FY 2021-22
Budget Workshop #1

CHANDLER
arizona

Council Chambers
Thursday, February 11, 2021 | 4:30 p.m.

Agenda

- Financial Outlook
  - FY 2021-22 Budget Outlook
  - FY 2020-21 National, State, and Local Economic Quarterly Update
- FY 2021-22 Preliminary Budget
  - 5-Year Ongoing General Fund Forecast
  - Public Safety Personnel Retirement System (PSPRS)
  - Capital Improvement Plan (CIP)
  - Property Tax
- Key Budget Dates
- Closing remarks

Financial Outlook

FY 2021-22 Budget Theme

"Moving Forward Together"

Our Vision

We are a world-class City that provides an exceptional quality of life

FY 2021-22
Financial Outlook

- Economy is in extended recovery mode from COVID-19 impacts
- Growth of sustainable (ongoing) revenues potentially resetting based on new demand/trends
- Development revenues continue contributing to one-time General Fund, but at a slower rate
- Cautious that potential State legislative and Federal actions may threaten City revenues

Sound Budgeting Practices Support Financially Sustainable Goal

- Maintains AAA Bond Ratings from Moody's, Fitch, and S&P rating agencies
  - Continue adherence to all fiscal policies
  - Continue pay-down of pension obligations
- Structurally balanced
  - Ongoing revenues support ongoing expenditures
  - One-time revenues support one-time expenditures
- Maintain strong reserves
  - 15% General Fund contingency reserve
  - Budget Stabilization Reserve at a minimum of $10M
- Manage expenditure growth
  - Maintain existing services
  - Maintain infrastructure

Strong Fiscal Foundations Move Us Forward

Financial Policies

(Revised and adopted by Council January 14, 2016)

- Operating Management
- Capital Management
- Reserves (Jan. 26, 2017) (Mar. 22, 2018)
- Debt Management
- Long-Range Financial Planning
- Grant Management
- Investment
- Accounting, Auditing, and Financial Reporting
- Pension Funding (June 11, 2020)

National and State Economic Update

Economic Indicators

Construction Spend: +3.8% above November 2019

Business Formation Statistics: just over 1.1M new businesses added in Q4

Advance Monthly Sales for Retail & Food Service: +0.6% from prior month

Manufacturing & Trade Inventories: +1.32% from prior month

https://www.census.gov/economic-indicators/

Economic Forecast

National, State and local Unemployment

Unemployment Rate			
Date	U.S.	AZ	Chandler
Jan-20	3.6%	4.5%	3.5%
Feb-20	3.5%	4.5%	3.3%
Mar-20	4.4%	6.1%	4.8%
Apr-20	14.7%	13.4%	11.9%
May-20	13.3%	9.0%	7.5%
Jun-20	11.1%	10.0%	8.7%
Jul-20	10.2%	10.7%	9.1%
Aug-20	8.4%	5.9%	5.1%
Sep-20	7.8%	6.7%	5.3%
Oct-20	6.9%	7.9%	6.4%
Nov-20	6.7%	7.8%	6.3%
Dec-20*	6.7%	7.5%	6.3%

*estimated

Bureau of Labor Statistics: bls.gov/eag/eag.us.htm & bls.gov/eag/eag.az.htm & azcommerce.com/oeo/labor-market/unemployment/

Economic Forecast

2020 **4th Quarter** Base Forecast

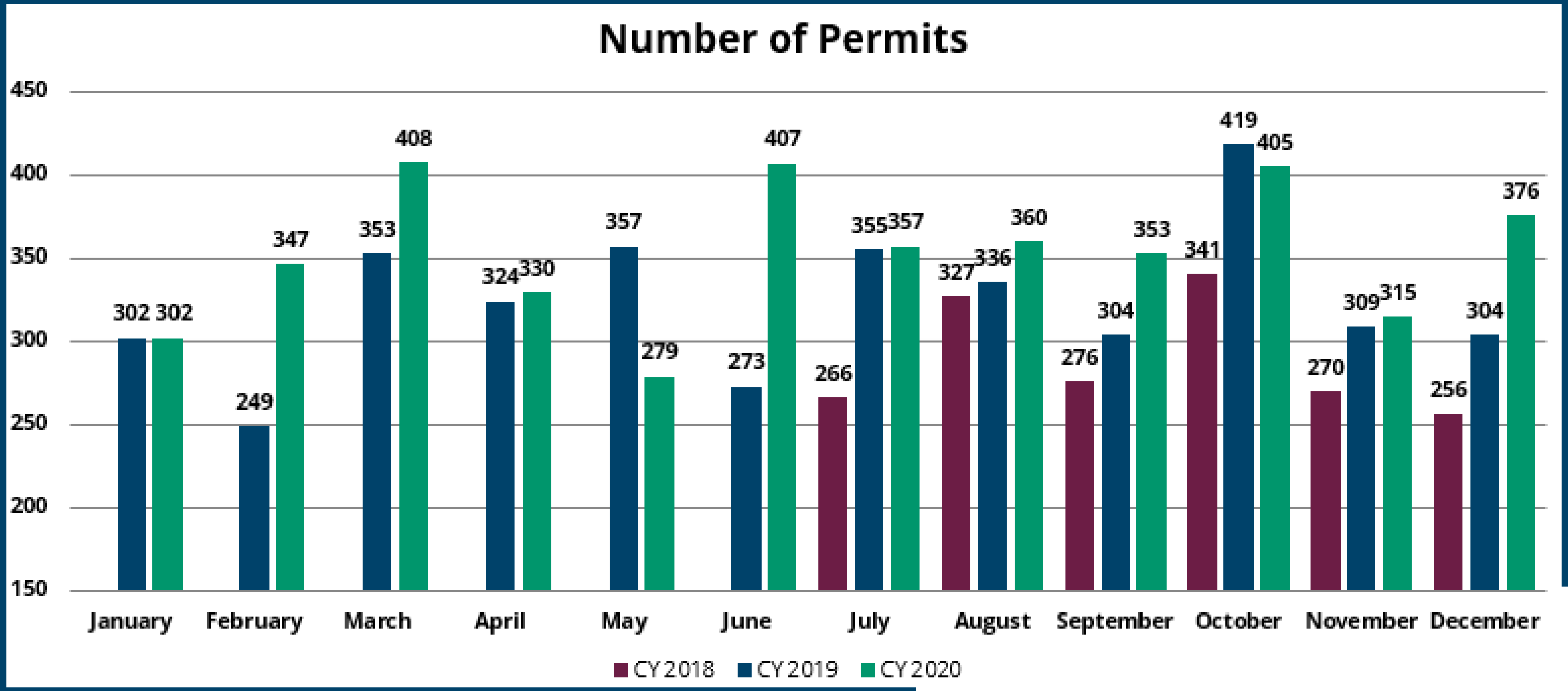
Phoenix-Mesa-Scottsdale MSA Forecast (Maricopa + Pinal Counties)

Phoenix-Mesa-Scottsdale MSA Forecast*	2020	2021	2022	2023	2024
Personal Income ($ mil)	252,293	258,394	274,043	289,439	305,778
% Chg from Year Ago	6.7%	2.4%	6.1%	5.6%	5.6%
Retail Sales ($mil)	82,150	88,654	93,622	98,370	103,288
% Chg from Year Ago	1.7%	7.9%	5.6%	5.1%	5.0%
Total Nonfarm Employment (000s)	2,134.0	2,220.0	2,293.5	2,349.8	2,409.5
% Chg from Year Ago	-2.0%	4.0%	3.3%	2.5%	2.5%
Population (000s)	4,904	4,997	5,089	5,176	5,260
% Chg from Year Ago	1.7%	1.9%	1.8%	1.7%	1.6%
Residential Permits (units)	41,159	39,174	38,271	37,847	37,657
% Chg from Year Ago	14.7%	-4.8%	-2.3%	-1.1%	-0.5%

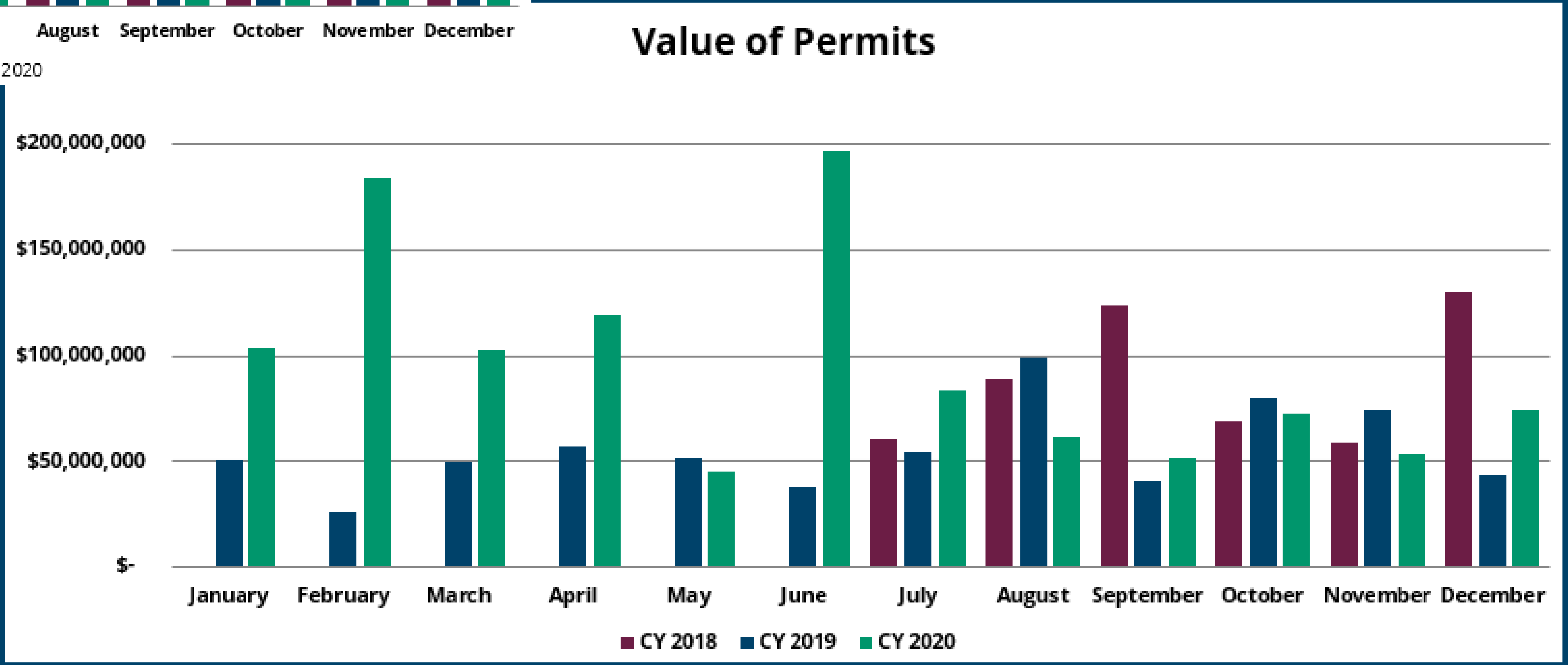
https://www.azeconomy.org/data/forecast-data/

City of Chandler "Quarterly" Update

Building Permit Trend Analysis



- Permit numbers remain strong
- Adding to one-time



Business Opening/Closing Analysis

Metrics gathered from Business Registration data

Businesses continue to register in the new online portal:

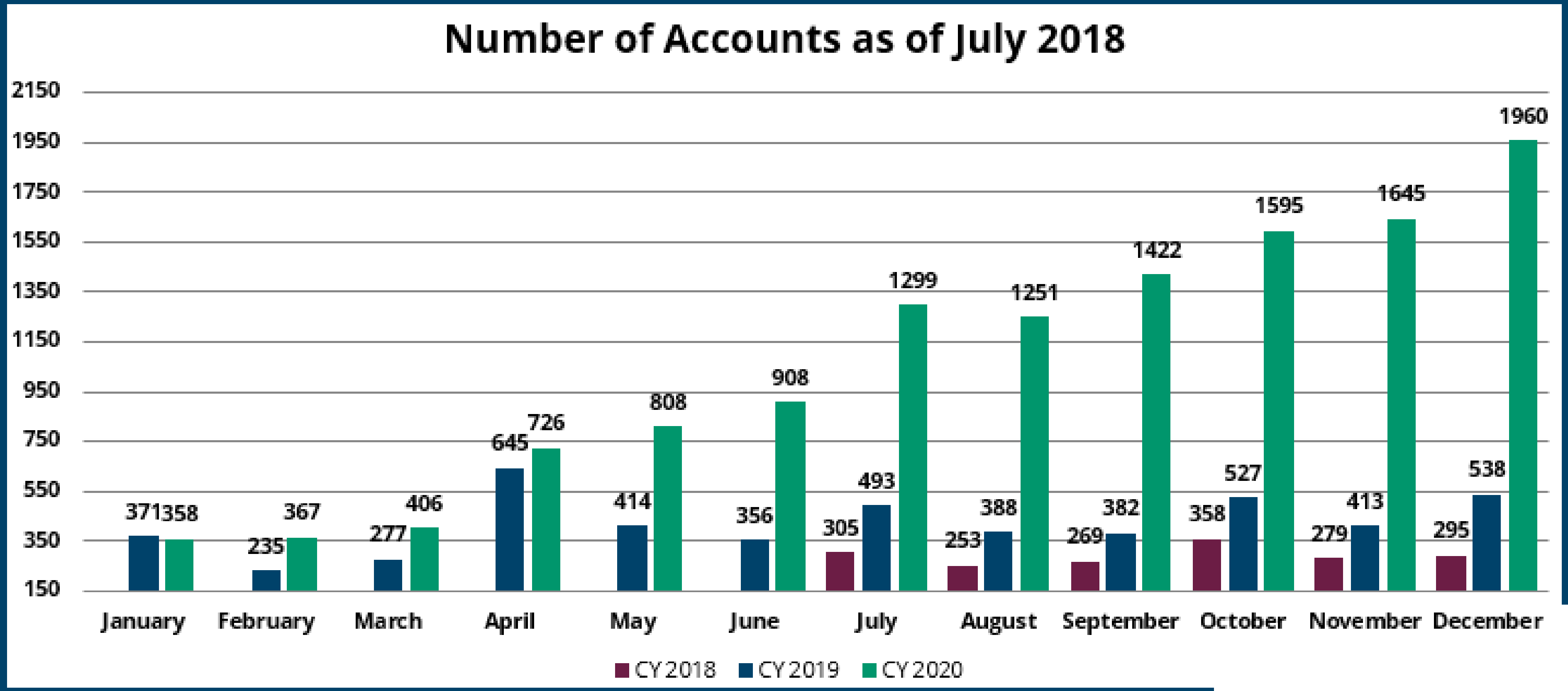
Closed from Mar. to Dec. : 213

Registered from Mar. to Dec. : 597

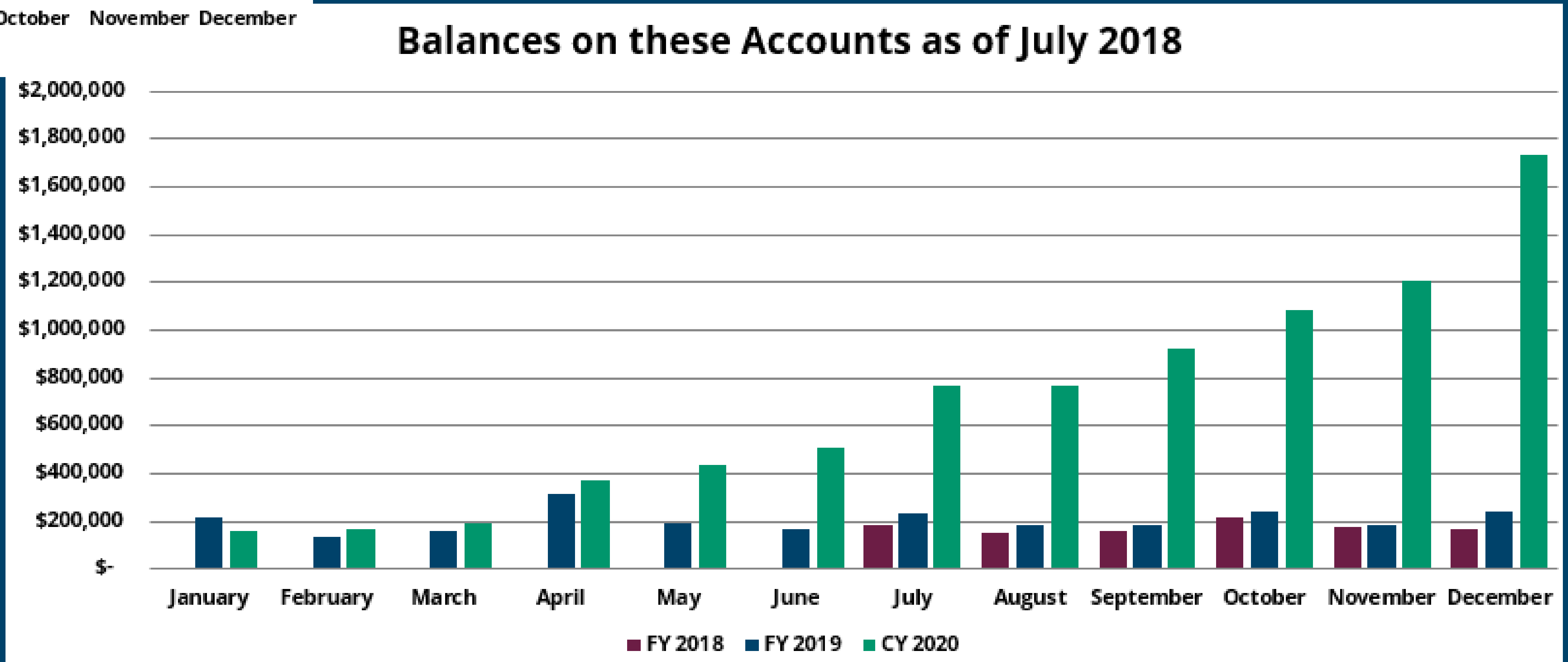
Net newly registered Businesses: 384*

* Renewal process helps distinguish between brand new businesses, and those that are just newly registered, providing a better picture as to new business starts

Past Due Residential Utility Trend Analysis



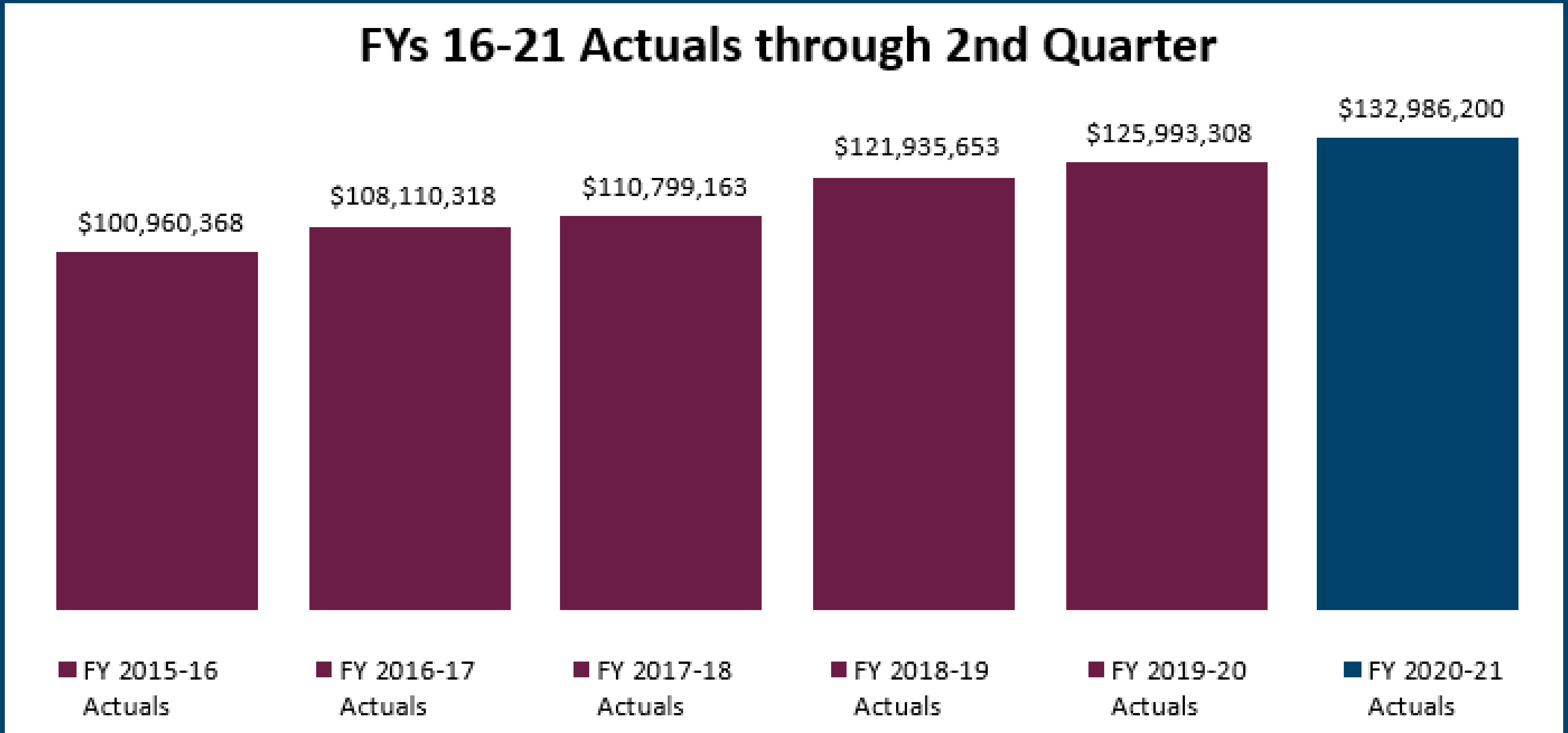
- Delinquent utility accounts/balances that meet turn-off criteria has increased through Dec. 2020
- Continue working with Neighborhood Resources and non-profit partners on outreach for utility assistance



- Soft account notices began 10/19/20 and continue, but still no disconnections or late fees
- Anticipate resuming disconnects Monday, May 3, 2021

FY 2020-21 Revenue Update

General Fund Year-to-Date Revenues



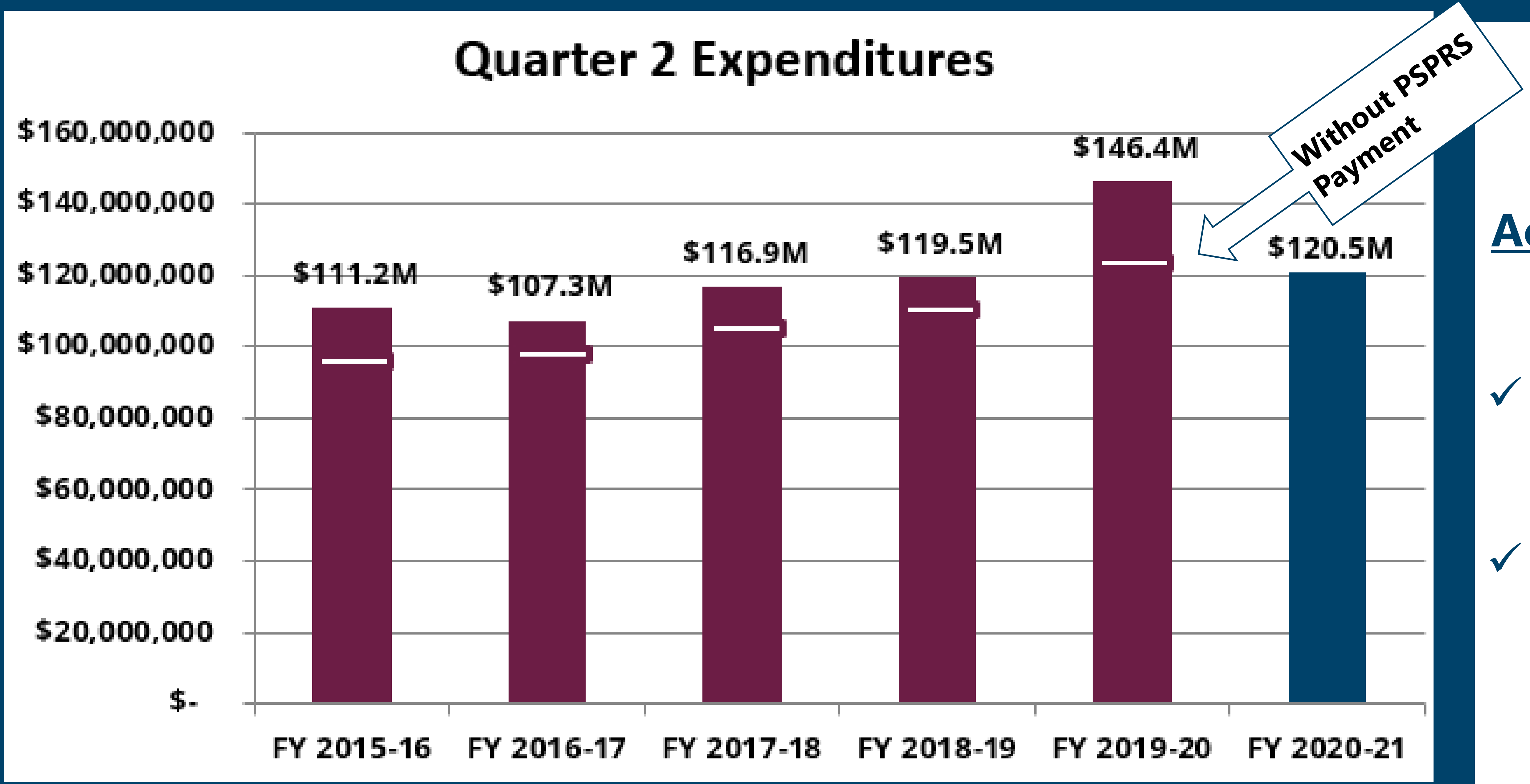
FY 2020-21 Results through December 2020

- ✓ Actual revenue $133M
- ✓ 5.6% or $7M above same period prior year
- ✓ COVID reduced Budget prorated based on historical trend $114M
- ✓ Actuals above COVID reduced budget: $19M or 16.6%

FY 2020-21 Expenditure Update

Chandler maintains a strong financial position

"I take the task of making sure we come in under budget very seriously, and to everyone's point, we will meet the budget according to the revenues we receive." *Marsha Reed, City Manager, April 24, 2020*



Excludes Reserves and Non-Departmental Contingencies

FY 2020-21 Results through December 2020

Actual spending $119K lower than prior year

- ✓ **47.9% of COVID reduced budget spent**

vs.

- ✓ **44.9% of prior year budget spent (less PSPRS payment)**

Expenditures continue to be tracked closely

Preliminary 5-Year Ongoing General Fund Forecast

Annual General Fund Revenues and Expenditures

Annual Inflows

- 85% Local taxes and licenses and State shared revenues
- 6% Charges for services (i.e., parks, rec., building, planning, library)
- 3% Misc. Receipts (i.e., Interest Inc., fines, leases, surplus sales)
- 6% Property tax and Indirect costs

Annual Outflows

- 77% Personnel (Wages/Benefits)
- Ongoing Base Budget (i.e., Ops./maint., supplies, utilities)
- One-time decision package needs (i.e., consultants, pilot programs)
- Transfers to replacement funds

If Revenues exceed Expenditures, General Fund Balance increases

Preliminary 5-Year Ongoing General Fund Forecast

		1	2	3	4	5	6	7
		FY 2021-22						
	Preliminary General Fund Ongoing Forecast (Excluding One-Time Fund Balance)	Total Current Revenues/ Expenditures	One-Time Amount	Ongoing Amount	FY 2022-23 Ongoing Amount	FY 2023-24 Ongoing Amount	FY 2024-25 Ongoing Amount	FY 2025-26 Ongoing Amount
1	**Revenues and Other Sources**		18%	82%				
2	**Total Revenues**	267,930,950	47,852,680	220,078,270	224,954,700	229,882,800	233,931,100	238,052,500
3				2.6%	2.2%	2.2%	1.8%	1.8%
4	**Expenditures & Other Uses**							
5	Revenues Committed to One-Time Exp	47,852,680	47,852,680					
6	Personnel Services Wages & Benefits	169,738,000		169,738,000	171,250,400	172,548,400	173,856,400	175,174,400
7	Less Vacancy Savings (2.5%, then 1.5%)	(2,546,000)		(2,546,000)	(2,569,000)	(2,588,000)	(2,608,000)	(2,628,000)
8	Ongoing Base Budget	49,473,000		49,473,000	49,473,000	49,473,000	50,673,000	51,873,000
9	Increased Contribution to Risk Fund	250,000		250,000	500,000	750,000	750,000	750,000
10	Increased Contribution to Fleet Fund	250,000		250,000	350,000	450,000	550,000	550,000
11	CIP Operations & Maintenance	781,300		781,300	1,695,000	1,786,700	2,469,600	2,558,300
12	**Total Expenditures**	265,798,980	47,852,680	217,946,300	220,699,400	222,420,100	225,691,000	228,277,700
				0.9%	1.3%	0.8%	1.5%	1.1%
13	**Cumulative Ongoing Surplus/(Deficit)**	2,131,970	-	2,131,970	4,255,300	7,462,700	8,240,100	9,774,800

Chandler continues to be Structurally Balanced

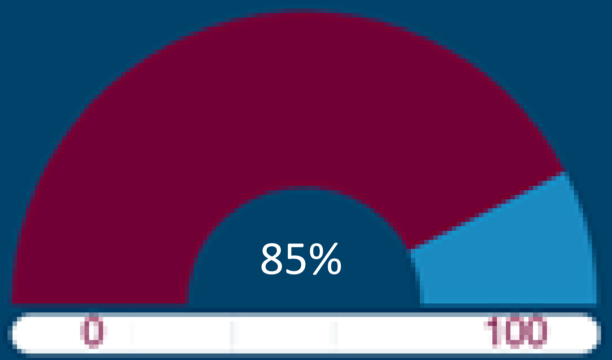
The ongoing forecast reflects expenditures that are supported by sustainable revenue growth

Preliminary Ongoing General Fund Forecast - Revenues

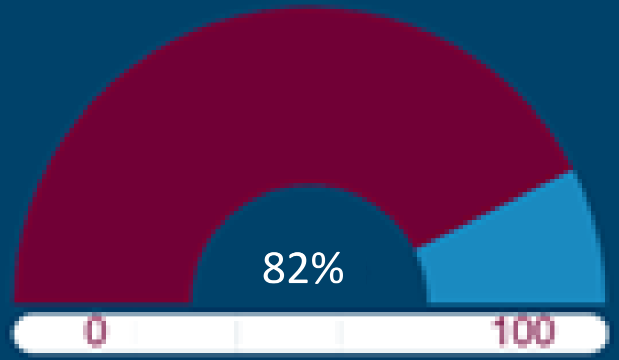
FY 2021-22 preliminary revenues are $267.9M

Over 86% is vulnerable to economic volatility

FY 2020-



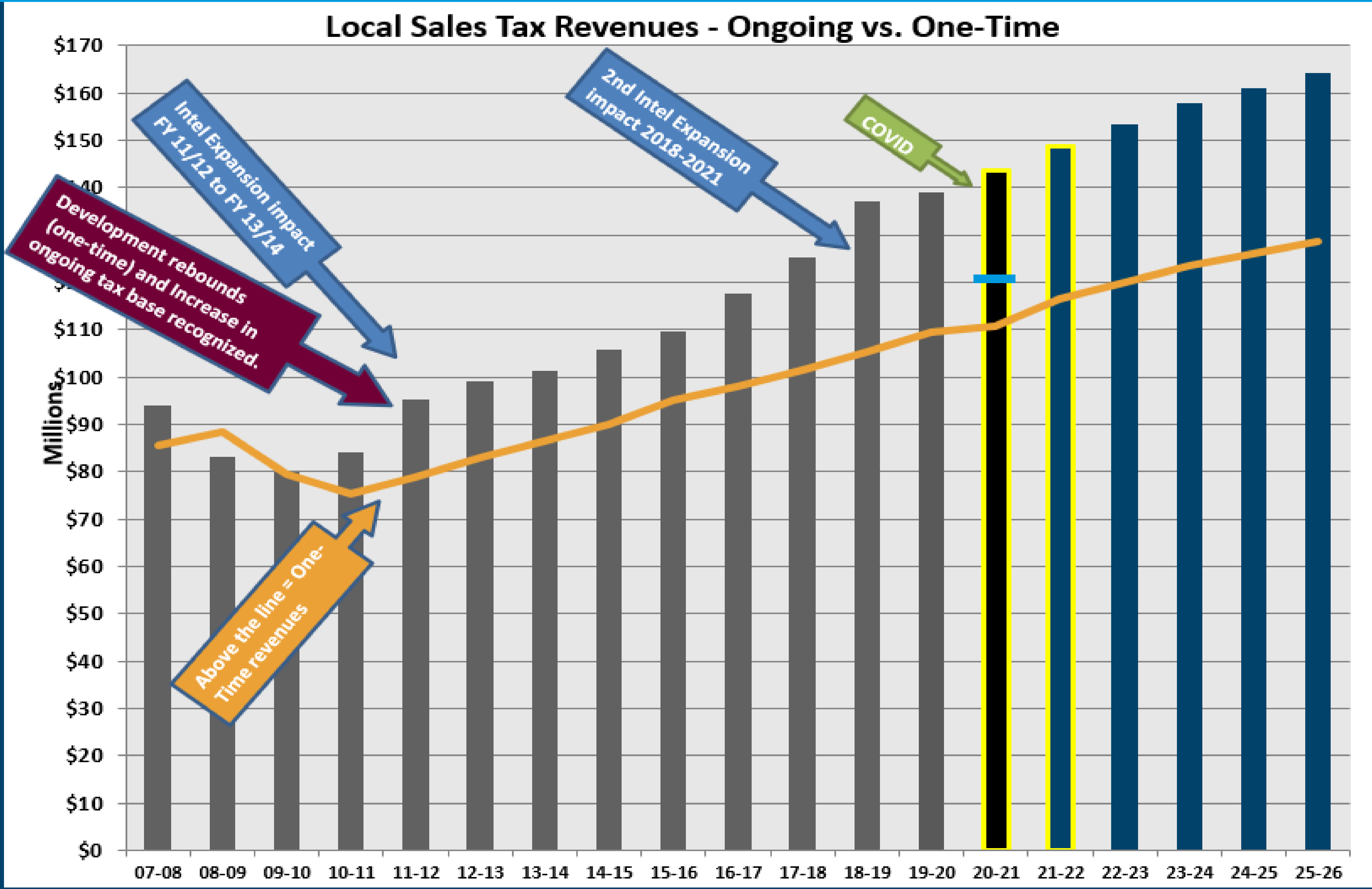
FY 2021-



Ongoing	One-time
Increases by 2.6% ($5.6M) over prior year ongoing	Higher one-time revenue results in lower ongoing %
Local Sales Tax support 54% and State shared supports 29% of total	18% ($47.9M) of total revenues considered one-time
Forecasting gradual ongoing growth of 1.8% to 2.6%	Continued development/retail affecting sales tax collections and permit revenue

Revenues based on actuals through December 2020
Addl' data from League & County on next update

Ongoing and One-Time Sales Tax Revenues



Ongoing sales tax revenues reflect growth over time

One-time sales tax revenues fluctuate due to economic volatility

Preliminary 5-Year Ongoing General Fund Forecast Personnel Expenditures

Preliminary General Fund Ongoing Forecast (Excluding One-Time Fund Balance)	FY 2021-22			FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26
	Total Current Revenues/ Expenditures	One-Time Amount	Ongoing Amount	Ongoing Amount	Ongoing Amount	Ongoing Amount	Ongoing Amount
Personnel Services Wages & Benefits	169,738,000		169,738,000	171,250,400	172,548,400	173,856,400	175,174,400
Less Vacancy Savings (2.5%, then 1.5%)	(2,546,000)		(2,546,000)	(2,569,000)	(2,588,000)	(2,608,000)	(2,628,000)
Total Net Vacancy Savings	**168,318,000**		**167,192,000**	**168,759,400**	**171,946,400**	**172,268,200**	**172,624,400**

Carefully Tracked

- **Largest ongoing expenditure (77% of total exp. & 0.4% over prior year personnel)**
- **Position counts unchanged: Total all funds 1,694 FTE (81.5% General Fund)**

Cost Adjustments Included

- **Benefits changes: Health, Retirement (ASRS and PSPRS), & Workers Comp**
- **FY 2021-22 MOU chgs: Police/Fire Merit (5%) Fire Market (0.75%) Police Shift diff (+$.10)**

Cost Adjustments Excluded

- **No FY 2021-22 General Employee merits & markets (No market given to Generals in FY 2020-21)**
- **No merits or markets included FY 2022-23 & beyond for any employee**

Major Impacts

- **Increased General Fund vacancies from 59 to 85 (+44%) (Vacancy savings rate under review)**
- **10 add'l Public Safety sworn entered DROP (reduced PSPRS employer contrib.)**

Preliminary 5-Year Ongoing General Fund Forecast Expenditures

Ongoing Base Budget	49,473,000		49,473,000	49,473,000	49,473,000	50,673,000	51,873,000
Increased Contribution to Risk Fund	250,000		250,000	500,000	750,000	750,000	750,000
Increased Contribution to Fleet Fund	250,000		250,000	350,000	450,000	550,000	550,000
CIP Operations & Maintenance	781,300		781,300	1,695,000	1,786,700	2,469,600	2,558,300
Total Expenditures	**265,798,980**	**47,852,680**	**217,946,300**	**220,699,400**	**222,420,100**	**225,691,000**	**228,277,700**
			0.9%	**1.3%**	**0.8%**	**1.5%**	**1.1%**
Cumulative Ongoing Surplus/(Deficit)	**2,131,970**	**-**	**2,131,970**	**4,255,300**	**7,462,700**	**8,240,100**	**9,774,800**

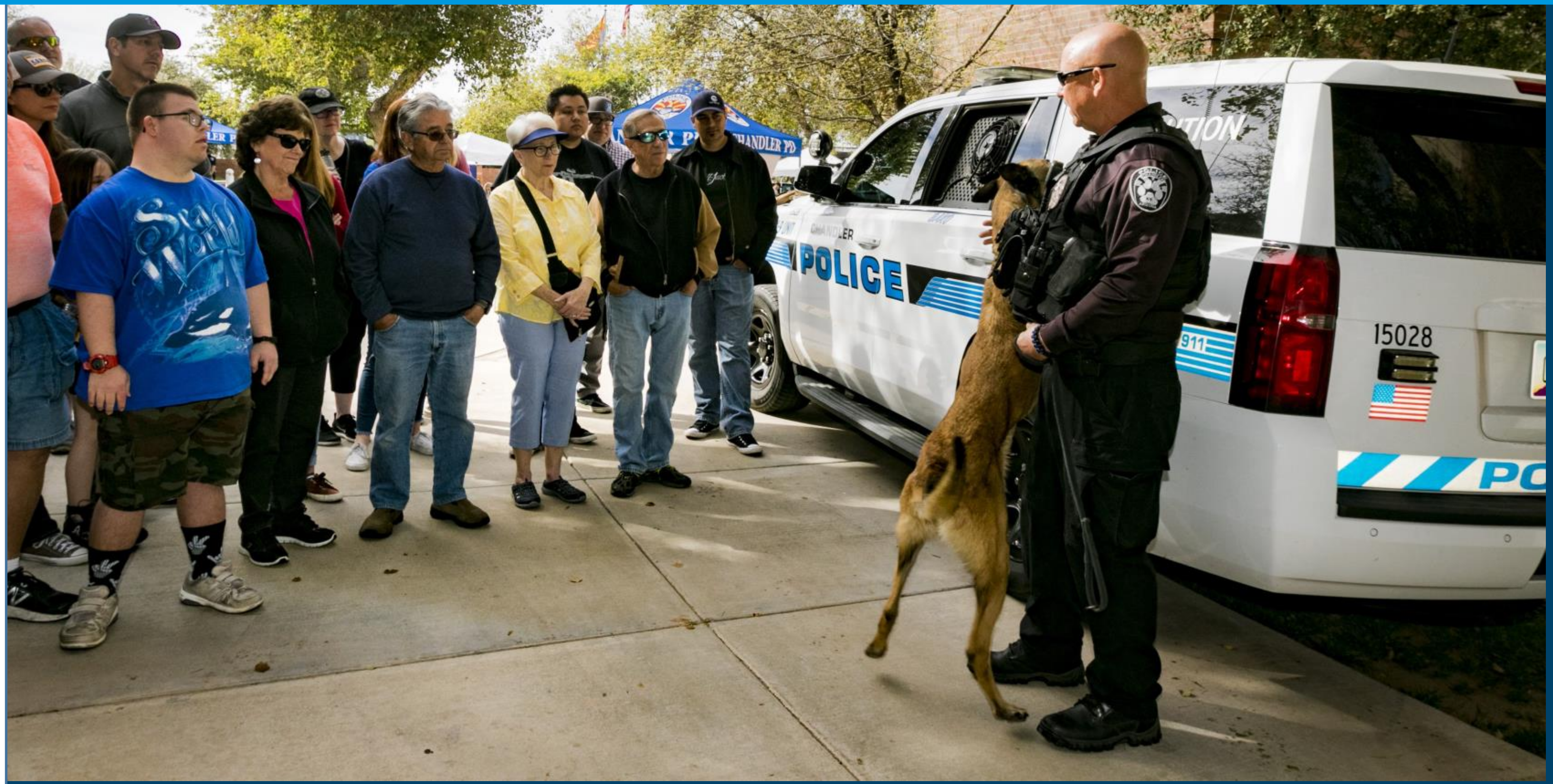
Prioritize Ongoing Demands (Maintain > Enhance > New)

Other Expenditure Projections Unchanged from Prior Year Forecast

- Department ongoing base budgets unchanged
- Reestablished Council Contingency ($75K ongoing and $325K one-time)
- O&M on projected capital projects based on current CIP
- Self Insurance fund contribution projections unchanged

Remaining Ongoing Surplus of $2.1M Uses

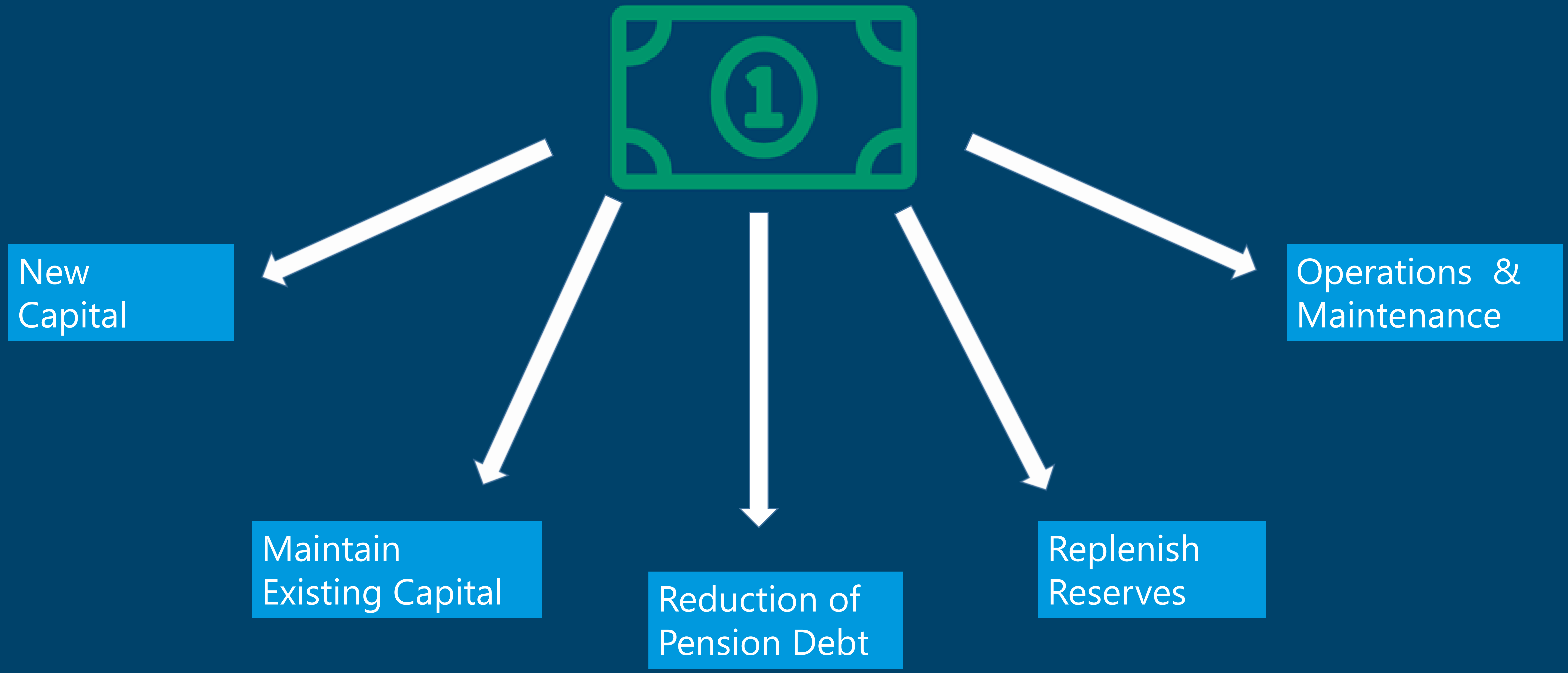
- Change general employee wages/benefit (impacts hiring & retention)
- Maintain, enhance, or add to existing service levels (utilities, service contracts, supplies, staffing)



FY 2021-22 Department General Fund decision packages under review

- $6.0M ongoing requests
- $8.1M one-time requests
- Includes 22 positions requests

Determine Priorities for One-Time Dollars



Public Safety Personnel Retirement System Update

PSPRS Net Unfunded Liability Balances Update

	Jun-19	Jun-20	Difference	% Change
Chandler	$180M	$171M	-$9M	-5.0%
Gilbert	$61M	$42M	-$19M	-31.1%
Glendale	$272M	$290M	$18M	6.6%
Mesa	$654M	$691M	$37M	5.6%
Peoria	$103M	$109M	$6M	5.8%
Phoenix	$3,154M	$3,381M	$227M	7.1%
Scottsdale	$190M	$216M	$26M	13.6%
Tempe	$319M	$343M	$24M	7.5%

PSPRS Actuarial Report Results 6/30/20

Unfunded Liability decreased $9.4M from Prior Year's total of $180.5M

Police	$114.4M
Fire	$ 56.7M
	$171.1M

Employer Contribution decreased $340K from Prior Year's total of $19.4M

Police	$ 12.8M
Fire	$ 6.3M
	$ 19.1M

Normal portion of contribution	28%
Unfunded portion of contribution	72%

FY 2020-21 Pay-Down Plan Benefits
(point in time in 2019 modeler)

Assumed all actuarial corrections made

Making additional payments up front:

- The annual Employer Contributions are reduced $113.4M over 17 years
- Unfunded Liability is $20M less by year 17

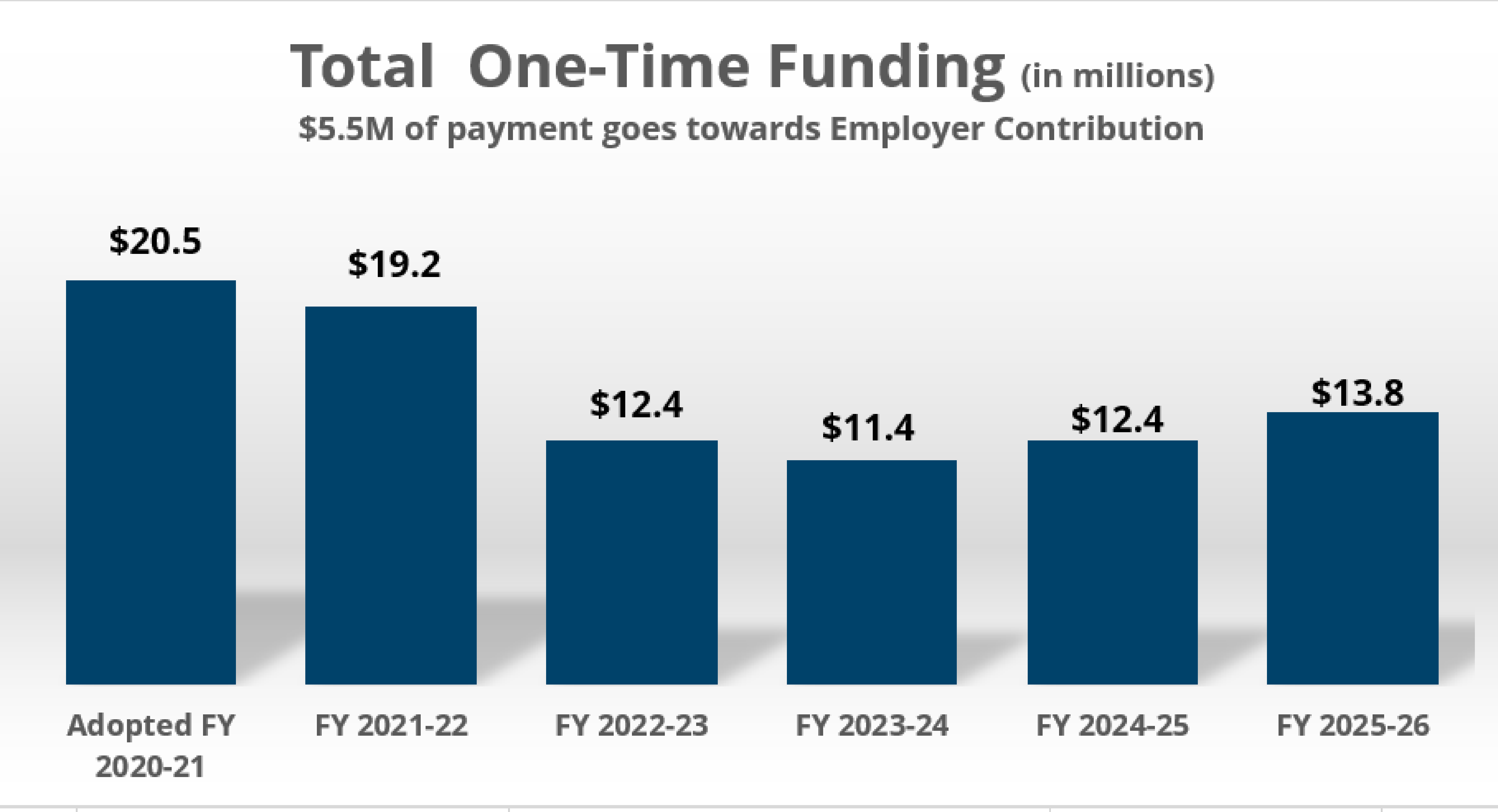
Total Savings $133.4M for an investment of $67.7M

–

New 2020 PSPRS modeler received beginning of February 2021 with actuarial updates

	Year	Annual Employer Contribution Savings (Millions)	Unfunded Liability Balance Difference (Millions)
1	2020	-	(6,534)
2	2021	-	19,608
3	2022	(2,941)	41,377
4	2023	(4,700)	59,263
5	2024	(6,191)	67,835
6	2025	(7,008)	72,794
7	2026	(7,430)	76,769
8	2027	(7,806)	79,946
9	2028	(8,292)	79,130
10	2029	(8,415)	76,987
11	2030	(8,525)	73,730
12	2031	(8,565)	69,196
13	2032	(8,607)	63,271
14	2033	(8,707)	55,739
15	2034	(8,744)	46,238
16	2035	(8,765)	34,501
17	2036	(8,735)	20,000
	Total	(113,432)	

PSPRS Contributions in FY 2020-21 One-Time Forecast



Recommend continuing planned commitment of additional annual one-time payments to reduce PSPRS pension liability

Increase when possible of offset investment losses

6/30/20 Assumptions

- Assumed investment rate of return of 7.3% unchanged
  - Actual only 5.4% smoothed over 7 years
- Payroll growth assumption of 3.5% too high
  - Beginning FY 2022-23: 7 year plan to reduce 0.5%/year
- Started layered amortization approach for investment gains/losses

Results are Slow but Effective

- Pay-down plan formulated 2015
- Overpayments began FY 2016-17 with $38.2M reflected thru 6/30/20 actuarial report, and $15M FY 2020-21 overpayment reflected in next report
- Unfunded liability and rates are going down by staying the course
- Chandlers funded levels have increased

  Police lowest 52.9%, now 62.7%

  Fire lowest 61%, now 68.6%

Preliminary Capital Improvement Plan (CIP)

Fiscal Foundations – Moving Us Forward

Current 10-Year CIP Council Guidelines

- Council CIP guidance
  - Minimize increase in property taxes
  - Maintain existing infrastructure
  - Finish planned construction of streets and parks
  - Limit new projects adding ongoing operations & maintenance
  - Address public needs

Continue Focus on Chandler's Aging Infrastructure

65 square miles

2,090 miles of streets

30,000 streetlights

225 signalized intersections

1,228 miles of potable water lines

941 miles of sanitary sewer

31 operating wells

67 developed parks (1,281 acres)

48 lighted fields

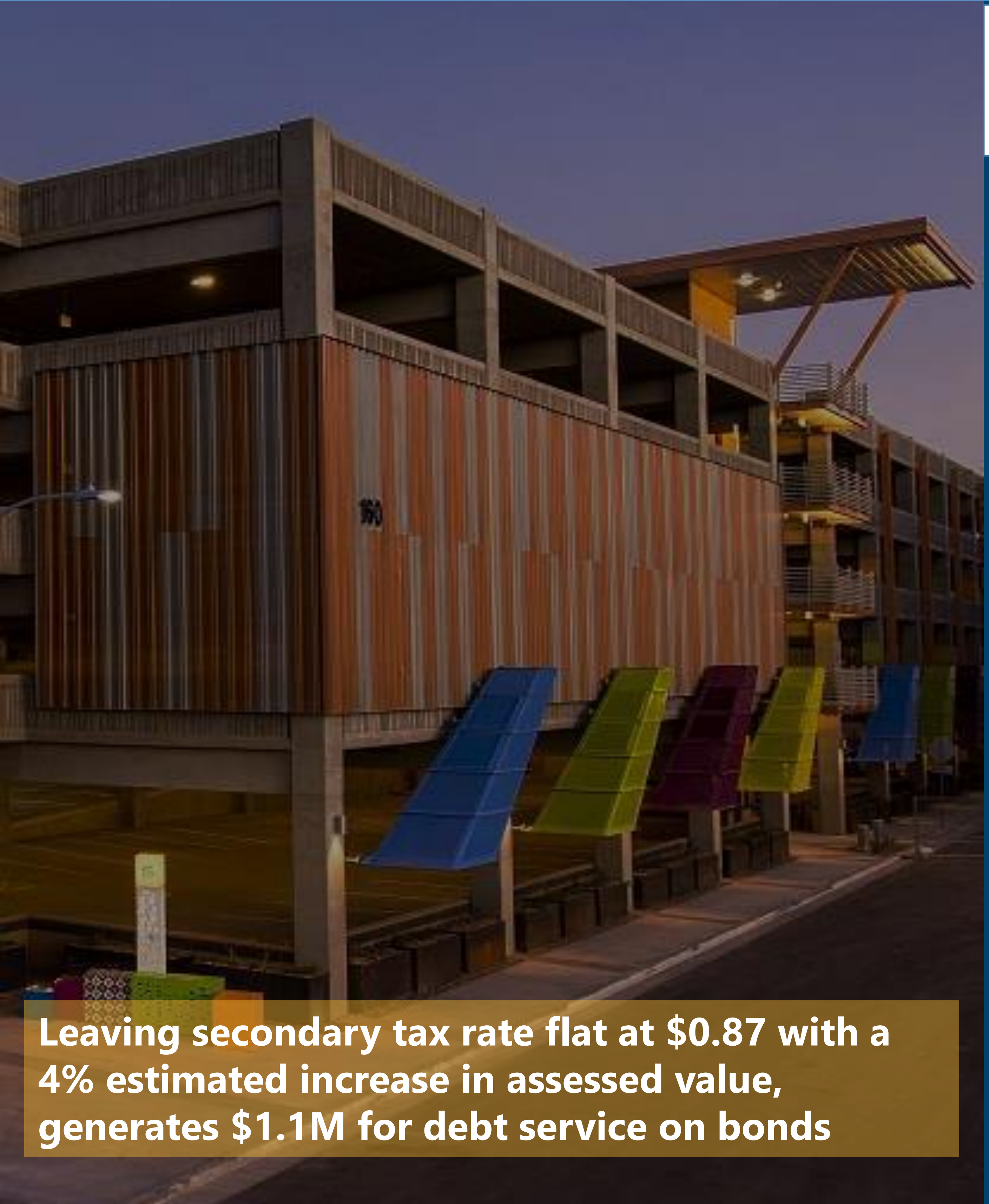
51 municipal buildings

781 fleet vehicles/trucks

Maintaining high quality of life for our 266,800 residents

+Sustainable plans for fleet, equipment & technology

Capital Projects Under Review in the 10-Year Plan



Leaving secondary tax rate flat at $0.87 with a 4% estimated increase in assessed value, generates $1.1M for debt service on bonds

A bond election will be needed to support all the projects in the CIP

- Various community/regional park improvements
- Remaining arterial street projects, Alma School, Ocotillo Road and Chandler Heights Road projects
- Existing street, park, facility and utility infrastructure maint.
- Technology and fiber projects
- Public Safety projects and maintenance of replacement of capitalized equipment
- Fire station 2 construction
- Critical Airport needs, including Cooper Road collector
- Utility infrastructure rehab/replacements

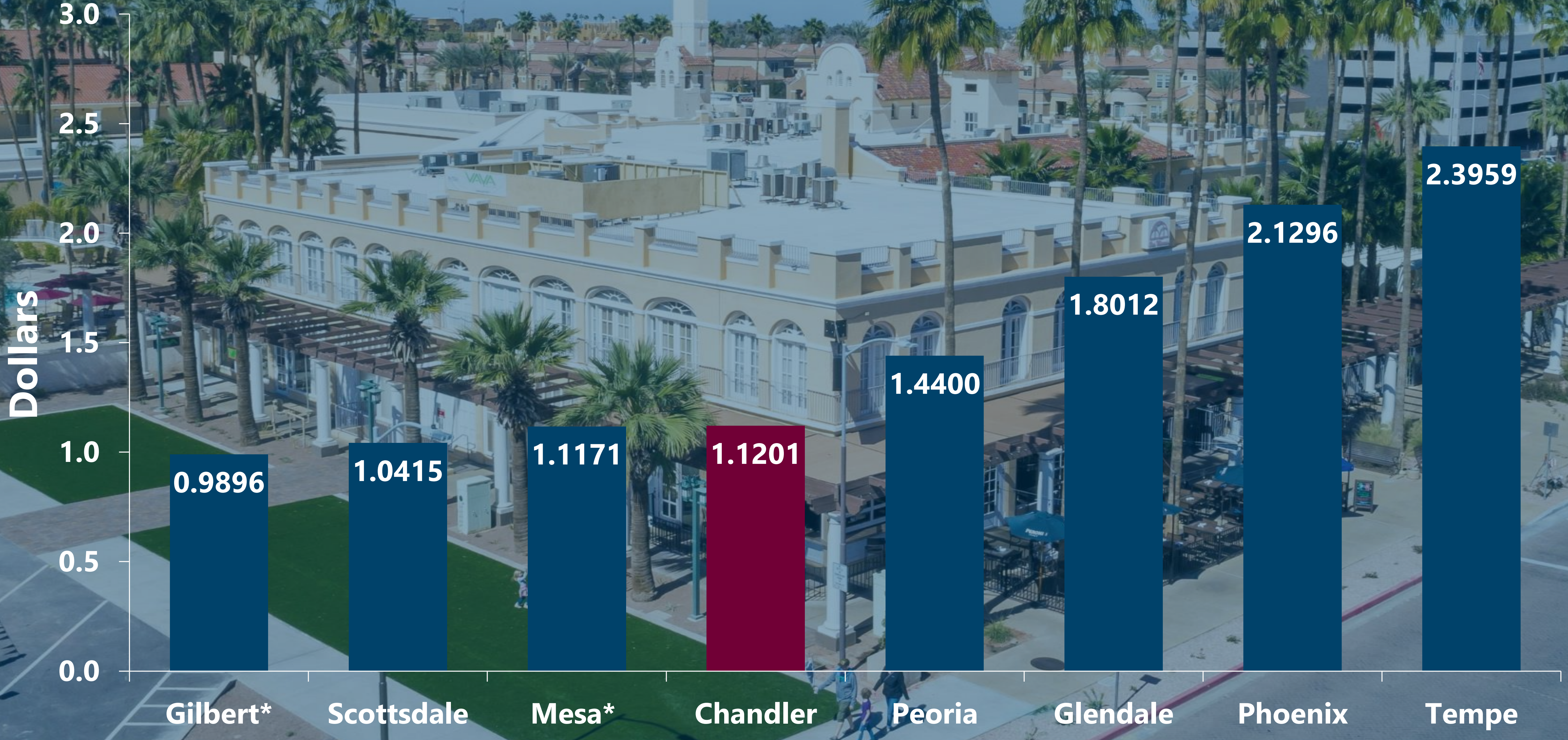
Preliminary Property Tax Update

Assessed Values Not Yet Received

Property Tax Rate Comparison

FY 2020-21

(per $100 of Assessed Valuation)



* Do not have a primary property tax rate, only secondary rate

Impact of FY 2020-21 Tax Rate Reduction on Median Value Homeowner

FY 2020-21 Rates	2020	2021	% Increase
Full Cash Value (FCV)	$ 255,000	$ 272,700	6.94%
Limited Property Value (LPV)	$ 193,846	$ 203,538	5.00%
Assessed Limited Cash Value (10%)	$ 19,385	$ 20,354	5.00%
Primary ($0.2501/$100 Assessed)	$ 48.48	$ 50.90	5.00%
Secondary ($0.87/$100 Assessed)	$ 168.65	$ 177.08	5.00%
(Total rate $1.1201)			
Total City Property Tax Bill	$ 217.13	$ 227.98	5.00%
Annual Increase		$ 10.86	

- Increases on Primary property tax rate are capped at 5%
- Anticipate Assessed Values for FY 2021-22 by 2nd week in February

Breakdown of $1 of Typical Chandler Property Tax Bill

Typical Tax Bill

Cents from Every Dollar Taxed

City of Chandler 9.8 cents

Maricopa County & Special Districts 22.7 cents

Public Schools and Community College Districts 67.5 cents

Based on 2019 Tax Bill information. Exact split will vary depending on the school district and any other special taxing districts on the bill.

Key Budget Dates

Budget Event		Date
Citizen Budget Survey		Completed
Council Budget Kickoff		Completed
Workshop One with Mayor & Council		Today
Budget Input Time (BIT): Citizen Outreach Media Events		Kicks off in early March
Workshop Two with Mayor & Council		March 25, 2021
All Day Budget Brief		April 23, 2021
Council Meetings:	Amendment Discussion	May 13, 2021
	Tentative Adoption	May 27, 2021
	Public Hearing & Final Adoption	June 10, 2021
	Adoption of Tax Levy	June 24, 2021

Questions?

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