

FY 2025/26

Proposed Budget

Transmittal Letter



Fiscal Year 2025/26 Proposed Budget Transmittal Letter

Honorable Mayor, City Council, and Budget Review Commission

I am pleased to present you the City of Scottsdale's Fiscal Year Proposed 2025/26 Budget and five year Capital Improvement Plan for FY 2025/26 through FY2029/30 for your consideration.

The Proposed Budget is a balanced budget that provides Scottsdale citizens a significant return on their tax dollars. The budget bolsters core city services and addresses significant community priorities. This budget was realized through the work and efforts of department and division directors and staff to provide funding for council and organization goals, while still maintaining taxes and fees low for citizens and continuing our high levels of existing service for our customers.

The total Proposed FY2025/26 Budget is \$2.208 billion consisting of the proposed Operating Budget of \$1.229 billion, including contingencies, and proposed Capital Budget of \$978.5 million, including contingencies. The Proposed Budget shows a 3.8% decrease from the Adopted FY 2024/25 budget of \$2.295 billion. It anticipates that there will be a reduction in sales tax revenues in FY 2025/26 when compared to the current FY 2024/25 forecast, due to the continued implementation of the State's elimination of the residential rental tax and lower consumer spending with uncertain economic conditions. The Proposed Budget projects that sales tax revenues will return to modest levels of growth in FY 2026/27 and into future years.

The city's five-year CIP for FY 2025/26 through FY 2029/30 totals \$2.24 billion consisting of \$995.5 million in water and wastewater projects, \$540.5 million in transportation projects, \$213.9 million in service facility projects, \$208.2 million in community facilities projects, \$111.8 million in public safety projects and \$167.9 million in flood control and other projects.

Staffing additions and notable programs and initiatives

The proposed budget includes 98.16 new full-time equivalents (FTEs) consisting of the following:

- 44.00 new FTEs for the Fire Department to staff Fire Station 608, phase II of the ambulance service program, and fire mitigation and rescue services
- 22.00 new FTEs for the Police Department for supportive, investigative and uniformed services, and to staff the Police Ranger program
- 9.01 new FTEs for the Parks Recreation and Preserve Department
- 7.00 new FTEs for the Enterprise Operations Department
- 7.25 new FTEs for the Transportation and Infrastructure Department
- 8.90 FTE for all other city departments

More detail regarding these FTE positions can be found in the FY 2025/26 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 General Fund Expenditures section below), which will help employees face persistent inflation costs, and help the city retain top-quality talent amidst wage pressures in the region. Additionally, the Proposed FY 2025/26 budget includes additional funding for salary adjustments to bring certain positions in line with the market.

The proposed budget includes \$25.2 million of new revenues from the 0.15% Park and Preserve sales tax approved by voters in November 2024 and effective July 1, 2025. These revenues are allocated according to Council adopted Ordinance No. 4633 for park improvements and maintenance, Preserve maintenance, Police park ranger program and Fire fuel mitigation and technical rescue. The 0.15% Park and Preserve sales tax was approved by voters to replace

the expiring 0.20% Preserve sales tax used for the acquisition of land in the Preserve, which will result in the city's local sales tax rate being lowered from 1.75% to 1.70% effective July 1, 2025.

General Fund Revenue Sources

General Fund revenue (excluding transfers) estimates reflect a modest net increase of \$4.3 million from the adopted FY 2024/25 budget. That total projected net increase comes from several different sources and factors, most notably:

- **Local Sales Taxes** – The Proposed Budget projects an increase of \$5.2 million from the FY2024/25 adopted budget of \$183.0 million, including the public safety 0.1% sales tax. The current FY 2024/25 forecast projects that \$196.0 million will be received by the end of FY 2024/25. The FY 2025/26 Proposed Budget expects a \$7.8 million decrease from the forecast to a total of \$188.2 million; these estimates reflect anticipated slower growth and also reflect the continued impact of the residential rental tax elimination that went into effect in January 2025.
- **State-Shared Taxes and Vehicle Licensing Fees** – The Proposed Budget projects a decrease of (\$4.0 million) due primarily to the state's switch to a flat income tax rate model.
- **Primary Property Tax Collections** – The Proposed Budget projects an increase of \$1.6 (\$0.8 million due to the allowable 2% statutory adjustment and \$0.4 million due to new growth).
- **Building Permit Fees** – The Proposed Budget projects an increase of \$2.0 million from Building Permit Fees & Charges to help cover inflationary costs and department operating costs to provide an excellent customer experience.
- **Fire Department Revenues** – The Proposed Budget projects an increase of \$3.6 million in additional revenue from the recently created ambulance transportation service, increases associated with third-party fire protection system inspections and from special events reimbursements.
- **Interest Earnings** - The Proposed Budget projects a decrease of (\$4.5 million) due to a reduction in fund balance and a changing interest rate environment.

General Fund Expenditures

The General Fund proposed operating budget (excluding transfers) for next fiscal year shows a net increase in spending of \$89.5 million from the FY 2024/25 adopted budget which includes a one-time \$50 million payment to the Police Public Safety Retirement Plan System and \$5.3 million for salary adjustments to align to the market. Noteworthy General Fund expenditure changes in the Proposed 2025/26 Budget are highlighted below; additional detail about all changes can be found in the Department Operating sections.

Police Department

- \$50.0 million for a one-time PSPRS pension liability paydown.
- \$2.8 million to move operating capital funding from the CIP to the operating budget.
- \$0.9 million for the addition of 11 patrol vehicles and relevant upfitting costs (\$1.2 million all funds for 15 patrol vehicles)
- \$0.8 million for the addition of two Drone as First Responder operations.
- \$0.4 million for new software programs.
- \$0.4 million for providing municipal security at locations such as One Civic Center, City Hall, and Libraries.

Fire Department

- \$4.5 million for Phase II of the ambulance service including 25 FTE, medical exams, training, billing and dispatch contracts, equipment, and supplies.

- \$1.5 million to re-staff a fire truck for Station 608 to include 15 FTE, medical exams, training, uniforms, and supplies.
- \$1.4 million to move operating capital funding from the CIP to the operating budget.
- \$0.5 million for the warehouse lease agreement and operating costs.
- \$0.4 million of one-time funding to properly upfit various fire apparatus vehicles.
- \$0.4 million of one-time funding to replace 250 ballistic vest panel inserts.
- \$0.4 million to support the new training facility.

Communications Department

- 0.2 million to carryover consultant services costs for developing the American Disability Act transition plan Phase I approved for FY 2024/25.

Other City Departments

- **Enterprise Operations Department** - \$0.4 million to fund a new strategic plan for Scottsdale Arts and an expected increase in the financial participation agreement with Scottsdale Arts.
- **Facilities Management Department** - \$0.7 million for inflationary cost increases for utilities.
- **Planning and Development Services Department** - \$0.6 million to cover subscription costs for planning/fire permitting, inspections, and code enforcement software.
- **Transportation and Infrastructure Department** - \$3.3 million to keep Capital Projects Management in the operating budget; and \$0.3 million for new project management software intended to improve efficiency and enhance data accuracy across capital projects.
- **Human Resources Department** - \$0.5 million to add 3.0 FTEs, which include a Human Resources Assistant Director, a Human Resources Manager to supervise employee training, and a Human Resources Supervisor oversee employee benefits.
- **Information Technology Department** - 0.8 million to address increased cost in software and licensing subscriptions; \$0.7 million to fund an artificial intelligence initiative to enhance efficiency and improve service delivery; and \$0.4 million to fund additional cloud services.

Capital Improvement Program

The proposed five-year Capital Improvement Plan (CIP) totals \$2.24 billion with the Proposed CIP budget for FY 2025/26 at \$978.5 million 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 2025/26 transfers to CIP from the General Fund operating budget is \$48.8 million.

Notable projects for FY 2025/26 are highlighted below. Please note that the amounts shown are the amounts budgeted for FY 2025/26 and may not reflect the total cost of the project.

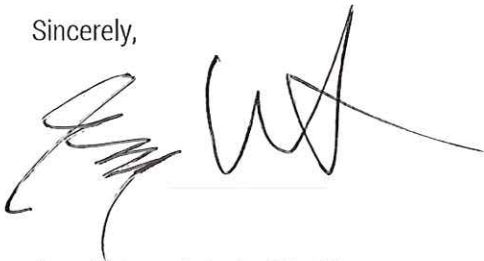
- **Bond 2019 Program (FY2025/26: \$136.2million)** - The voter approved Bond 2019 program funded 58 projects with a total of \$319 million in bond funds. The city has completed 18 projects to date and included in the FY2025/26 budget is funding for 41 Bond 2019 projects in various stages including the expansion of the Granite Reef Senior Center, repairs to lakes and irrigation at Vista Del Camino Park, and adding a Dog Park to Thompson Peak Park.
- **Pavement Overlay Program (FY 2025/26: \$43.0 million)** - This program is for ongoing street pavement, public alley overlays, and all other associated improvements.
(Funding Source: General Fund, Transportation 0.20% Sales Tax, HURF)

- **Old Town Concrete Improvement (FY 2025/26: \$2.0 million)** - This project will design and construct pedestrian improvements in the Old Town area.
(Funding Source: General Fund)
- **Build New Parking Structure in the NE Quadrant (FY 2025/26: \$14.6 million)** - This project will design and construct a parking garage located in the northeast quadrant of Old Town Scottsdale, both north and south of E 6th Ave, east of N Wells Fargo Avenue and west of N Civic Center Plaza. The capacity of the new garage will be approximately 272 spaces, providing a net increase of 144 public spaces over the 128 spaces currently at the location.
(Funding Sources: General Fund)
- **64th Street Canal Path Wall: Thomas Road to Indian School Road (FY 2025/26: \$0.6 million)** - The project will perform repairs to the retaining wall of reinforced concrete along the Crosscut Canal between Thomas Road to Indian School Road. The wall has longitudinal cracking and cosmetic damage in several locations that need repairs.
(Funding Sources: Transportation 0.20% Sales Tax)
- **Scottsdale Road: Thompson Peak Parkway to Pinnacle Peak Road Phase II (FY 2025/26: \$0.9 million)** - This project will complete Scottsdale Road to the ultimate six-lane major arterial configuration including the major intersections of Thompson Peak Parkway, Deer Valley Road, Williams Drive, and Pinnacle Peak Road to improve safety, capacity and accessibility for motor vehicles, bicycles and pedestrians.
(Funding Sources: Regional Sales Tax - Arterial Life Cycle Program, Transportation 0.1% Sales Tax 2019)
- **Greenway Hayden Loop Sewer Improvements (FY 2025/26: \$21.6 million)** - This project replaces the existing 18-inch diameter sewer with a 21-inch diameter and a 30-inch diameter sewer to provide capacity for current and future connections at North of Frank Lloyd Wright Boulevard between Pima Road and Princess Drive.
(Funding Source: Water Reclamation Rates, Sewer Development fees, MPC Bonds)

Conclusion

I would like to express appreciation to the City Council for their guidance and support throughout the development of this proposed budget. Additionally, I'd like to express a special thanks to the City Treasurer's Office, budget department staff, budget liaisons and all other city staff who have contributed to this budget. This budget proposal supports the Scottsdale community and will allow the city to continue to provide the world class service that our citizens and customers expect. We look forward to discussing the contents of this proposal in more depth with City Council, the Budget Review Commission and the community over the coming months.

Sincerely,



Greg Caton – Interim City Manager