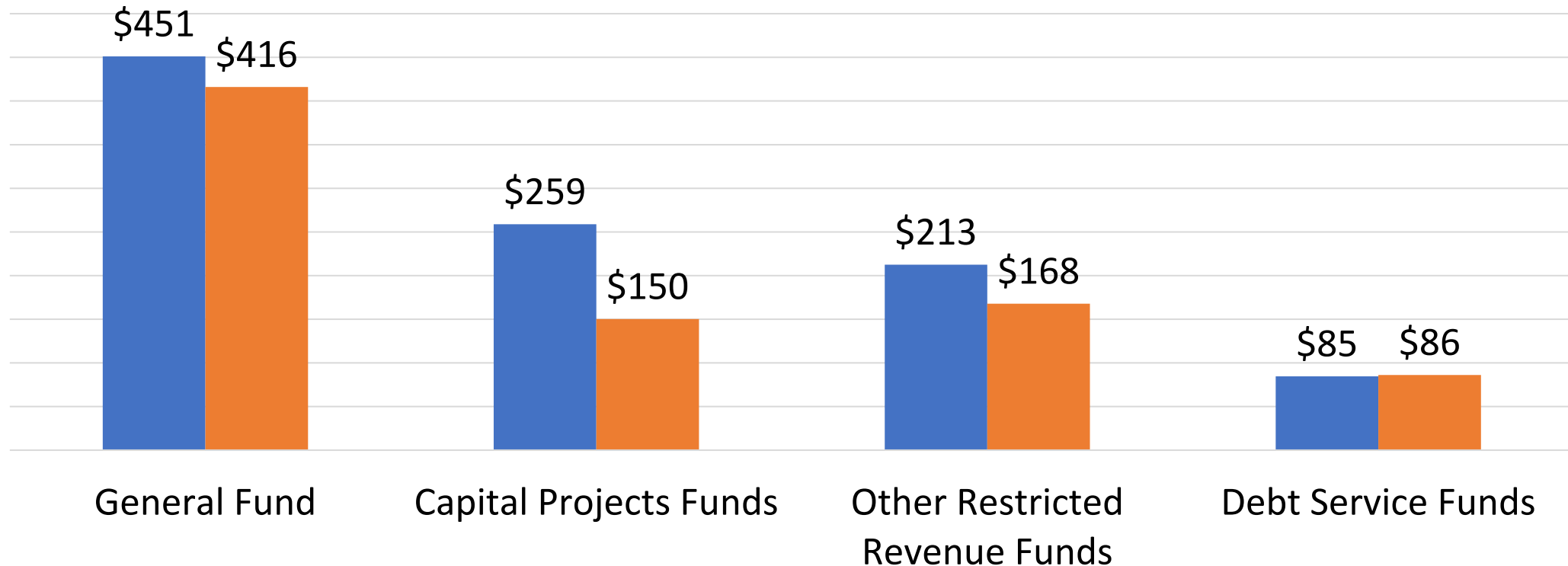
# Total Revenues, Expenditures and Other Sources and Uses General Fund and Other Governmental Funds

**FY2022/23**

Amounts in Millions

■ Total Revenues and Other Sources

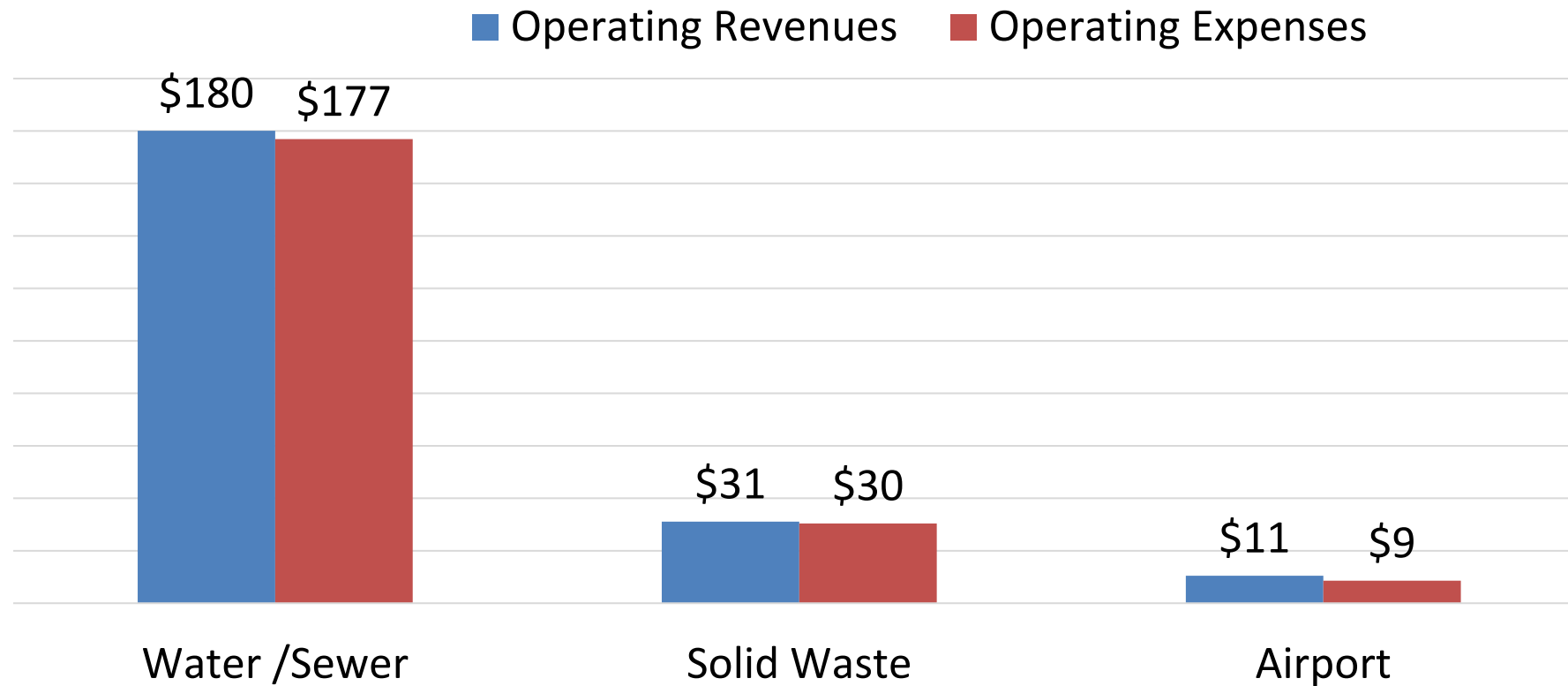
■ Total Expenditures and Other Uses



# Operating Revenues and Expenses Enterprise Funds

**FY2022/23**

Amounts in Millions



# We Maintained Our Policy Reserves in FY2022/23

	At 6/30/23
General Fund Stabilization and Emergency Reserves	\$80.6M
Transportation Fund Operating Reserves	\$2.5M
Enterprise Funds Operating Reserves	\$34.5M
Water and Wastewater Asset Reserves	\$46.8M
Debt Service Reserves	\$12.3M
Self-Insurance Reserves	\$23.5M

# We Maintained Our AAA Bond Rating in FY2022/23

- ✓ Economic and revenue growth
- ✓ Strong balance sheet – cash liquidity, reserves
- ✓ Manageable debt and long-term liabilities
- ✓ Strong financial management policies and practices



# State Imposed Expenditure Limitation

	<b>Preliminary <u>FY2022/23</u></b>	
State Imposed Expenditure Limitation	\$542.5 M	
City's Expenditures Subject to Limitation	<u>\$512.5 M</u>	94%
Remaining Capacity	\$ 30.0 M	

# What Expenditures are Subject to the State Imposed Limitation

## **The Following Items are Excluded from the State Imposed Limitation:**

- Capital Improvements - infrastructure expenditures
- Expenditures funded by Grants and other Non-Local Revenues
- Debt service payments
- Highway Gas Tax funded expenditures
- Other misc. expenditures specifically exempt under state law

# State Imposed Expenditure Limitation and Permanent Base Adjustment



# Outline

1. What is the State Imposed Expenditure Limitation
2. What is a Permanent Base Adjustment
3. Why is a Permanent Base Adjustment needed

# What is the State Imposed Expenditure Limitation



Imposed by State Constitution in 1979/80 to Limit Municipal Spending of Local Revenues



City's Operating Expenditures (subject to Limitation) Cannot Exceed State Imposed Limitation Regardless of Revenues Collected



**Penalty for Exceeding Limitation include State withholding State Shared Income Taxes from the City**

# How is the State Imposed Expenditure Limitation Calculated



Based on State Formula for Services and Programs In Place in 1979/80  
**Limitation is Adjusted Annually By State for Population and Inflation Changes**



**Limitation is Not Adjusted for Increases in Services, Programs and Revenues that are Not Accounted for in Population and Inflation Adjustment**

State Provides a Process to Reset the Expenditure Limitation Base for Such Increases (called a **Permanent Base Adjustment**, requires voter approval)

All of Our Peer  
cities have had one  
or more Permanent  
Base Adjustments  
Since 1979/80

Scottsdale has one  
of the Lowest  
Limitation among  
Peer Cities

*\* Expenditure Limitation based on voter  
approved Home Rule Alternative*

City	FY23/24 Expenditure Limitation	Limitation Per Capita
Phoenix*	\$11,623,359,000	\$7,015
Mesa*	\$2,560,000,000	\$4,957
Chandler *	\$1,656,274,385	\$5,855
Surprise	\$1,478,748,668	\$9,517
Peoria	\$1,232,516,693	\$6,180
Glendale	\$730,770,870	\$2,877
Maricopa	\$644,026,349	\$9,948
Queen Creek	\$631,421,266	\$8,899
Tempe	\$624,338,073	\$3,332
Goodyear	\$622,516,993	\$5,868
Buckeye	\$595,412,188	\$5,600
<b>Scottsdale</b>	<b>\$586,300,525</b>	<b>\$2,393</b>
Avondale	\$567,836,304	\$6,150
Gilbert	\$544,824,047	\$1,963

# Scottsdale's had 2 Voter Approved Permanent Base Adjustments

## **1998 Prop 412**

### **Permanent Base Adjustment for:**

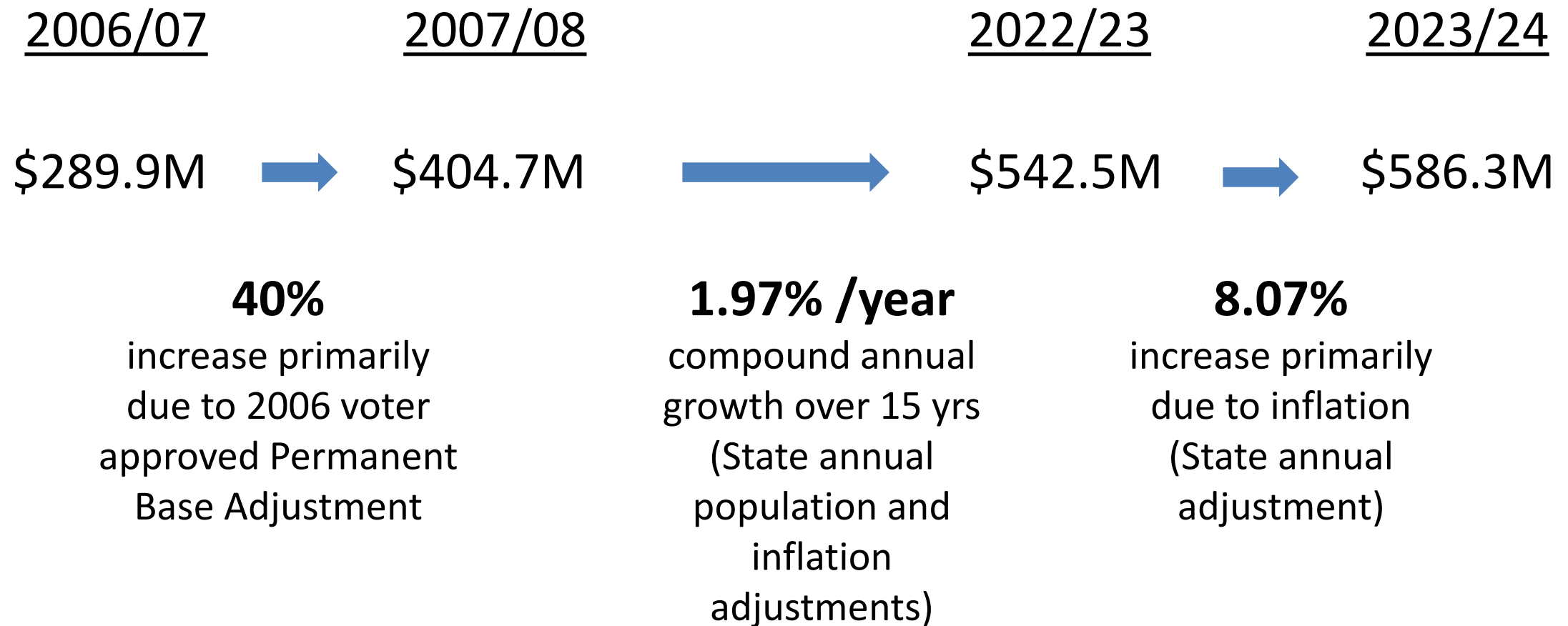
- Increase in public safety service levels
- Added transit and Dial-A-Ride services
- New refuse recycling program
- New operating costs of water treatment facility
- New neighborhood services
- New environmental protection

## **2006 Prop 402**

### **Permanent Base Adjustment for:**

- 0.1% public safety tax approved by voters in 2004
- New Fire Department in 2005
- New operating costs of Bond 2000 projects
- New operating costs of technology projects

# Scottsdale's State Imposed Expenditure Limitation 15+ years Since 2006 Permanent Base Adjustment



# Significant Increase in Visitors Since 2006 Not Accounted for in Population and Inflation Adjustment

Scottsdale	2006 /07	Most Recent Data	Change
Population	220,907	244,959	11%
Total Visitors *	No comparable data	<b>8.3 million</b> (2014) <b>10.8 million</b> (2022)	<b>30%</b> (2014 to 2022)
WestWorld Attendance	636,500	<b>857,775</b> (2023)	<b>35%</b> (2006 to 2023)
WM Phoenix Open Attendance	536,767	<b>719,179</b> (2018)	<b>34%</b> (2006 to 2018)

\* Source: Compass Longwoods Visitor Profile. Total Visitors includes overnight and day visitors (defined as day trip of over 50 miles that are not routine and do not include an overnight stay)

# Significant New Facilities Operating Costs Since 2006 Not Accounted for in Population and Inflation Adjustment

- 2010 - New Fire stations at Cactus Acres and Eldorado Park
- 2011 – New Soleri Bridge and new McCormick Stillman Railroad Museum
- 2011 – CAP water treatment facility expansion
- 2012 – WestWorld Equidome expansion
- 2013 - Advanced Water Treatment Plant expansion and new centralized Water Operational Control Center
- 2013 – Full Emergency Operations Center launched
- 2014 - New Tony Nelssen Equestrian Center, new Police special investigations building
- 2015 - New Museum of the West
- 2018 - New Thomas groundwater treatment facility
- 2018 - New Aviation center and new hangers
- 2018 - New Mustang transit center and expanded trolley and bus services
- 2021 - Regional wastewater facility and 91<sup>st</sup> treatment plant expansions
- 2021 – New fire stations 603 and 616
- 2023 – New Bell road multi use sports fields and Sports Complex, new Civic Center plaza
- 2023 - Police real time crime center expansion



# Highlights of New Facilities and Other Infrastructure

Examples	2006 /07	2022/23	Change
Police and Fire stations	16	19	19%
City & Community facilities	2.22M sq ft	3.04M sq ft	37%
Parks maintained	937 acres	982 acres	5%
Tennis/Pickleball courts	51	72	41%
Trails	40 miles	230 miles	475%
Water mains	1,997 miles	2,152 miles	8%
Fire hydrants	10,147	11,622	15%
Sewer lines	1,350 miles	1,524 miles	13%
Storm drains	153 miles	347 miles	126%

Source: City of Scottsdale Annual Comprehensive Financial Report

# Examples of Other Operating Cost Increases Since 2006 Not Accounted for in Population and Inflation Adjustments

Examples of Costs	2006 /07	2006/07 (in 2023 dollars)	2022/23	Change
No. of Full Time Equivalents (FTEs)	2,708.2		<b>2,638.9</b>	-3%
PSPRS pension costs	\$5.3M	\$8.0M	<b>\$27.4M</b>	243%
PSPRS Liability paydown			<b>\$10.0M</b>	100%
Water purchase costs	\$6.0M	\$9.0M	<b>\$18.3M</b>	103%
Water purchase costs per mgd*	\$197/mgd	\$296/mgd	<b>\$638/mgd</b>	116%
Tourism fund expenditures	\$7.0M	\$10.6M	<b>\$35.1M</b>	231%

\*mgd – million gallons delivered

# Examples of New Revenues Since 2006 Not Accounted for in Population and Inflation Adjustments



2010 Bed Tax Increase  
from 3% to 5%

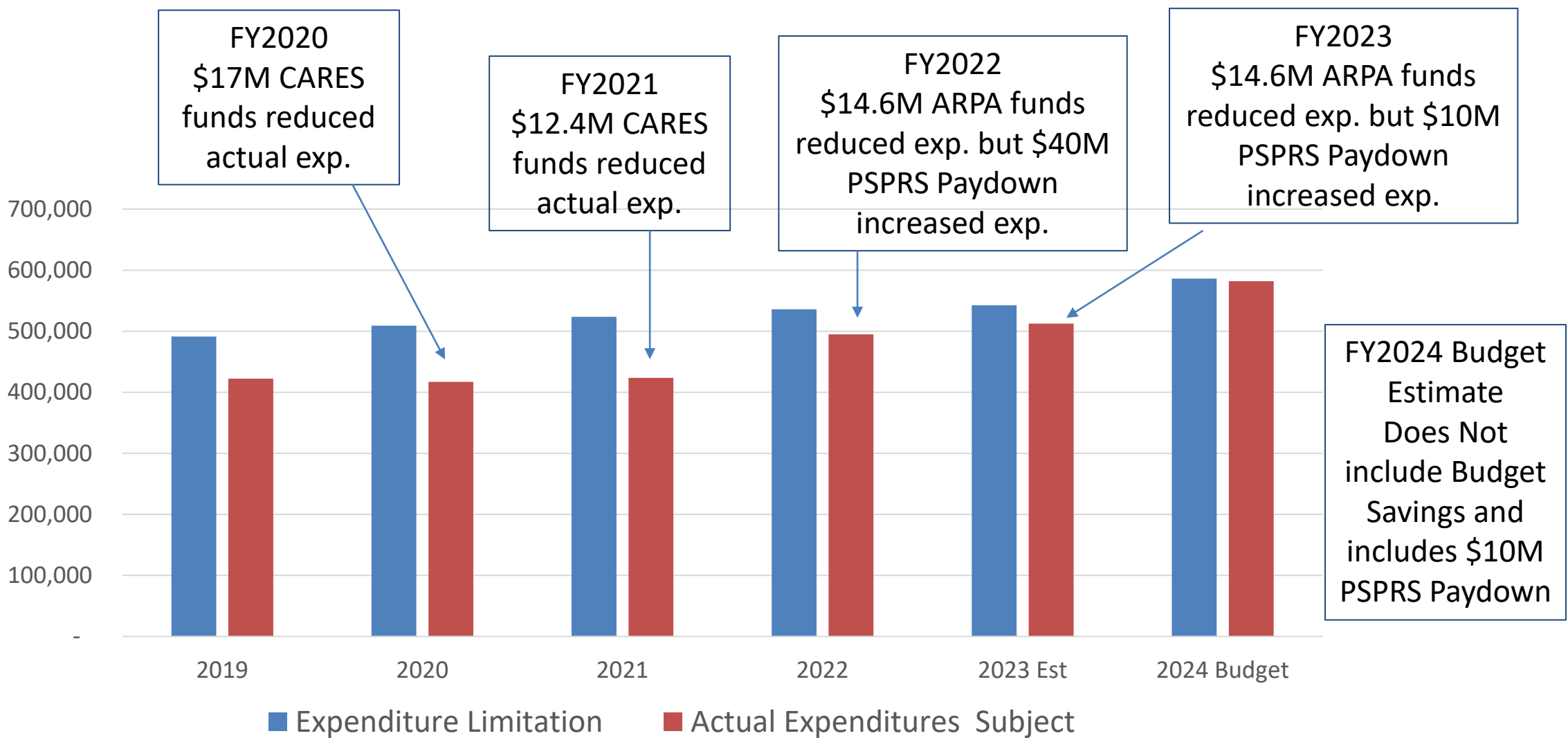


State Imposed New Taxes  
(e.g. 2018 tax on remote internet  
sellers and marketplace  
facilitators)



Council Approved New Fees

# Expenditure Limitation from FY2019 to FY2024



# Expenditure Limitation and City's Salary Adjustments from FY2019 to FY2024

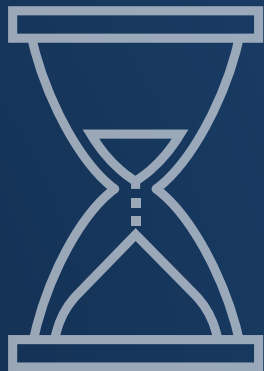
	State Adjustment		Expenditure	
	Population	Inflation	Limitation	% Increase
FY2019	1.92%	1.8%	491,373,243	3.7%
FY2020	1.19%	-2.7%	509,102,292	3.6%
FY2021	1.03%	1.8%	523,714,081	2.9%
FY2022	1.19%	1.1%	536,010,625	2.3%
FY2023	-2.94%	4.3%	542,507,696	1.2%
FY2024	0.59%	7.4%	586,300,525	8.1%

City		
Market	Merit	
2.5%	up to 4%	
2%	up to 3%	
2%	up to 3%	
5%	up to 3%	
2%	up to 5%	

effective Dec

police 5% step program

# Time to Consider Another Permanent Base Adjustment



1. 15+ years since last Permanent Base Adjustment
2. Significant increases in visitors and operating cost increases above annual state adjustments
3. City is at 94% of its Expenditure Limitation
4. Scottsdale has one of the lowest Expenditure Limitations among peer cities, yet provides a higher level of service and has the highest volume of tourists

# A Permanent Base Adjustment Is Not a Tax Increase

## Does Not allow City to Increase Tax Rates

- Does Not allow City to increase Sales Tax Rate
- Does Not allow City to levy an additional Property Tax Rate

# A Permanent Base Adjustment Is Not a Budget Override

## Does Not allow City to Exceed Its Budget

- Is not a temporary or permanent budget override
- Does Not allow City to spend more than its legally adopted budget



# A Permanent Base Adjustment Is Not an Automatic Expenditure or Budget Increase

## Does Not allow City to Automatically Increase its Expenditures or Budget

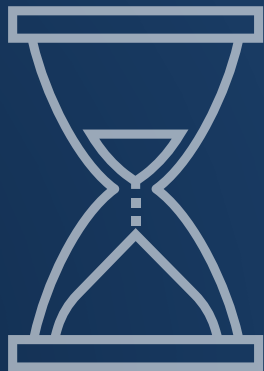
- City expenditures cannot exceed revenue sources. City must still spend within its means.
- Council must adopt a Balanced Budget. City required by law to spend within its Balanced Budget.

# Not Increasing State Imposed Limitation Will Have Consequences

**City is at 94% of Expenditure Limitation for FY2022/23**

- **Cannot Spend Revenues Collected to Provide Services** - City cannot spend more than Expenditure Limitation regardless of how much revenues we collect
- **Service Cuts and Interruptions** – State Imposed Limitation should be at a level that allows city to cover annual cost increases with a balanced budget, otherwise budget reductions will have to be made to stay within Limitation even when revenues are available
- **Delay City's Financial Goals** – City will not be able to meet certain financial goals –e.g. cannot continue to pay down PSPRS liability

# Staff Recommends Council Consider Another Permanent Base Adjustment



1. 15+ years since last Permanent Base Adjustment.
2. Significant increases in visitors and operating cost increases above annual state adjustments
3. City is at 94% of its Expenditure Limitation
4. Scottsdale has one of the lowest Expenditure Limitations among peer cities
5. A Permanent Base Adjustment is needed to reset Expenditure Limitation to provide capacity for city to continue services and meet future needs of citizens and visitors

Scottsdale's  
Population hasn't  
been growing as  
fast as other cities  
but we provide a  
higher level of  
service and have  
the highest tourism  
activities

City	FY23/24 Expenditure Limitation	Limitation Per Capita
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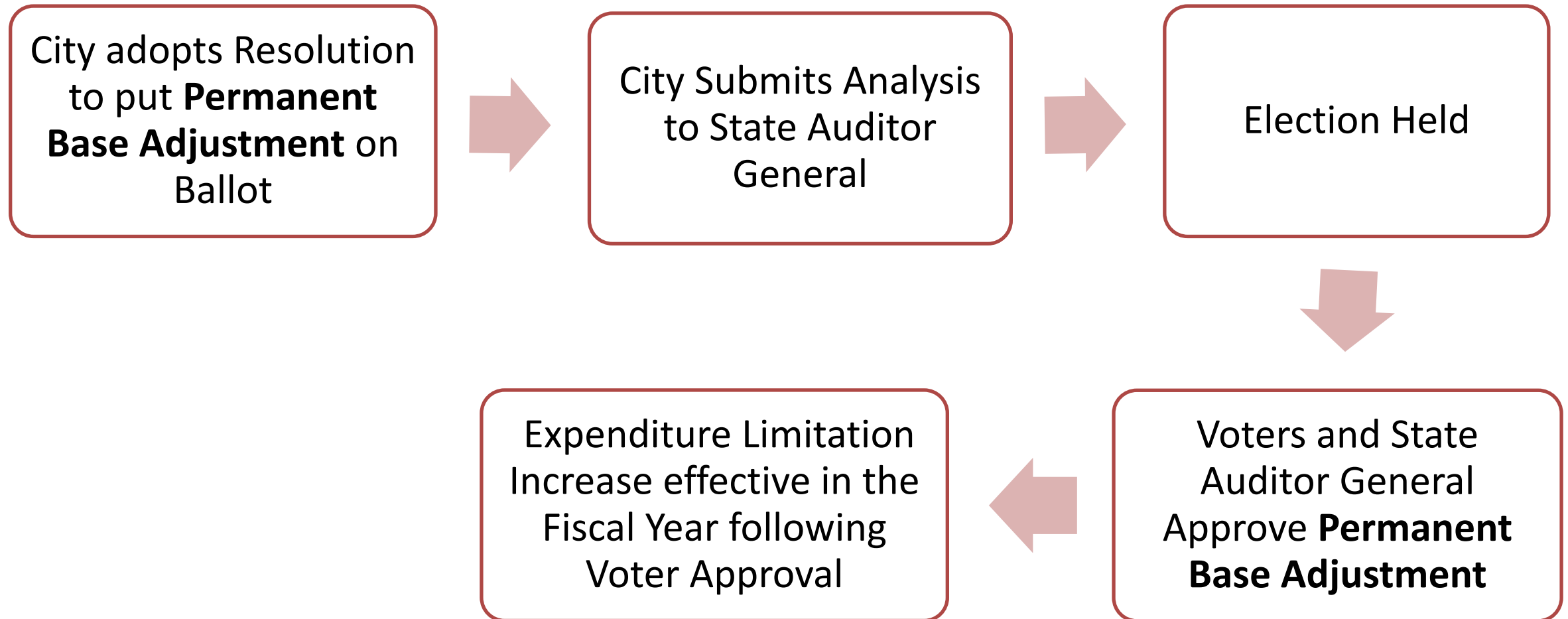
*\* Expenditure Limitation based on voter  
approved Home Rule Alternative*

# Important Facts About a Permanent Base Adjustment



- A Permanent Base Adjustment resets State Imposed Expenditure Limitation to allow city to continue high level of services to citizens
- State Limitation should be at a level that provides capacity for city to meet future needs for next 10 years
- **Is Not a Tax Increase**
- **Does Not Change City's Sales or Property Tax Rates**
- **Is Not a Budget Override**
- **Is Not an Automatic Expenditure or Budget Increase**

# State Process to Increase Expenditure Limitation Base



# Questions ?

