

# Meeting Minutes

## City Council Work Session

February 9, 2023 | 4:00 p.m.  
Council Chambers Conference Room  
88 E. Chicago St., Chandler, AZ



### Call to Order

The meeting was called to order by Mayor Kevin Hartke at 4:02 p.m.

### Roll Call

#### Council Attendance

Mayor Kevin Hartke  
Vice Mayor Matt Orlando  
Councilmember OD Harris  
Councilmember Mark Stewart  
Councilmember Christine Ellis  
Councilmember Jane Poston  
Councilmember Angel Encinas

#### Appointee Attendance

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

#### Staff in Attendance

Matt Burdick, Communications and Public Affairs Director  
Matt Dunbar, Budget and Policy Assistant Director

### Discussion

1. Budget Workshop #1, Fiscal Year 2023-24
  - a. Opening Remarks
  - b. Survey Feedback and Financial Considerations
  - c. Preliminary Budget
    - i. General Fund Forecast Inflows and Outflows
    - ii. Major Revenues and Expenditures
    - iii. Public Safety Personnel Retirement System (PSPRS)
    - iv. Capital Improvements Plan (CIP)
    - v. Property Tax
  - d. Key Budget Dates

e. Closing Remarks

MAYOR HARTKE called for a staff presentation.

JOSHUA WRIGHT, City Manager, introduced the item.

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

- FY2023-24 Budget Workshop #1
- Agenda
  - Feedback / Financial Considerations
    - FY2023-24 Resident Budget Survey
    - Foundations
  - FY 2023-24 Preliminary Budget
    - General Fund Forecast Inflows and Outflows
    - Major Revenues / Expenditures
    - Public Safety Personnel Retirement System (PSPRS)
    - Capital Improvement Plan (CIP) Overview
    - Property Tax Discussion
  - Key Budget Dates
  - Closing remarks

MATT DUNBAR, Budget and Policy Assistant Director, continued the presentation.

- Chandler Budget Process Timeline – Innovation at work
- Feedback and Financial Considerations
- FY 2023-24 Resident Budget Survey
  - The survey ran from November 28, 2022, through January 13, 2023, with Council outreach videos
  - CAPA assisted with an ad campaign to encourage participation
  - Expanded the outreach on social media
    - Weekly poll questions were added to Twitter, Instagram, Nextdoor, Ocotillo Friends, and Facebook
    - 5 total polls – one for each focus area
  - The shortened survey consisted of 15 total questions and was offered in English, Spanish, and Mandarin
  - Each focus area was allotted 1-2 questions on the full survey, each with a comment box for written responses
  - Total Survey Responses: 1,310 (214 prior year)
  - Poll responses 4,303
  - Survey Comments 1,629
- Budget Survey Results
- Budget Survey Results
- Poll Question Results

- Poll Question Results
- Poll Question Results
- FY2023-24 Budget Theme
  - Innovation at Work
  - 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
    - Good Governance
- Financial Policies
  - 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 (annual update; June 9, 2022)
- FY 2023-24 Financial Considerations
  - Economy has seen inflation and supply chain issues for many months now with slight easing on the inflationary front. Continued Federal Reserve monetary policy changes will affect future growth.
  - Growth of sustainable (ongoing) revenue was reset in FY 2022-23 following 2 years of artificially reduced projections from COVID, then the Intel development's additional increase in FY 2023-24.
  - Potential State legislative and/or Federal actions may threaten City revenues, with large Infrastructure projects to support Intel and federal grants continuing to drive projected expenditures up (ARPA, ERA, etc.)

- Possible recession or self inflicted downturn is in most economist's predictions due to consumer confidence, interest rates rising, fuel pricing and a potential drop in home values.
- Unemployment still low, but we have seen additional personnel rightsizing, especially in the technology sector.
- Development revenues continue contributing one time dollars to General Fund, but much lower on single family residential (only 23 permits issued in last 6 months) but higher in commercial.
- Inflation Now Trending Lower
- Recession Gauge Flashing Yellow GDP Expected to Grow by End of Year
- 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 end of 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
    - Will review and right size to Council Goals
  - 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
  - Control Primary Property Tax
    - Provide options to match expenditure needs or right size

COUNCILMEMBER STEWART asked about predictions of recession in the economy.

MS. LANG responded that Chandler would deal with the predictions of recession differently. Large development projects occurring in Chandler bolster activity and revenue. There would be an economic downturn, but the projects will continue until the end of the calendar year, and act as a buffer to the downturn. When construction stops, that would change.

COUNCILMEMBER STEWART asked if this would extend through the fiscal year in June.

MS. LANG said that is not an expected downturn until 2024-2025.

MAYOR HARTKE commented that other development projects in Chandler would have the same effect of lessening the effects of recession.

MS. LANG answered that with construction ending at the end of 2023, there will be one-time revenue coming in the project slowing. The decrease will be because of the construction project ending, not an economic downturn.

COUNCILMEMBER POSTON asked if the budget stabilization reserve cap of \$10 million dollars is City policy or a reality.

MS. LANG said that the cap is policy and the current value. This is not an appropriated reserve; we just hold \$10 million in our fund reserve in case of need.

MAYOR HARTKE asked if the \$10 million amount is part of the 15% of council contingency reserve.

MS. LANG said that the council contingency reserve and the budget stabilization reserve are different. The 15% contingency is appropriated for actual use throughout the year in an emergency. The state requires that we adopt a budget with a contingency appropriation to cover unforeseen emergencies. The stabilization reserve is a policy that says we can continue to spend from savings to give Council enough time to make good decisions midyear.

COUNCILMEMBER STEWART asked what the 15% amount is.

MR. DUNBAR answered that 15% is \$38 million.

COUNCILMEMBER STEWART said that there is \$48 million unappropriated dollars all together.

MS. LANG said one is appropriated, one is not. The contingency reserve often goes unused. If we do not use it, it can be reappropriated in the following year.

MR. DUNBAR added that this policy is examined by the bond rating agencies for budget safety and risk reduction.

MAYOR HARTKE commented that we should work to maintain our AAA bond rating and strong reserves.

COUNCILMEMBER STEWART asked to revisit these reserves later.

COUNCILMEMBER ELLIS shared that those reserves should be maintained.

MS. LANG added that more information would be shared at the next Budget Workshop.

VICE MAYOR ORLANDO said that this state legislative session is concerning despite financial planning. The reserves will be used for any midyear changes; but are cause for concern.

COUNCILMEMBER STEWART commented that legislators are concerned about city reserves. We should take a preemptive approach to municipal budget planning.

VICE MAYOR ORLANDO said that the point of view is to reduce taxes in any area possible. The legislature has been focused on cutting taxes and sees taxes in a different way than cities do.

MAYOR HARTKE said this topic will be revisited.

MS. LANG continued the presentation.

- General Fund Inflows and Outflows

MR. DUNBAR continued the presentation.

- Annual General Fund Revenues and Expenditures
- Ongoing/One-time Local Sales Tax (TPT) Revenues

MS. LANG added that Intel building projects that impact revenue may be announced but not immediately commenced. There is a balancing act based on available information.

MR. WRIGHT clarified that it is when the Intel facilities start producing not when they break ground that ultimately effects the budget so it is important to not get ahead when planning.

VICE MAYOR ORLANDO asked what the numbers would be without the Intel project.

MS. LANG responded that it would probably put the numbers at 90% which would leave a 10% cushion but there are other historical ongoing projects.

MR. DUNBAR continued the presentation.

- Key Local Sales Tax Revenues by Category

MAYOR HARTKE asked if every category of our local sales tax is projected to not increase.

MR. DUNBAR answered that the top five are impacted by development. They are projecting that when development ends mid fiscal year, there will be a decline in local sales tax.

MS. LANG said that projection is assuming construction ends as planned.

VICE MAYOR ORLANDO clarified that even if you take the one-time projects out of the numbers, they are still showing steady growth and lots of economic opportunity.

MS. LANG agreed and said this conversation is really focusing on those special projects and their impact but there is still plenty of other means of economic growth when you take the whole budget forecast into account.

MR. DUNBAR continued the presentation.

- State Shared Revenues (in Millions)
- Potential Ongoing & Other Legislative Impacts to FY2023-24 Revenues
- Preliminary FY2023-24 Revenue Takeaways
  - Positive Indicators:
    - Continue significant commercial development
    - Revenue collections still higher
    - Low unemployment
  - Negative Indicators:
    - Supply chain and inflation impacts continue
    - Stagnating home sales and significant drop in single family permits issued
    - Significant potential legislative revenue impacts
    - Consumer confidence continues to drop

MS. LANG continued the presentation.

- New Decision Package Requests Expenditures “Outflows”

COUNCILMEMBER STEWART asked what decision packages were approved in previous years.

MR. DUNBAR confirmed he was asking for requested versus approved.

COUNCILMEMBER STEWART asked if the decision package is subject to change depending on all the variables.

MR. DUNBAR said that was correct and the requested decision package can change.

MR. WRIGHT said there is a process that takes place between preliminary discussions and when the decision package is requested and then approved.

MAYOR HARTKE stated the difference compared to previous years in this decision package is the \$20 million dollars of inflation that is required for maintaining service levels.

MS. LANG responded that not just the inflation but a higher request for people needed to meet the demands of service. There is a total of 58 position requests included in the decision package.

COUNCILMEMBER STEWART asked for the amounts of decision packages requested in the past.

MS. LANG answered that for FY2022-23 there was \$32 million in requests. From that there was an approved one-time general fund for \$13.4 million and an additional ongoing fund of \$3.2 million equaling a total of \$16.7 million.

COUNCILMEMBER STEWART asked about the previous year's numbers.

MS. LANG stated she would have to revisit that question. Possibly \$10 million with \$3 to \$4 million ongoing.

COUNCILMEMBER STEWART asked if during the pandemic request amounts were lower due to lack of hiring.

MS. LANG said the requests were minimal and the City maintained non-public safety hiring.

COUNCILMEMBER STEWART said it sounds like the budget had been added to and increasing for a little while.

MAYOR HARTKE reminded everyone this is just preliminary projections at this time.

COUNCILMEMBER POSTON asked why Chandler has lower amounts of permits for single family homes compared to neighboring cities.

MS. LANG answered that the amount is not going to be normally that low but going forward single-family home permits will tend to be lower due to land restrictions.

MR. WRIGHT said there is land that has already been approved for single family homes, that have not started construction yet and currently not as many requests are coming in.

MS. LANG continued the presentation.

- Focus on Chandler's Workforce
  - 1,727 FTE excludes 40 grant funded and early funded positions
  - Updated Technology
  - Professional Development
  - Recruitment
  - Wellness
  - Work Flexibility-Balance
  - Workers Comp & Safety
  - Mentoring
  - Contract vs. Employee
  - Succession Planning
  - Class and Comp
  - Health Care Costs



- Mental Health
- Citywide Inflationary Impacts
  - Operating:
    - Certain contracts, chemicals (+44%) and utilities has seen significant increase
    - Budget Inflationary Changes (BICs) were identified and added in FY2022-23 do not fully offset costs but has helped
  - Capital:
    - Projections increased +8.5% 1<sup>st</sup> year, then +5%, then +3.5% thereafter, and 12% contingency
    - Materials experiencing hyperinflation are asphalt, steel, pipes, data fiber, anything cement-based, and anything with a computer chip
      - Projects with those materials are being costed based on market
- Effect of Strong Revenue Growth on One-Time Fund Balance
- Recommended Priorities for One-Time Dollars
  - Continue reduction of PSPRS pension debt to generate ongoing savings
  - Reinvest in existing aging infrastructure, neighborhoods & systems
  - Operating & Capital spending to move strategic goals
  - Maintain reserves sufficient to meet financial policies
  - New initiatives and capital including sustainability

MAYOR HARTKE said he would like to eliminate the PSPRS debt, be able to generate the ongoing income and from there be able to address the different priorities.

COUNCILMEMBER POSTON asked if the previous payment for PSPRS may change the results of the next payment.

MS. LANG said she would address that in the following slides.

COUNCILMEMBER STEWART asked what the amount for the PSPRS is for next year.

MS. LANG answered that the total unfunded liability is \$136.5 million, before a \$50 million payment.

COUNCILMEMBER STEWART asked if that was already budgeted.

MS. LANG said the amount is paid down in the forecast and reviewed annually.

COUNCILMEMBER ELLIS asked if the five priorities built into the budget for 2023/24 can be addressed simultaneously.

MS. LANG said that an understanding of the magnitude of each goal and their priority was needed to make decisions from there.

VICE MAYOR ORLANDO agreed it would be great to address all the priorities and reinvest and asked if the total dollar amount for reinvesting only included the one-time dollars and excluded any bonding capacity.

MS. LANG said that was correct and they would present bonding capacities in the next session.

MAYOR HARTKE said that they could pull from one-time funds or bonds if needed.

MS. LANG said that is an option, depending on the situation it may be better to use a cash fund or a bond fund if there is a bond authorization.

MR. DUNBAR said they will be reviewing the best options for funding projects that may overrun because of increases on capital side and possible changes with property tax revenue. The funding may have to be adjusted depending on projections and it will most likely be a blend to make sure projects can continue.

COUNCILMEMBER STEWART asked if they are still playing catch up with the state regulated 5% increase limit on property taxes.

MR. DUNBAR said they anticipate the 5% property tax cap, but they won't know until that information is released later. The 5% is capped on current existing properties but that doesn't apply to new buildings.

COUNCILMEMBER STEWART asked if the city is still playing catch up from 2010 when that 5% cap was put into place and limited taxes from showing what their true value is, and if the 5% is built into the budget.

MS. LANG answered that they built in 5% on the primary side and 4% on the secondary side just to be conservative depending on what evaluations come in at and it gives them room to grow their improvement plan.

COUNCILMEMBER STEWART asked that even if evaluations came in lower would they still be able to capture that 5% because the property has not been assessed or taxed at its real value since 2010.

MS. LANG said that the 5% is built into the preliminary budget.

COUNCILMEMBER STEWART asked if using the bond dollars for revenue is a better option than using cash due to rates.

MS. LANG answered that currently it is better, but it depends on rates, they are ever changing, and it depends on the situation.

MS. LANG continued the presentation.

- Public Safety Personnel Retirement System Update
- PSPRS Unfunded Liability Pay-Down Benefits
  - Beginning FY2022-23, Chandler rates and unfunded liability are decreasing
  - Started with 20-year amortization, and now have 14 years remaining
  - Continuing additional payments has reduced liability and rates for FY2023-24
- PSPRS Actuarial Report Results 6/30/22
  - Unfunded liability decreased \$17.5M from prior year's total of \$154M
  - Employer contribution rate reductions translates to about \$900K in ongoing savings based on FY2022-23 personnel levels
- PSPRS Net Unfunded Liability Balances Update

COUNCILMEMBER STEWART asked if the unfunded liability balance would be \$95 million after the \$50 million dollar over-payment is applied to the numbers.

MS. LANG said that it was possible that number will be different based on interest rates. They had earned 4.2% but there was an interest rate of 7.1% applied for the last 7 years and part of the \$50 million may have been applied to cover that loss.

COUNCILMEMBER STEWART asked about the management of the fund.

MS. LANG expressed it is being managed well and they will be receiving a fresh modeler in March that will reflect more accurately what another payment will do to the bottom line.

MS. LANG continued the presentation.

- PSPRS Employee / Employer Rates Comparison | Fire
- PSPRS Employee / Employer Rates Comparison | Police
- PSPRS Contributions in FY2022-23 One-Time Forecast

COUNCILMEMBER POSTON asked if the amount is for this year FY2022-23 or next year FY2023-24

MS. LANG responded that this is current time rates for FY2022-23, but they will change to accommodate for next year's needs.

MR. DUNBAR continued the presentation.

- Preliminary Discussion: 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
    - Deliver on commitments made to residents through 2021 bond election
    - Balance inflation, workload, and timely completion of high-visibility and grant-funded projects
- Continued Focus on Chandler’s Aging Infrastructure
- Capital Projects Under Review in the 10-Year Plan
  - A successful bond election was held to support all the projects in the current year CIP
    - Various community / regional park improvements, including Multi-Generational Center addition
    - Remaining arterial street projects such as Alma School, Ocotillo, and Chandler Heights Roads
    - Address aging street, park, facility, and utility infrastructure through revitalization
    - Technology and fiber projects
    - Public Safety projects and maintenance or replacement of capitalized equipment
    - Airport needs and enhancements, including Cooper Road collector (under design)
    - Utility infrastructure rehab / infrastructure

VICE MAYOR ORLANDO stated that he does not want to keep pushing these projects out if they can be addressed now with the Capital Improvement Plan and if they can get some more information.

MS. LANG said they can provide more information and options.

COUNCILMEMBER ELLIS asked about more information on using one time cash for projects and keeping them viable.

MS. LANG said they will do some projecting on using cash versus bonds on a few 10-year plan projects and bring those to the next session.

COUNCILMEMBER STEWART asked if foreseeable issues with supply chain and labor can change the priority of these projects so that overages can be prevented.

MS. LANG replied that it is a challenge because of all factors involved, projects are maxed out, that just being able to start a new project may be an issue.

MR. DUNBAR continued the presentation.

- Preliminary Property Tax Discussion
- Property Tax Rate Comparison

MAYOR HARTKE stated that these property tax rates show how legislature regulating an avenue of revenue can affect each city so differently.

COUNCILMEMBER STEWART asked why Scottsdale's numbers looked lower than Chandler's.

MR. DUNBAR said it could be an increase of housing evaluations on new properties or capital projects that have been completed and multiple other variables.

MR. DUNBAR continued the presentation.

- Impact of FY2022-23 Tax Rate Reduction on Median Value Homeowner
- Breakdown of \$1 of Typical Chandler Property Tax Bill
- Property Tax Policy Recommendation
  - Maintain Secondary Rate since bond election anticipated an increase in assessed values
  - Evaluate Primary Rate Options
    - Offset appreciation in assessed values
    - Offset entire increase for primary rate if expenditure levels allow
    - Primary Rate will be continuously evaluated until Tentative Budget adoption and can be revisited if revenue needs change

COUNCILMEMBER STEWART stated that it would be nice to have the 7-year trend of only a marginal decrease to continue and looks forward to being provided with some good options for the budget in the next meeting.

MR. DUNBAR continued the presentation.

- Budget Year 2023-24 Recap
  - There are mixed signals when looking at economic indicators that should be weighed when looking at any significant changes to revenue or expenditure projections or policy changes
  - Legislative revenue impacts could cause significant adjustments late in the budget process
  - There continue to be needs City-wide, both from ongoing and one-time perspectives, to provide the services residents expect
  - Chandler continues to provide its residents with an award-winning City in which to live, work and play

- Key Budget Dates
- Questions?

COUNCILMEMBER HARRIS thanked staff for all their hard work and said there was some concerns about state legislators and how that will affect occupancy tax, food tax and transportation. Councilmember Harris asked if staff can come back with some serious options on how to use the reserves and to have more concrete numbers in conjunction with tax rates so they can make good decisions to be able to maintain a healthy and thriving city financially.

## Adjourn

The meeting was adjourned at 5:56 p.m.

ATTEST: *Dana R. DeLong*  
City Clerk

*Kevin Harris*  
Mayor

Approval Date of Minutes: March 20, 2023

## Certification

I hereby certify that the foregoing minutes are a true and correct copy of the minutes of the Work Session of the City Council of Chandler, Arizona, held on the 9th day of February 2023. I further certify that the meeting was duly called and held and that a quorum was present.

DATED this 20th day of March, 2023.

*Dana R. DeLong*  
City Clerk

