



CHANDLER CITY COUNCIL
BUDGET WORKSHOP #1
Thursday, February 11, 2021

MINUTES OF THE BUDGET WORKSHOP #1 MEETING OF THE HONORABLE MAYOR AND CITY COUNCIL OF THE CITY OF CHANDLER, ARIZONA, held on Thursday, February 11, 2021, in the Chandler City Council Chambers Conference Room, 88 E. Chicago Street, Chandler, Arizona.

THE MEETING WAS CALLED TO ORDER BY MAYOR KEVIN HARTKE AT 4:31 P.M.

The following members of the Council were present:

Kevin Hartke	Mayor
Mark Stewart	Vice-Mayor
*René Lopez	Councilmember
OD Harris	Councilmember
Terry Roe	Councilmember
Christine Ellis	Councilmember
Matt Orlando	Councilmember

*Councilmember Lopez attended the meeting telephonically.

City staff present: Marsha Reed, City Manager; Kelly Schwab, City Attorney; Dana DeLong, City Clerk; Joshua Wright, Assistant City Manager; Debra Stapleton, Assistant City Manager; Ryan Peters, Governmental Relations and Policy Manager; Dawn Lang, Management Services Director; Matthew Burdick, Communications and Public Affairs Director; Micah Miranda, Economic Development Director; Cori Garcia, Mayor and Council Communications Manager; Matt Dunbar, Budget Manager; John Knudson, Public Works and Utilities Director; Andy Bass, Community Services Director; Rae Lynn Nielson, Human Resources Director; Kim Moyers, Cultural Development Director; Alicia Skupin, Acting Presiding Magistrate.

1. Budget Workshop #1, Presentation for Fiscal Year 2021-22

1. Opening Remarks

MARSHA REED, City Manager, introduced the discussion item.

DAWN LANG, Management Services Director, presented the following Power Point presentation.

- 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

2. 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)

MATT DUNBAR, Budget Manager, continued the Power Point Presentation.

- 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
- Economic Forecast
 - National, State and local Unemployment
- Economic Forecast
 - 2020 4th Quarter Base Forecast
 - Phoenix-Mesa-Scottsdale MSA Forecast (Maricopa + Pinal Counties)

COUNCILMEMBER ORLANDO asked if the minimum wage is driving these numbers.

MR. DUNBAR said they could look into what is driving the numbers as the data comes from the University of Arizona.

MR. DUNBAR continued the Power Point presentation.

- 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

MAYOR HARTKE asked how these numbers compare to a normal year.

MR. DUNBAR said these numbers are similar to what they would see historically, but the trend is different regarding the types of businesses that have closed. There are industries that have been significantly impacted by COVID-19 such as restaurants and amusements and there are a high number of closures in those industry types.

MR. DUNBAR continued the Power Point presentation.

- 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

MAYOR HARTKE asked if the surrounding cities have already resumed disconnections.

MS. LANG said Mesa, Gilbert, and Avondale have started and there would be more cities that would be starting disconnections before Chandler. Ms. Lang said staff would provide that information to Council.

COUNCILMEMBER ORLANDO asked if there was additional data regarding the numbers such as locations or home types. Councilmember Orlando said there may be funds that could not be recovered because of the economic situation and asked if there was a contingency plan.

MS. LANG said there is an effort with Neighborhood Resources for utility assistance but there are different qualifying factors depending on the funding. Ms. Lang said they have not laid out the addresses on a GIS map and that could help better target notifications. Ms. Lang said staff is on their third round of notices to engage the citizens and businesses that are struggling and have worked on payment plans to avoid disconnection.

VICE MAYOR STEWART asked what all was included in the utility numbers.

MS. LANG said water, wastewater, solid waste, and reclaimed customers.

VICE MAYOR STEWART asked if CARES Act dollars could be used for that.

MS. LANG said the CARES dollars are being provided to the non-profit partners and residents are being directed to them to get assistance.

VICE MAYOR STEWART asked if there was a way to know who is struggling and who is taking advantage of the system, because this could impact the budget and other services they are able to provide.

MS. LANG said these are Utility Funds and would not impact the General Fund. Ms. Lang said this would impact the rate the utility customers pay.

COUNCILMEMBER ROE asked if there were penalties applied to the balances.

MS. LANG said they have not been charging late fees since March so the balance has not accrued interest or fees.

COUNCILMEMBER ROE asked how the fees are normally assessed.

MS. LANG said there is a 2% charge added for every month they are in arrears.

MR. DUNBAR continued the Power Point presentation.

- 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%
 - FYs 16-21 Actuals through 2nd Quarter
- 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
 - 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
 - Quarter 2 Expenditures

COUNCILMEMBER ORLANDO asked how much has been expended of the AZ Cares dollars and what is left.

MS. LANG said staff would get that information to Council.

COUNCILMEMBER ORLANDO asked what was being done to fill employee vacancies.

MS. REED said there are 75 recruitments in progress and a total of 121 vacant positions currently.

COUNCILMEMBER ORLANDO said it seems they have made progress in the last few months.

MS. REED said yes as far as recruitments, but the vacancy has increased.

3. Preliminary

a. 5-Year Ongoing General Fund Forecast

MS. LANG continued the Power Point presentation.

- 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
 - 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 85%
 - Ongoing
 - Increases by 2.6% (\$5.6M) over prior year ongoing
 - Local Sales Tax support 54% and State shared supports 29% of total
 - Forecasting gradual ongoing growth of 1.8% to 2.6%
 - FY 2021- 82%
 - One-time
 - Higher one-time revenue results in lower ongoing %
 - 18% (\$47.9M) of total revenues considered one-time
 - 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
 - Local Sales Tax Revenue Ongoing vs. One-Time
- Preliminary 5-Year Ongoing General Fund Forecast Personnel Expenditures
 - 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 I Public Safety sworn entered DROP (reduced PSPRS employer contrib.)

MS. REED said Human Resources is working on gathering information on comparative cities across the Valley. Ms. Reed said General may have slipped up to 4% in the market and that may be creating some issues. Ms. Reed said there would be recommendations coming forward on merits and markets.

COUNCILMEMBER ORLANDO said he supported the market survey to keep Chandler competitive. Councilmember Orlando said there are 10 public safety staff in the DROP program and asked when they begin recruiting for those positions.

MS. REED said staff evaluates that each year with both Chiefs and more are entering DROP than anticipated. Ms. Reed said both Chiefs are authorized to hire up to their reserves and compliment. In police it is hard to get the recruits in the door.

COUNCILMEMBER ORLANDO said there are funds to hire, but difficult to find the people.

MS. REED said yes.

MAYOR HARTKE said they have a five-year window from the time someone enters DROP.

MS. REED said they are seeing people enter DROP and then retire before the five years is completed, which is creating some issues.

COUNCILMEMBER HARRIS asked what the retirement age is for police officers.

MS. REED said around 20 years as a police officer.

MS. LANG continued the Power Point presentation.

- Preliminary 5-Year Ongoing General Fund Forecast Expenditures
 - 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

COUNCILMEMBER ROE asked if the internet sales were included in the December sales.

MS. LANG said yes, that has impacted our sales tax revenues. Ms. Lang said they have always seen online sales from larger stores, but now they are starting to see other internet sales.

COUNCILMEMBER HARRIS asked how the online sales are tracked.

MS. LANG said the State collects the tax and when an online retailer reports that revenue they have a code for where the sale was done which then sends the funds to Chandler.

COUNCILMEMBER HARRIS said if a small business does business online how those businesses are tracked.

MS. LANG said it is similar and it is expected those businesses would create an account with the State and would send the tax collected to the State and show the information on where the sales were done.

COUNCILMEMBER HARRIS asked if the State takes the lead for that process.

MS. LANG said yes, but the City does help if Chandler businesses have questions.

MS. LANG continued the Power Point presentation.

- Determine Priorities for One-Time Dollars
 - New Capital
 - Maintain Existing Capital
 - Reduction of Pension Debt
 - Replenish Reserves
 - Operations and Maintenance

b. Public Safety Personnel Retirement System (PSPRS)

- PSPRS Net Unfunded Liability Balances Update

MAYOR HARTKE said Chandler is being responsible and paying down the balance and asked how other cities are responding.

MS. LANG said the public safety retirement system has been better at sharing information to help cities understand. The more information that is shared the more cities are talking about it, but it certainly has been something that is difficult to address.

COUNCILMEMBER HARRIS asked at the current rate when the debt is expected to be completed.

MS. LANG said there is a requirement to have the debt paid in a certain amortization period and there are 16 years remaining, and it is a requirement to have a financial policy to address this. She said they have looked at numerous options to pay down the liability and Chandler has chosen to use one-time dollars to make additional payments.

COUNCILMEMBER HARRIS asked if there was interest on the outstanding balance.

MS. LANG said it is costing more the longer the liability is outstanding. The more they can pay off now the more savings there would be in the future.

COUNCILMEMBER HARRIS asked what the interest rate was currently.

MS. LANG said the actuarial assumptions is 7.3% annually. In years where they do not meet those earnings the pension liability grows.

VICE MAYOR STEWART asked if it would make sense to pay off the debt in the future because of the inflation rate increases because of the money that has flooded the market from the CARES Act.

MS. LANG said the pension fund is held in its own set of investment and is influenced by the open market. Ms. Lang said using the PSPRS modeler there is a much greater benefit to pay it off early because of the offset of the City's earnings versus the PSPRS earnings.

VICE MAYOR STEWART asked if the cities or the State is responsible for the outstanding balance.

MS. LANG said the City is responsible and there is no anticipation of a bailout.

VICE MAYOR STEWART asked if the CARES Act money in the community and inflation has been factored into this.

MS. LANG said it has not, but they are looking how that impacts investment markets.

COUNCILMEMBER ROE said if that helps the markets perform there should be a benefit to the investments. Councilmember Roe said once this liability is paid it will allow future Councils do great things.

MS. LANG said they are already seeing great returns.

MS. LANG continued the Power Point presentation.

- 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
 - Total \$171.1M
 - Employer Contribution decreased \$340K from Prior Year's total of \$19.4M
 - Police \$12.8M

- Fire \$6.3M
 - Total \$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
- 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
 - Total One-Time Funding \$5.5M of payment goes towards Employer Contribution

COUNCILMEMBER ORLANDO asked how much ASRS increased.

MS. LANG said \$243,000.

MS. LANG continued the Power Point presentation.

- 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%

c. Capital Improvement Plan (CIP)

MR. DUNBAR continued the Power Point presentation.

- 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
- Capital Projects Under Review in the 10-Year Plan
 - 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
 - Leaving secondary tax rate flat at \$0.87 with a 4% estimated increase in assessed value, generates \$1.1M for debt service on bonds

d. Property Tax Update

- Preliminary Property Tax Update
 - Assessed Values Not Yet Received
- Property Tax Rate Comparison
 - FY 2020-21 (per \$100 of Assessed Valuation)

VICE MAYOR STEWART said they are seeing a large increase in property values and asked if they are thinking of tax rate reduction.

MS. LANG said that would be up to Council and would be a reduction of General Fund dollars. She said they are considering maintaining the rate, but staff would bring forward an analysis of what a lower rate would look like.

MS. REED said if there are rate reductions some of the projects that would be presented from the Citizen Bond Committee would not happen as the projections are based on the assumption of the same tax rate and property value increases.

MR. DUNBAR continued the Power Point presentation.

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

4. Key Dates

- Key Budget Dates
 - Citizen Budget Survey Completed
 - Council Budget Kickoff Completed
 - Workshop One with Mayor and Council Today
 - Budget Input Time Citizen Outreach Media Events Kicks off in early march
 - Workshop Two with Mayor and 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 and Final Adoption June 10, 2021
 - Adoption of Tax Levy June 24, 2021

5. Closing Remarks

COUNCILMEMBER HARRIS asked if the City could receive funds at a lower interest rate than PSPRS to pay off the debt faster.

MS. LANG said the 7.3% is the assumed interest rate that the money is earning. The City does not pay interest, but the liability does get more expensive over time.

COUNCILMEMBER HARRIS clarified there is no interest on the money owed.

MS. LANG said that was correct.

ADJOURNMENT: The Budget Workshop #1 was adjourned at approximately 6:04 p.m.

ATTEST: _____
City Clerk Mayor

Approval Date of Minutes: February 25, 2020

CERTIFICATION

I hereby certify that the foregoing minutes are a true and correct copy of the minutes of the Budget Workshop #1 of the City Council of Chandler, Arizona, held on the 11th day of February, 2021. I further certify that the meeting was duly called and held and that a quorum was present.

DATED this _____ day of February, 2021.

City Clerk