

Meeting Minutes

City Council Work Session

February 10, 2022 | 4:30 p.m.
Council Conference Room
88 E. Chicago St., Chandler, AZ



Call to Order

The meeting was called to order by Mayor Kevin Hartke at 4:32 p.m.

Roll Call

Council Attendance

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

Appointee Attendance

Josh Wright, City Manager
Kelly Schwab, City Attorney
Dana DeLong, City Clerk

*Councilmember Lopez attended telephonically.

Staff in Attendance

Tadd Wille, Assistant City Manager
Dawn Lang, Deputy City Manager/CFO
Andy Bass, Deputy City Manager
Matt Dunbar, Budget Manager
Micah Miranda, Economic Development Director
Steven Turner, Assistant to City Manager
Ryan Peters, Strategic Initiatives Director
Matt Burdick, Communications and Public Affairs Director

Discussion

1. Budget Workshop #1, Fiscal Year 2022-23

MAYOR HARTKE introduced the item and called for a staff presentation.

DAWN LANG, Deputy City Manager/CFO, presented the following presentation.

FY 2022-23 Budget Workshop #1

- Agenda
 - Financial Considerations
 - FY 2022-23 Budget
 - FY 2022-23 Preliminary Budget
 - General Fund Forecast Inflows and Outflows
 - Public Safety Personnel Retirement System (PSPRS)
 - Capital Improvement Plan (CIP)
 - Property Tax Discussion
 - Key Budget Dates
 - Closing Remarks
- Financial Considerations
- FY 2022-23 Budget Theme “Staying Connected”
 - Our Brand: a safe, diverse, equitable and inclusive community that connects people, chooses innovation and inspires excellence
- Strategic Framework Guides Our Decision Making
 - Strategic Policy Goals
 - Being the Most Connected City
 - Being a Leader in Trust and Transparency
 - Maintaining Fiscal Sustainability
 - Attracting a Range of Private Sector Businesses
 - Fostering a Contemporary Culture that Embraces Unity
 - Being Safe and Beautiful
 - Focus Areas
 - Economic Vitality
 - Innovation and Technology
 - Mobility
 - Neighborhoods
 - Quality of Life
- FY2022-23 Financial Considerations
 - Economy has mostly recovered from COVID-19 impacts, however hyper-inflation is reducing gains
 - Growth of sustainable (ongoing) revenue is being reset following 2 years of artificially reduced projections
 - Development revenues continue contributing one-time to General Fund, at a higher rate

- Potential State legislative and/or Federal actions may threaten or enhance City revenues, and federal grants are driving up potential expenditures up (ARPA, ERA, etc.)

COUNCILMEMBER STEWART asked if any of the previous Intel expansions were incorporated into the budget.

MS. LANG answered that Intel expansions are not built into the budget, as there are often delays in development and it is difficult to predict when they will be completed. It is possible to observe the effects as they are happening, so it is being built into the current budget forecast.

MATT DUNBAR, Budget Manager, continued the presentation.

- Sound Budgeting Practices Support Financially Sustainable Goals
 - Chandler maintained AAA Bond Ratings from Moody's, Fitch, and S&P rating agencies
 - Continue adherence to all fiscal policies
 - Continue pay-down of pension obligations
 - Re-affirmed October – November 2021
 - Chandler is structurally balanced
 - Ongoing revenues support ongoing expenditures
 - One-time revenues support one-time expenditures
 - Chandler maintains strong reserves
 - 15% General Fund contingency reserve
 - Budget Stabilization Reserve at a minimum of \$10M
 - Chandler manages expenditures to meet service demands
 - Maximize grant opportunities
 - Weigh positions vs. contracting
 - Ensure service continuity through various staffing solutions
 - Bond election passing also drives spending totals/projections

COUNCILMEMBER STEWART asked if the 15% General Fund contingency reserve is too large for the city, and if the funds could be used elsewhere, such as to pay down the pension obligations or invest in CIP programs.

MS. LANG replied that this topic is discussed each year. The General Fund contingency reserve is a portion of the General Fund balance that is appropriated. This is done so in case of emergency; dollars can be spent from the appropriated fund. The 15% currently represents about \$31 million since it is the percent of regular operating revenues. This is appropriated for grant opportunities or emergency procurements that can be paired with a specific budget item. The money in the actual fund balance is sourced from yearly revenues, which is then invested. The total General Fund balance currently is around \$200 million. Only 15% is appropriated, the rest is invested and put aside for designated expenditures. For example, it can be used to invest in expected needs from the ten-year Capital Plan. All monies are available for use.

MAYOR HARTKE said this reserve is part of the portfolio that receives AAA bond ratings.

MS. LANG stated that as part of the Government Finance Officers Association's recommendation, the city should have a four-month minimum operating cash reserve. Appropriated dollars cannot be below the four-month minimum amount as per city financial policy.

MAYOR HARTKE said that the total amount of \$200 million is appropriated for expenses but not yet spent.

MS. LANG answered that a large amount of the total amount is already allocated to Capital Projects in progress. The money rolls forward, so a part of that balance is carried forward. An amount of the total balance is also designated for budget stabilization which are unappropriated funds that serve as a backup source if revenue is not coming in. It gives Mayor and Council a cushion to change financial policy appropriately if needed. The overall fund balance is used in multiple ways: it is designated, appropriated, or reserved.

COUNCILMEMBER STEWART asked if the contingency reserve allocations have been used.

MS. LANG said that the contingency reserve allocations were recently used to fund repairs to the Police Department Main Station because of unexpected power outages, totaling around \$1.3 million. On an annual basis, from two to five million will be spent from this reserve. Chandler is fortunate to not have catastrophic events to warrant using the reserve monies. The lowest General Fund contingency reserve appropriation was ten percent.

COUNCILMEMBER STEWART asked if there is a good number to maintain the bond rating.

COUNCILMEMBER ORLANDO explained that the last time a poll was conducted among other cities, their contingency reserve appropriation averaged six to eight percent. Chandler had appropriated double what other cities set aside. He wanted to know what other cities are allotting for contingency reserves.

MS. LANG said that information can be gathered.

COUNCILMEMBER ORLANDO asked if the stabilization reserves could be increased from unfunded balances.

MS. LANG said that the two reserves are used for different purposes. The 15% General Fund contingency reserve is because Arizona state law requires legal adopted appropriation to spend money, which was set by Council. After department operating budgets are set, this reserve is a contingency that is appropriated that allows for unanticipated department needs to be covered. The contingency balance allows for spending from this source instead of reallocating money from

other projects. Budget adoption is set at the department level. Any use of the contingency fund must be authorized by Council.

COUNCILMEMBER ORLANDO asked if the budget stabilization reserve funds could also be used.

MS. LANG clarified that budget stabilization fund is unappropriated, designated out of invested funds. It authorizes Mayor and Council to continue city services if revenues unexpectedly decrease. It allows for normal operating expenditures to continue while expenses are reduced.

COUNCILMEMBER ORLANDO asked if the four-month reserve is a council policy or a state policy.

MS. LANG said that the four-month reserve is a council policy.

MR. WRIGHT requested that councilmembers share their requests for the one-time dollar usage so that an appropriate plan can be constructed. It is fine to use the savings, but staff needs to know to accommodate it in the budget without risking the AAA bond rating and other measures of financial safety.

COUNCILMEMBER HARRIS said he is concerned with balancing needed expenditures and informing taxpayers that their dollars are being wisely spent. Instead of holding onto money, it is the city's responsibility to collect revenue and fund quality of life investments without conserving a disproportionate amount of funds.

MAYOR HARTKE explained that future conversations will discuss property tax. There is a balance in maintaining a steady reserve.

MS. LANG said one-time fund balance will be discussed in future workshops.

MAYOR HARTKE said both the fund balance and plan have been shared. The plan is active and takes effect over several years. Council decides the proper balance.

COUNCILMEMBER STEWART said that the needs of the police station repairs accounted for about three percent of the contingency reserve. He expressed interest in reevaluating the contingency reserve appropriation.

MR. DUNBAR continued the presentation.

- Strong Fiscal Foundations Move Us Forward – Financial Policies (*Revised and adopted by Council January 14, 2016)
 - Operating Management*
 - Capital Management*
 - Reserves
 - *(Updated May 28, 2020)

- Debt Management*
- Long-Range Financial Planning*
- Grant Management*
- Investment*
- Accounting, Auditing, & Financial Reporting*
- Pension Funding
 - (Updated annually, last April 19, 2021)

MS. LANG and MR. DUNBAR continued the presentation.

- General Fund Inflows and Outflows
- 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)
 - 16% Ongoing Base Budget (i.e., Ops./maint., supplies, utilities)
 - 5% One-time decision package needs (i.e., consultants, pilot programs)
 - 2% Transfers to replacement funds
 - If Revenues exceed Expenditures, General Fund Balance increases
- Ongoing & One-Time Local Sales Tax Revenues
 - 56% of General Fund
 - Budget set artificially low during COVID
 - Ongoing levels reset for FY 2022-23
 - One-time sales tax revenues fluctuate due to economic volatility

COUNCILMEMBER STEWART asked how much of the revenue was federal dollars.

MS. LANG said that none of the revenue was federal dollars. It is just the general fund transaction privilege sales tax revenue stream. 56% of the revenue is from this. During COVID, smaller revenue streams and some sources of sales tax were negatively impacted, but other sources of sales tax such as retail and contracting were increased. Staff is studying how much of the fluctuation of sales tax revenue is sustainable. Upcoming budget projections need to be reset from previous years and be realistic to the current economy. The 2022-2023 transaction privilege tax revenue is estimated at over \$170 million. Already expectations are being surpassed, as Christmas 2021 sales were higher than expected. Chandler is doing well recovering from the economic effects of COVID-19—revenues are higher, and expenditures have been limited. However, staff position counts have been maintained at a low level by adding contracting to sustain service levels. The conversation with departments has transitioned to questioning if there are enough people to maintain contracts. The focus is on resetting projections to observable and sustainable levels.

MAYOR HARTKE said that despite seeing revenue increase, inflation costs are also rising. Though there is a significant amount of money coming in, a significant amount of money will be spent.

MS. LANG said when looking at the revenue stream over time, there is on average six to seven million added per year to maintain service levels. The additions in the past two years were under that number. The current objective is to look at costs and reset expectations.

MS. LANG continued the presentation.

- State Shared Revenues (in Millions)
 - 29% of General Fund
 - Covid impacted Urban Revenue with continued increases anticipated in other categories
- Preliminary FY 2022-23 Revenue Takeaways
 - Recognizing significant development impacts to tax base
 - Revenue budget set artificially low during COVID as precaution
 - Resetting ongoing to capture actual sustainable revenues
 - Some revenue growth is a result of increased inflation
- Expenditures "Outflows"
 - Prioritize Ongoing Demands (Maintain \$16.4M > Enhance \$11.6M > New \$2M)
 - FY 2021-22
 - General Fund Requests \$11.1M, Prior Year \$6M
 - Total Fund Requests \$16.3M
 - FY 2022-23
 - General Fund requests \$12.6M
 - Total Fund Requests \$13.7M
 - Requests just to maintain service levels are higher this year due to inflation

COUNCILMEMBER ORLANDO asked if there is 13.7% difference between this year and last year's additional ongoing dollars.

MS. LANG answered that the difference is a little over 20 million additional ongoing dollars.

COUCNILMEMBER ORLANDO asked if they are redefining what one-time dollars are versus previous projections.

MS. LANG said yes, they are redefining the ongoing revenue base. The increased assessed values due to new development and growth in Chandler partially compose this number.

MR. DUNBAR continued the presentation.

- Focus on Chandler's Workforce
 - 1,702.75 FTE

- Mental Health
- Professional Development
- Recruitment
- Wellness
- Work Flexibility – Balance
- Workers Comp & Safety
- Mentoring
- Contract vs. Employee
 - Position counts have decreased while population has increased
 - Contract labor used to sustain services
- Succession Planning
- Class and Comp
- Health Care Costs

MAYOR HARTKE explained that the FTE count was not flat, rather it was variable over time.

MR. DUNBAR responded there was a significant decrease in position count, which now has been increasing.

COUNCILMEMBER STEWART asked for a report on the number of FTEs over time, with cost and general versus public safety employees.

MR. WRIGHT said part of the plan of future meetings is to show these historical totals. Employers are facing challenges to adapt to contemporary expectations of work. The class and compensation study is an investment to realign the organization. The self-insured health insurance trust also leads to increased cost which must be addressed. Chandler is undergoing a rebalance and review of personnel. The discussion will be held once recommendations are developed, and it will be a major theme of the budget to accurately reflect the changing workforce.

MR. DUNBAR continued the presentation.

- Citywide Inflationary Impacts
 - Water utilities in parks and on street medians
 - Water/Wastewater chemicals
 - Equipment and vehicles
 - Emergency dispatch fees
 - Contracts such as animal control, detention/jail rates, street maintenance
 - Technology contract services and software licensing
 - Health Care and Risk Self Insurance costs
 - Temporary employee costs
 - Capital construction and related professional services
 - General operational costs
- Priorities for One-Time Dollars

- New Capital
- Maintain Existing Capital
- Continue Reduction of Pension Debt
- Replenish Reserves
- Operations & Maintenance

COUNCILMEMBER ORLANDO asked if an infrastructure bill is built into the budget.

MS. LANG responded that the infrastructure bill is in progress. Most dollars are one-time and being dedicated for potential use in the Capital Plan. Information on how those dollars can be used is still unknown and will be presented in future meetings when found.

COUNCILMEMBER ORLANDO said this year's will be all infrastructure and asked if it will be included in the budget.

MS. LANG responded that if the numbers are known by the time the budget is finalized, they will be included. But if a change comes midyear, it is possible to replace a bond.

MS. LANG continued the presentation.

- Public Safety Personnel Retirement System Update
- PSPRS Unfunded Liability Pay-Down Benefits
 - GOOD NEWS – Finally!
 - Started with 20-year amortization, and now have 15 years remaining
 - Continuing additional payments has reduced liability and rates for FY 2022-23
- PSPRS Actuarial Report Results 6/30/21
 - Unfunded Liability decreased \$17.2M from Prior Year's total of \$171M
 - Police \$102.8M
 - Fire \$51.1M
 - Total \$153.9M
 - Employer Fire and Police contribution rate reductions resulted in savings of \$660K over prior year
 - Normal portion of contribution 30%
 - Unfunded liability portion of contribution 70%

MAYOR HARTKE said that it seems intuitive that when you put money into the PSPRS system, the balance decreases. However in starting this process five years ago, inputting money into the PSPRS fund did not have a large effect on decreasing the balance due to management and other changes. Last year was the first year seeing decreases in the balance. He recognized the efforts made to obtain this achievement.

VICE MAYOR ROE said providing things continue in a good direction, the future of the fund will be prosperous. However, that number can be irregular. Even if it gets paid off today, that does not guarantee there will not be more expenses in the future.

MS. LANG said even if the PSPRS is totally paid down, it is still recommended to hold a reserve to prevent any potential negative balances. Fluctuations are driven by the market because that money is invested. Chandler's percent of PSPRS funded has increased steadily over time.

MS. LANG continued the presentation.

- PSPRS Net Unfunded Liability Balances Update
 - Chandler % Funded
 - 2021 – 70.3%
 - 2020 – 64.9%
- PSPRS Employee/Employer Rates Comparison Fire
- PSPRS Employee/Employer Rates Comparison Police
- PSPRS Contributions in FY2021-22 One-Time Forecast
 - Recommend continuing planned commitment of additional annual one-time payments to reduce PSPRS pension liability
 - Anticipate update using increased one-time funds available when setting FY 2022-23 budget

COUNCILMEMBER ORLANDO said despite re-amortization, fund rebalancing, and changing executive leadership, Chandler has stabilized this fund.

MS. LANG clarified that there was not continual growth during that time. There will be one more actuarial adjustment on the report that will be spread over seven years. Some future payments will go to correcting payroll labor corrections, but the fund is moving in a positive direction.

MR. WRIGHT emphasized the importance of Council's involvement with the success of PSPRS fund.

COUNCILMEMBER ORLANDO asked about recommendations.

MS. LANG said there was not yet a one-time recommendation. The current goal is to pay a higher amount, based on the forecast amount of revenue, and put one-time dollars to use for something with an ongoing impact on the city. She asked for approval on a higher number on paying down PSPRS.

Council consensus was yes, granted a full report was made.

MR. DUNBAR continued the presentation.

- Capital Improvement Plan (CIP)
- Fiscal Foundations – Staying Connected

- Current 10-Year CIP Council Guidelines
 - Minimize increase in property taxes
 - Maintain, enhance, or re-imagine existing infrastructure
 - Finish planned construction of streets, parks, fiber and utility systems
 - Prior to adding capital, ensure related ongoing O&M can be supported
 - Utilize master plans to guide long-term capital investment
- Continued Focus on Chandler's Aging Infrastructure
 - 65 square miles
 - 2,090 miles of streets
 - 29,500 Street lights
 - 230 signalized intersections
 - 1,232 miles of potable water lines
 - 945 miles of sanitary sewer
 - 30 operating wells
 - 68 developed parks (1,289 acres)
 - 48 lighted fields
 - 51 municipal buildings
 - 781 fleet vehicles/trucks
 - Maintaining high quality of life for our 275,987 residents
- 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 successful bond election was held to support all the projects in the current year 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 maintenance
 - Technology and fiber projects
 - Public Safety projects and maintenance or replacement of capitalized equipment
 - Fire Station 2 construction
 - Critical Airport needs, including Cooper Rad collector
 - Utility infrastructure rehab/replacements

MS. LANG continued the presentation.

- Preliminary Property Tax Discussion
 - Assessed Values Not Yet Received
- Property Tax Rate Comparison
- Impact of FY2021-22 Tax Rate Reduction on Median Value Homeowner
- Breakdown of \$1 of Typical Chandler Property Tax Bill
 - Public Schools and Community College Districts 67.5 cents
 - Maricopa County & Special Districts 22.7 cents

- City of Chandler 9.8 cents
- Based on 2020 Tax Bill information. Exact split will vary depending on the school district and any other special taxing districts on the bill.
- Property Tax Policy Recommendation
 - Maintain Secondary Rate since bond election anticipated increase in assessed values
 - Lower Primary Rate to offset appreciation in assessed values, leaving new property growth
 - Primary Rate will be continuously evaluated until Tentative Budget adoption and can be revisited if revenue needs change

COUNCILMEMBER STEWART asked what the real resident cost for maintaining with increased property values, considering the state statute that only allows for five percent increase in property values.

MS. LANG said the information was just released today by the County Assessor's Office; the next step is to calculate a Chandler median home value. More information on home value will be released at future meetings.

COUNCILMEMBER STEWART said tax rates will increase as home value increases.

MS. LANG said the data shows that real property values increased 4.1%, but not all that number is residential. Last year the primary rate was lowered to offset the appreciation costs to residents. She asked if there was a desire to re-examine the primary rate decrease.

MAYOR HARTKE said previous action that had passed the bonds was to maintain, and good to maintain secondary.

MS. LANG said this is important as the CIP is based on it. The secondary property tax revenue funds City service. If the increase in assessed values can be maintained, then it generates a higher revenue for the city.

MAYOR HARTKE said the assumption from passing the bonds was that that was going to be maintained.

COUNCILMEMBER ORLANDO said the recommendation is to maintain the secondary rate and lower the primary rate.

MS. LANG answered they are two separate decisions, but it would have the same impact, as they are combined on property tax bill.

MAYOR HARTKE asked about property taxes.

