



City Council Work Session

Budget Workshop #1

Thursday, February 9, 2023
4:00 p.m.

Council Chambers Conference Room
88 E. Chicago St., Chandler, AZ



Work Session - Budget Workshop #1



Pursuant to Resolution No. 4464 of the City of Chandler and to A.R.S. 38-431.02, notice is hereby given to the members of the Chandler City Council and to the general public that the Chandler City Council will hold a WORK SESSION - Budget Workshop #1 open to the public on Thursday, February 9, 2023, at 4 p.m., in the Chandler City Council Chambers Conference Room, 88 E. Chicago Street, Chandler, Arizona. One or more members of the Chandler City Council may attend this meeting by telephone.

Persons with disabilities may request a reasonable modification or communication aids and services by contacting the City Clerk's office at 480-782-2181 (711 via AZRS). Please make requests in advance as it affords the City time to accommodate the request.

Agendas are available in the Office of the City Clerk, 175 S. Arizona Avenue.

Agenda

Call to Order

Discussion

1. **Budget Workshop #1, Fiscal Year 2023-24**
 1. Opening Remarks
 2. Survey Feedback and Financial Considerations
 3. Preliminary Budget
 - a. General Fund Forecast Inflows and Outflows
 - b. Major Revenues and Expenditures
 - c. Public Safety Personnel Retirement System (PSPRS)
 - d. Capital Improvements Plan (CIP)
 - e. Property Tax
 4. Key Budget Dates
 5. Closing Remarks

Adjourn



City Council Memorandum City Manager's Office Memo No. N/A

Date: February 9, 2023
To: Mayor and Council
From: Dawn Lang, Deputy City Manager - Chief Financial Officer
Subject: Budget Workshop #1, Fiscal Year 2023-24

Attachments

Budget Workshop #1



FY 2023-24 Budget Workshop #1

Council Conference Room
Thursday, February 9, 2023 | 4:00 p.m.

Agenda



- **Feedback/Financial Considerations**

- FY 2023-24 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**

Chandler Budget Process Timeline


“Innovation at Work”



Today

Budget Processes	Start	End	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23
Budget Kick-Off		10/27/22									
Resident Budget Survey/Poll Questions/Videos	11/28/22	1/13/23									
Depts Submit Decision Packages/CIPs	12/9/22	12/24/22									
Council Budget Workshop #1		2/9/23									
Decision Package/CIP Recommendations		2/24/23									
Council Budget Workshop #2		3/23/23									
Finalize CIP Recommendations		3/29/23									
Proposed Budget Book to M&C		4/14/23									
New or Modified Fees Action		4/27/23									
All Day Budget Brief		4/28/23									
Amendment Discussion		5/11/23									
Tentative Adoption		5/25/23									
Public Hearing and Final Adoption		6/15/23									
Adoption of Tax Levy		6/29/23									

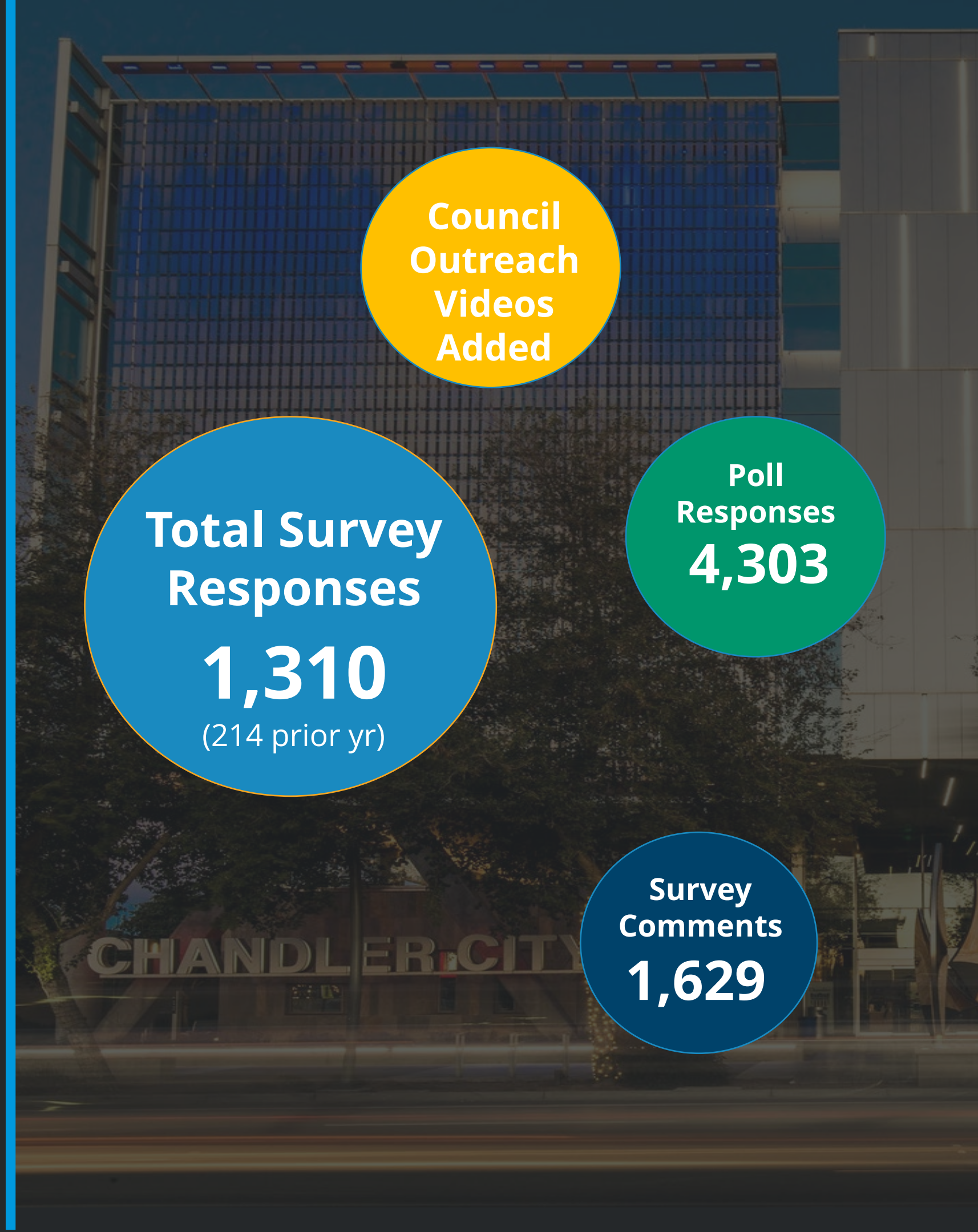
7/1/2023 Ready to start FY 2023-24. Another exciting year in Chandler's history!

The image shows a mural on a wall. On the left, a realistic-looking bird with black and white speckled plumage stands on a small black base. Behind it is a tall, green saguaro cactus with white spines. The background of the mural consists of stylized, geometric shapes in shades of blue and green. To the right of the bird, the mural continues but is partially obscured by a dark, semi-transparent overlay. The text 'Feedback and Financial Considerations' is written in white, bold, sans-serif font across the middle of this overlay. In the bottom right corner of the mural, the name 'LAUREN LEE' is visible.

Feedback and Financial Considerations

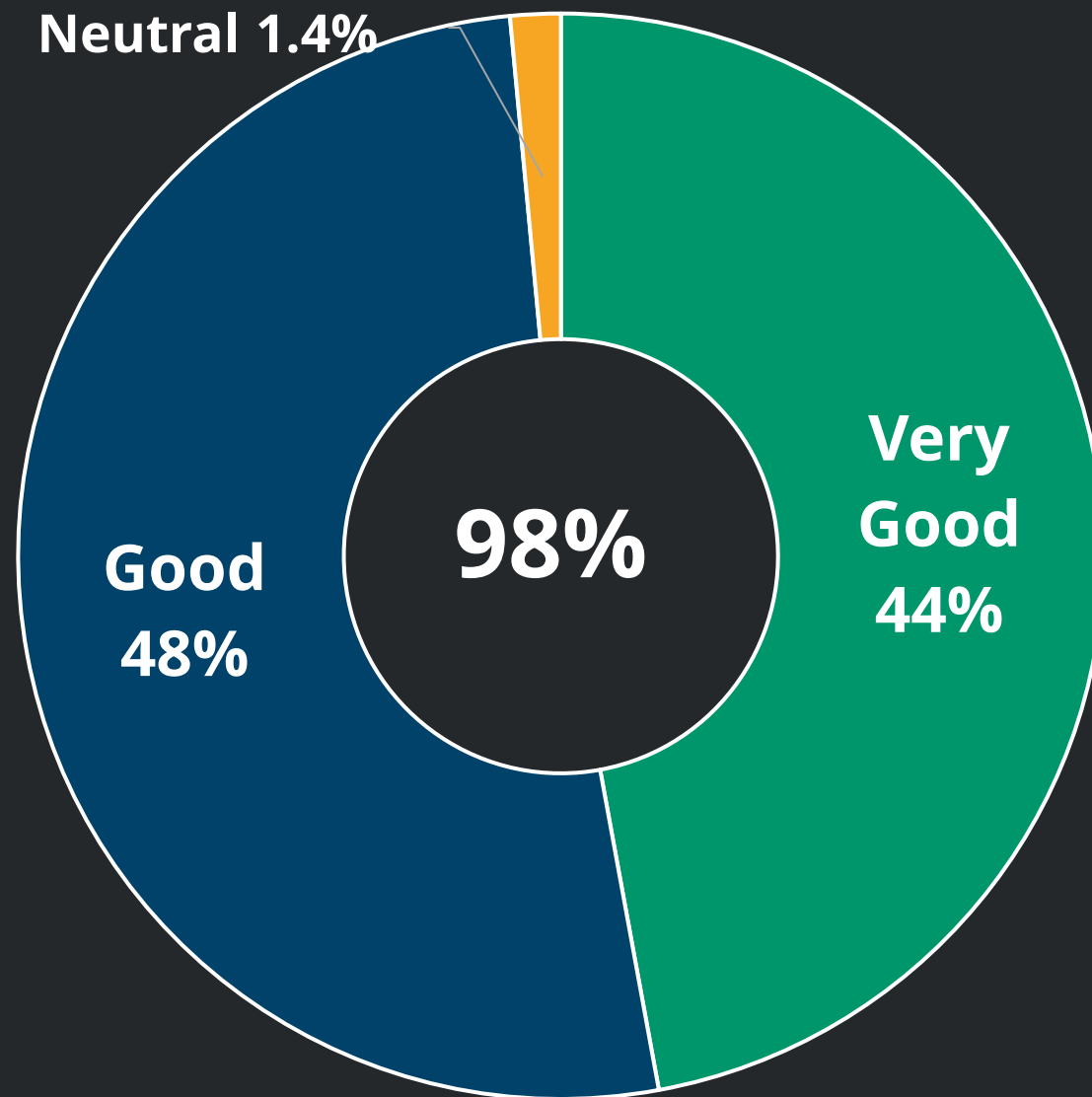
FY 2023-24 Resident Budget Survey

- 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

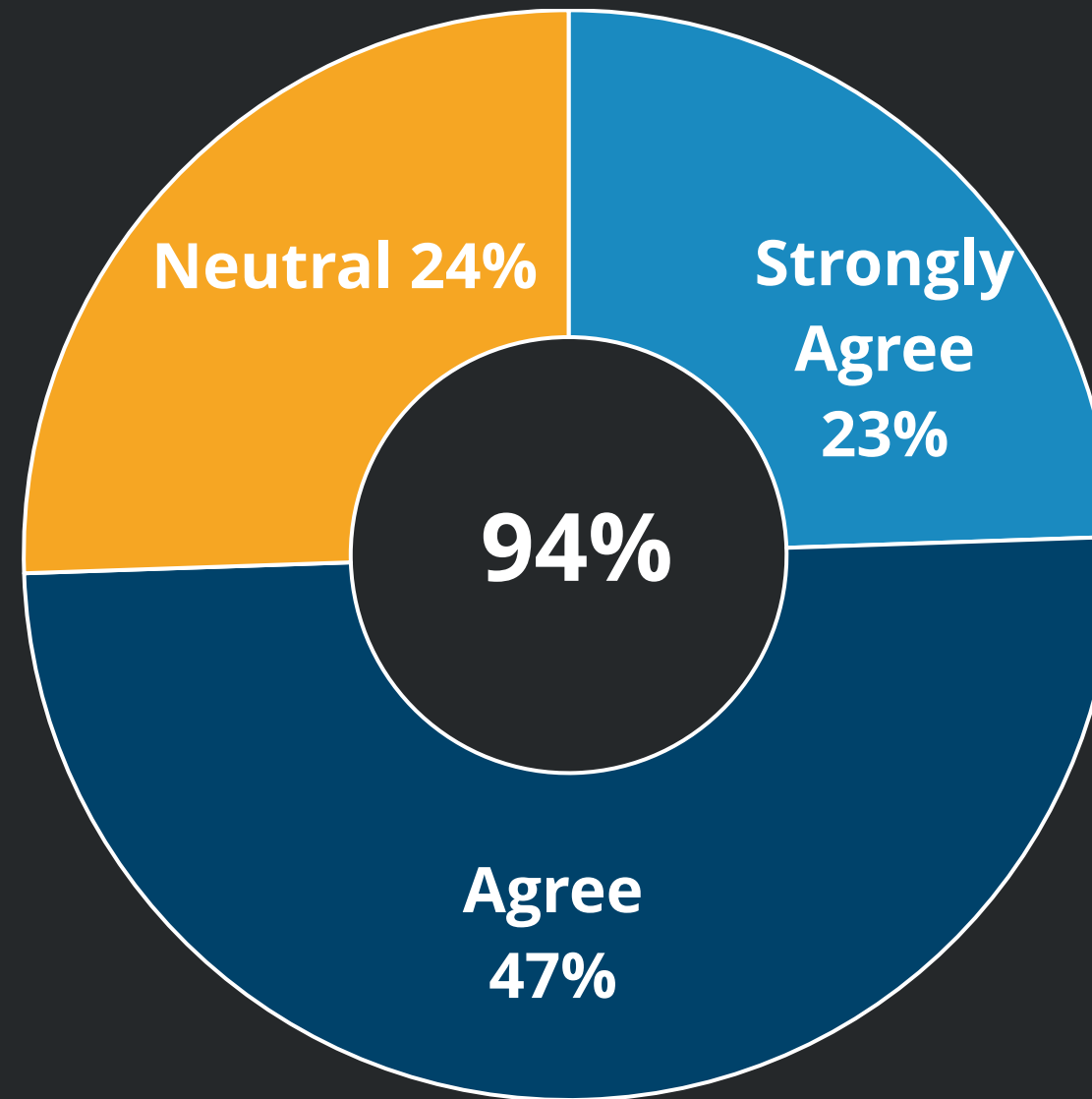


Budget Survey Results

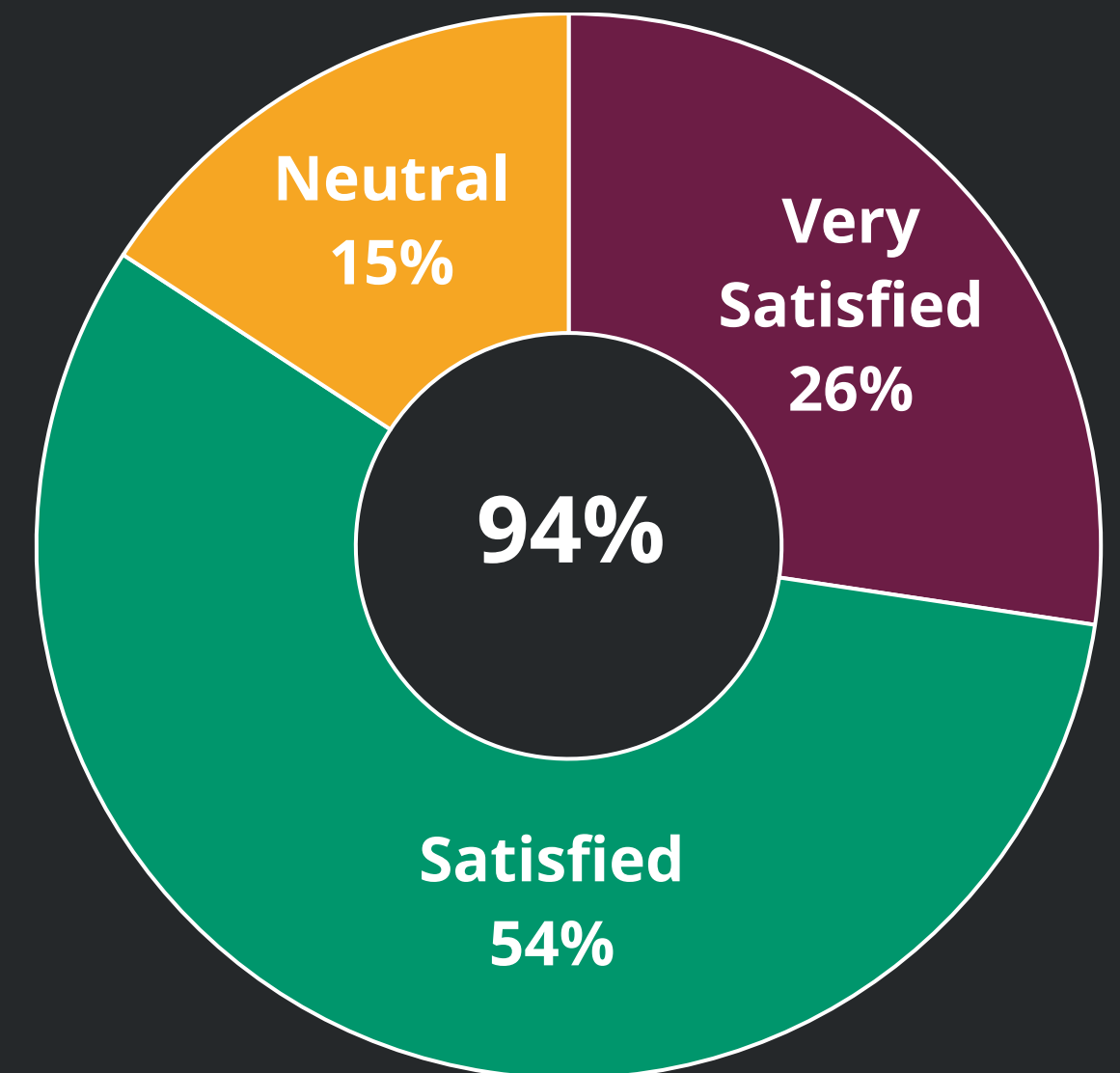
Quality of Life



Good Tax Dollar Return



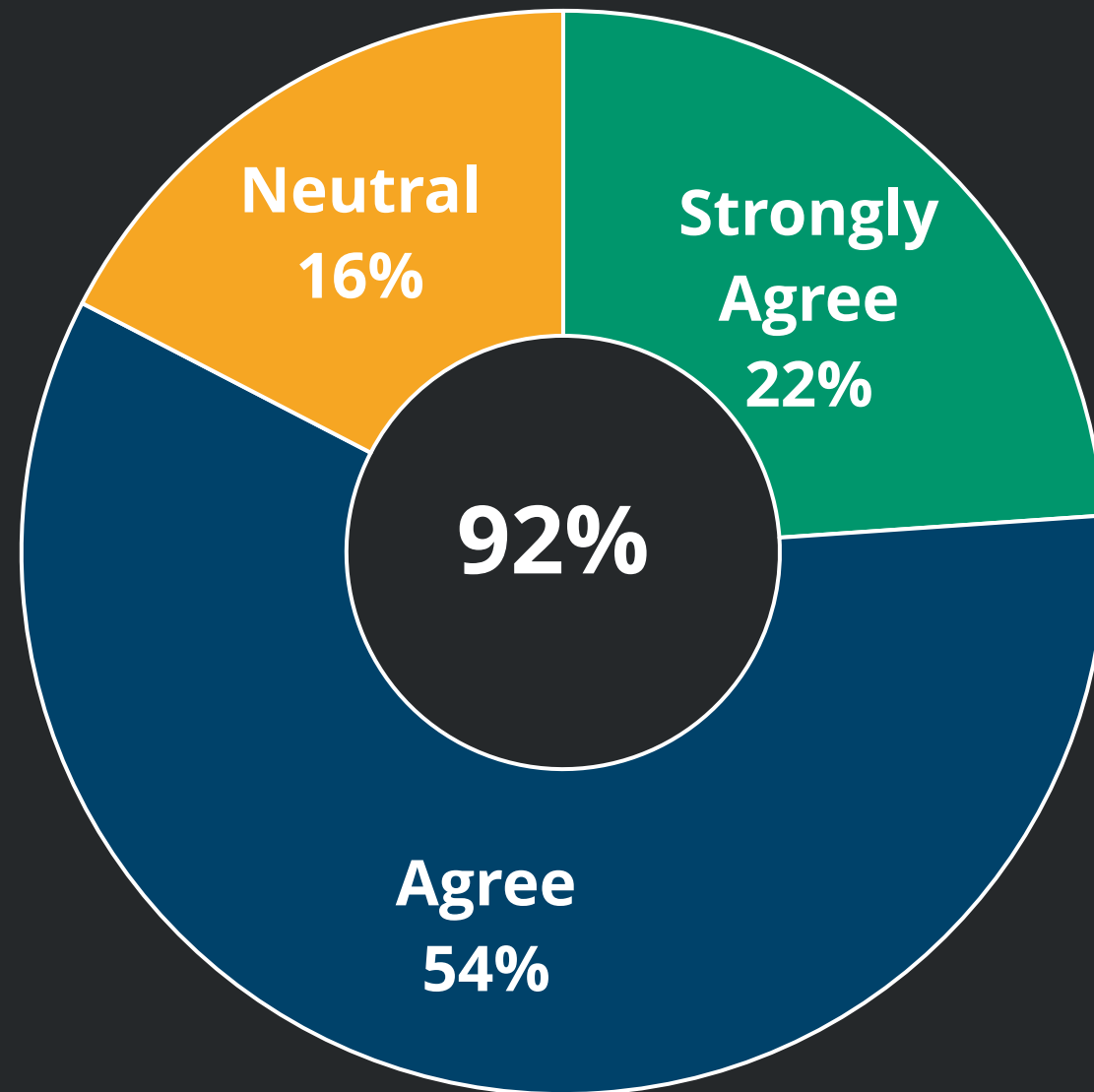
Overall City Services



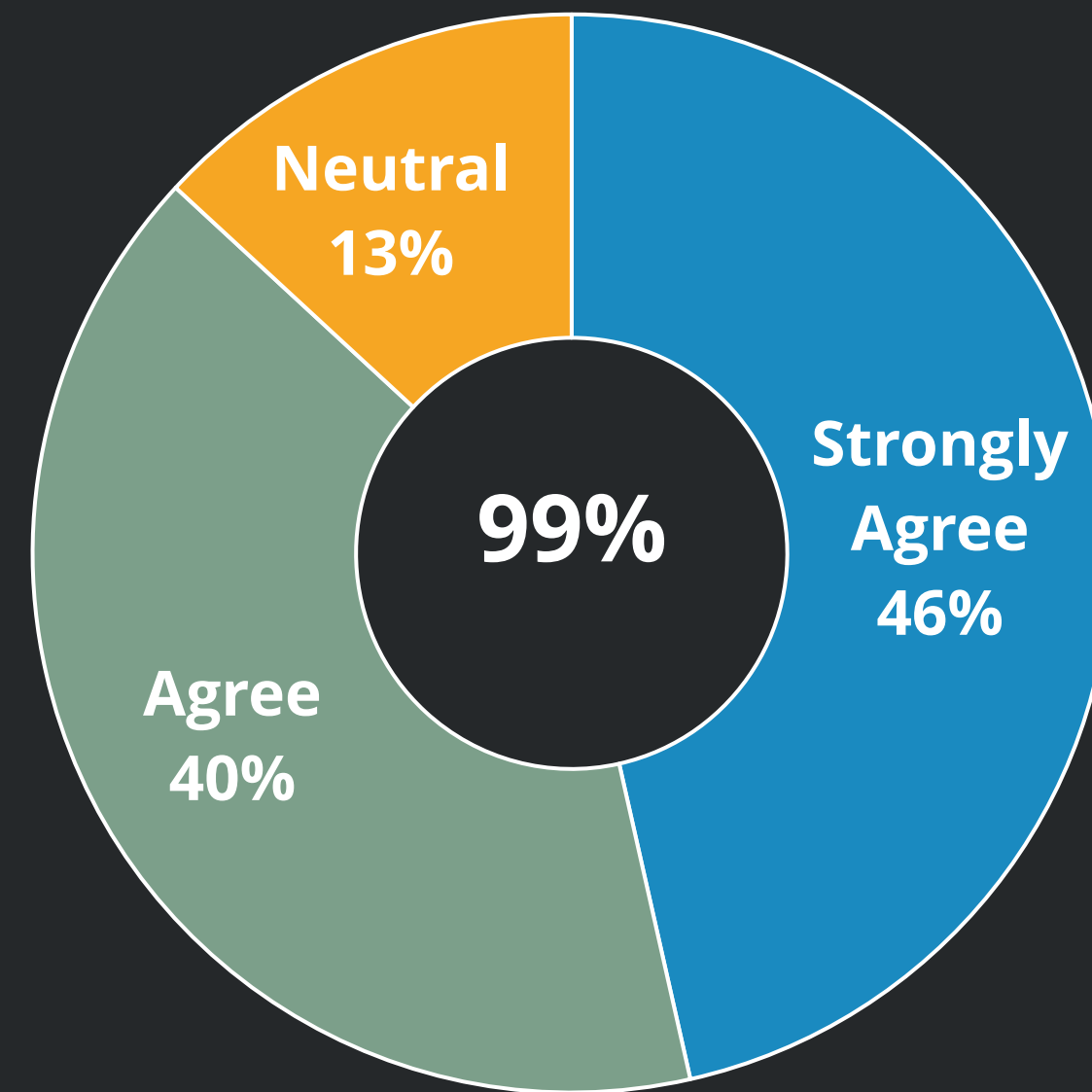
Provides residents a convenient way to share feedback regarding City services, amenities and infrastructure that are important to their quality of life in Chandler

Budget Survey Results

I Feel Safe in Chandler



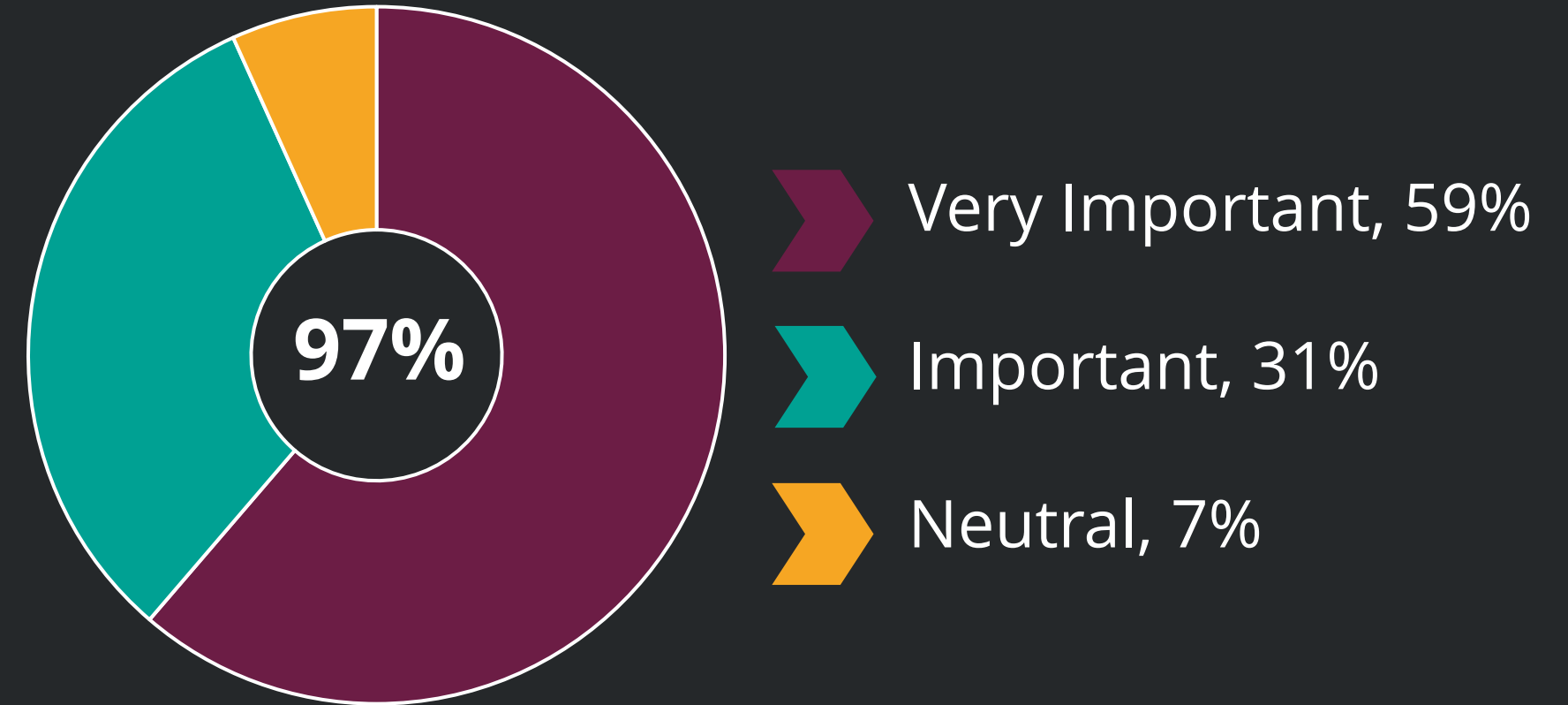
Chandler Fire Would Provide Quality Care



Poll Question Results

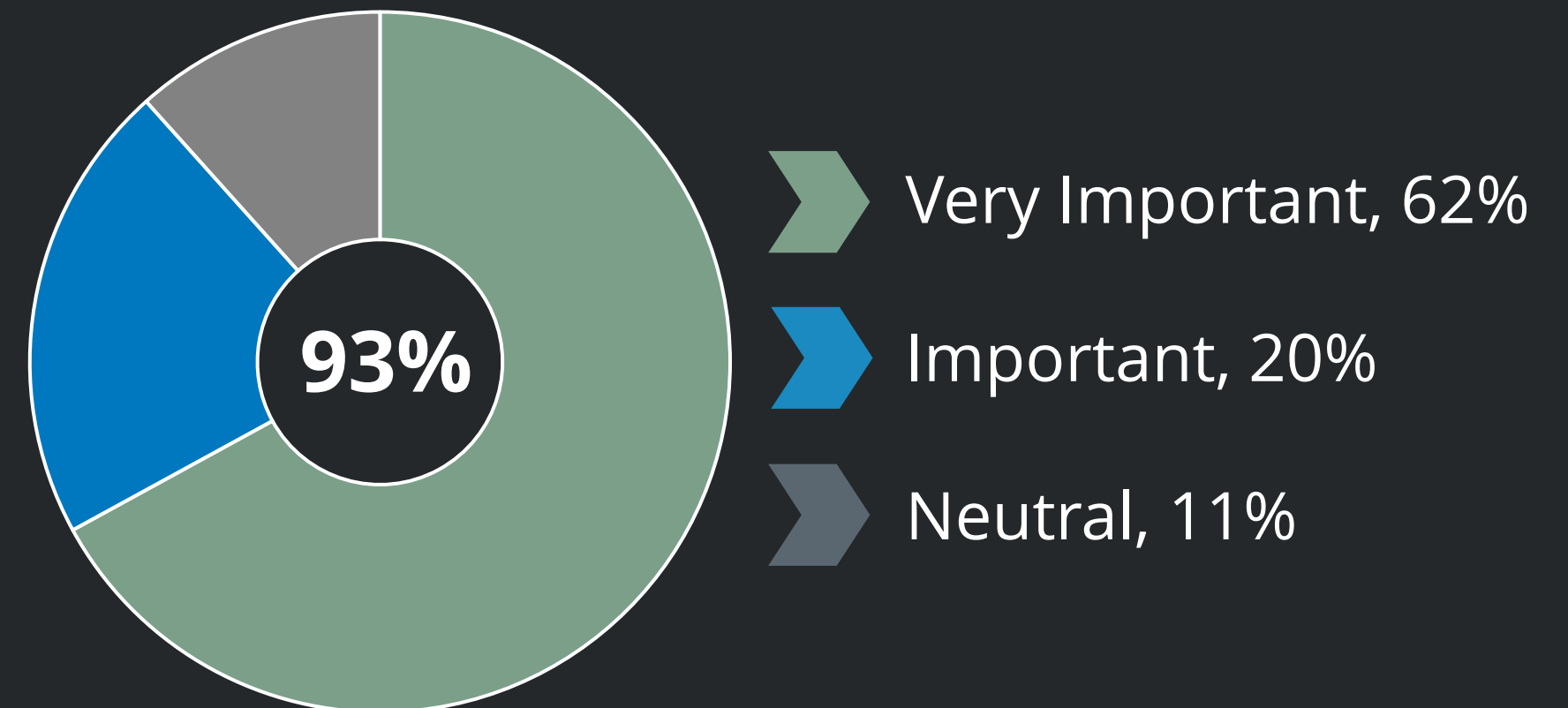
Economic Vitality

The City has a focus on assisting in the revitalization of existing retail centers. How important to you are these efforts to reduce vacant property and create alternative uses for that property?



Innovation & Technology

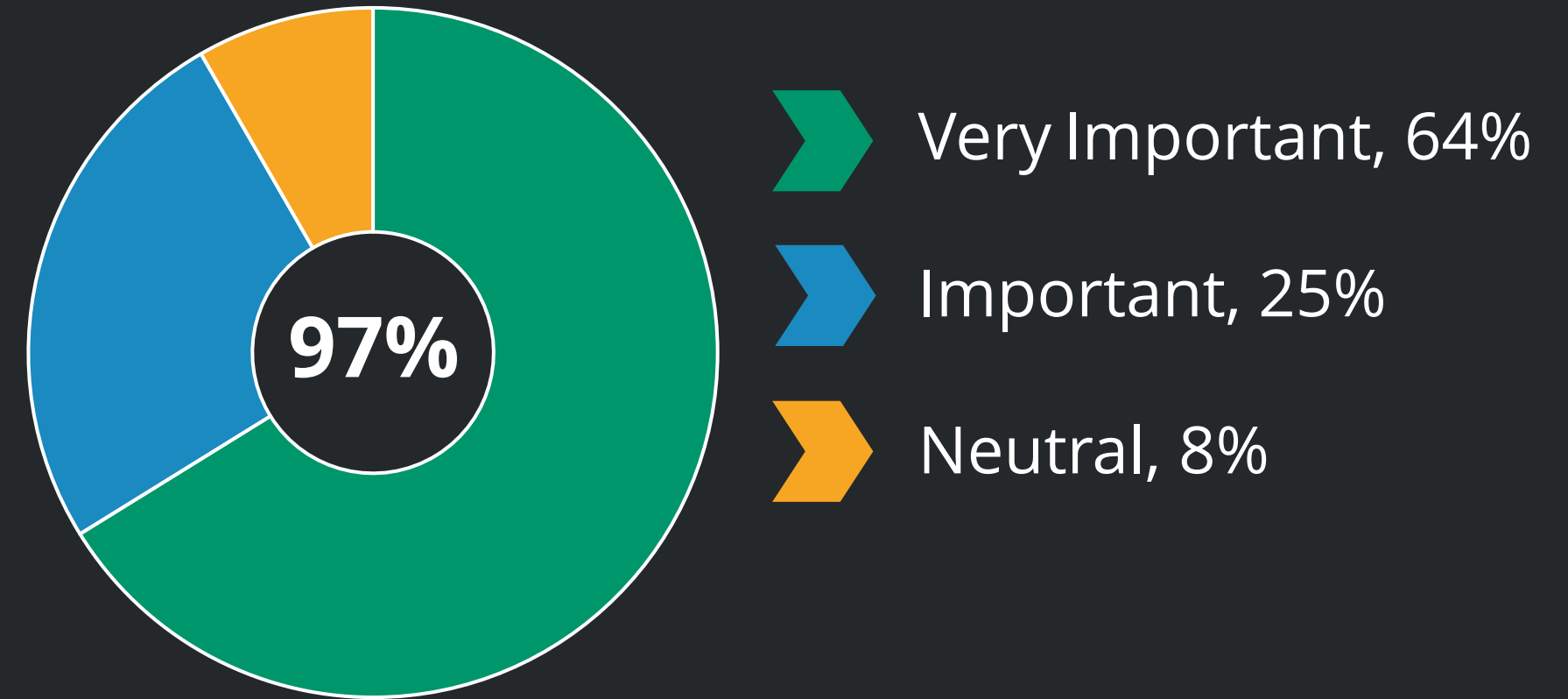
Technology Innovation is a key component of City Services. How important to you are the external partnerships the City has entered into, especially in the technology field, with companies like Waymo, ASU, and U of A?



Poll Question Results

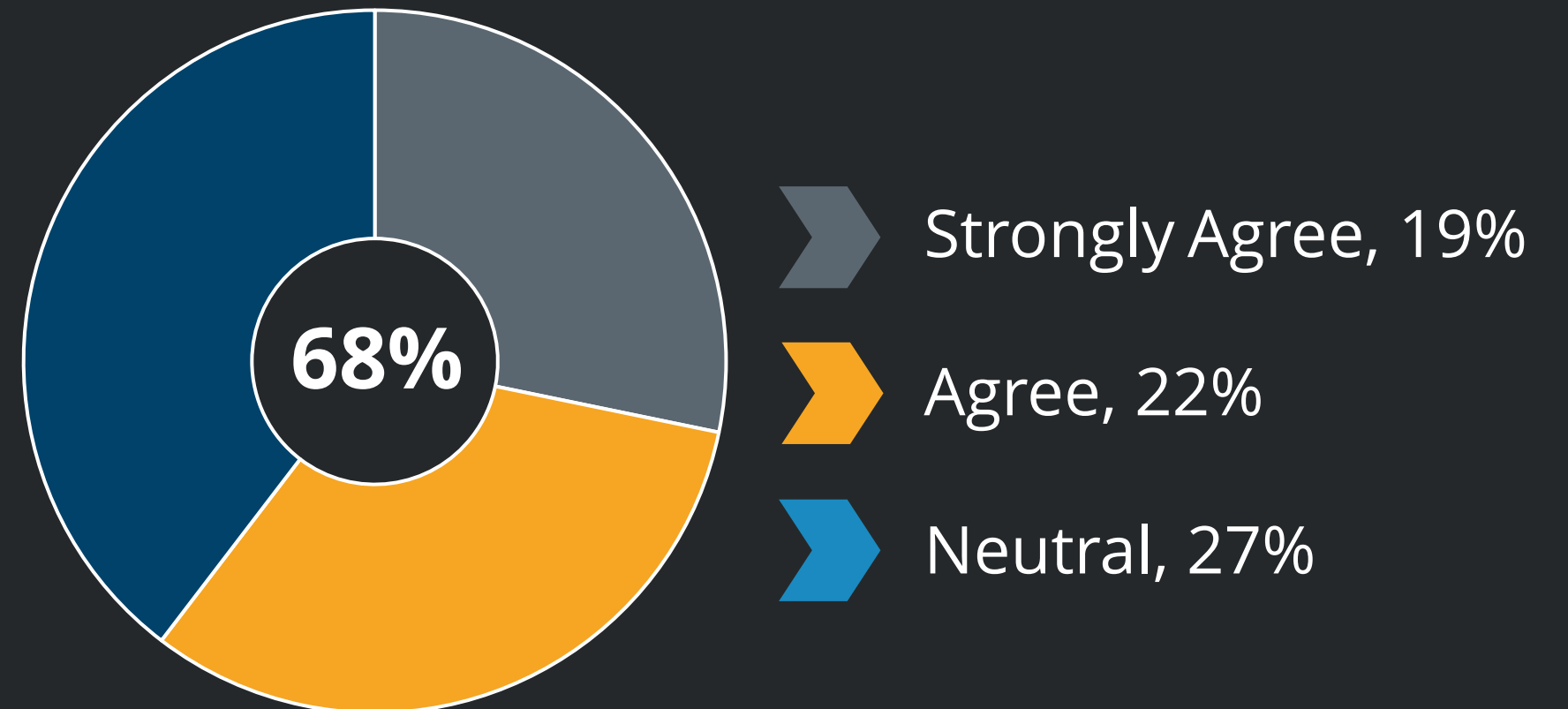
Neighborhoods

How important is it to you for the City to offer services and amenities that preserve and enhance the quality of neighborhoods while maintaining each neighborhood's distinct character?



Mobility

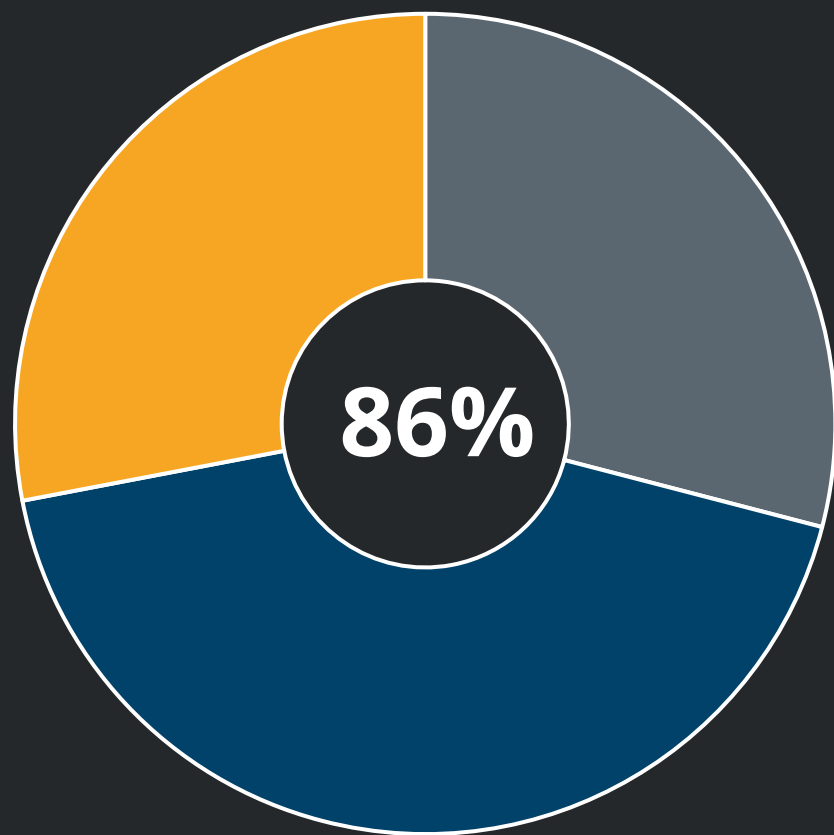
Share with us how much you agree with the following statement: I feel like there are excellent options for mobility to get around the City, and getting where I need to go isn't an issue.



Poll Question Results

Quality of Life

Please share with us how much you agree with this statement: The City provides a variety of entertainment offerings, from concerts to sports and classes and even senior programing, and these meet my family's needs.



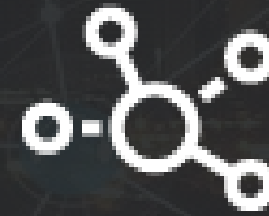
- Strongly Agree, 25%
- Agree, 37%
- Neutral, 24%



The background features a night-time city skyline, likely Chicago, with prominent skyscrapers like the Willis Tower. Overlaid on this are several digital graphics: a network of white lines connecting various nodes, some of which are circular icons containing symbols like a cloud, a triangle, a square, and a bus. There are also some circular progress indicators or gauges. The overall theme is technology and urban innovation.

FY 2023-24 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

(Revised and updated 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 (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.

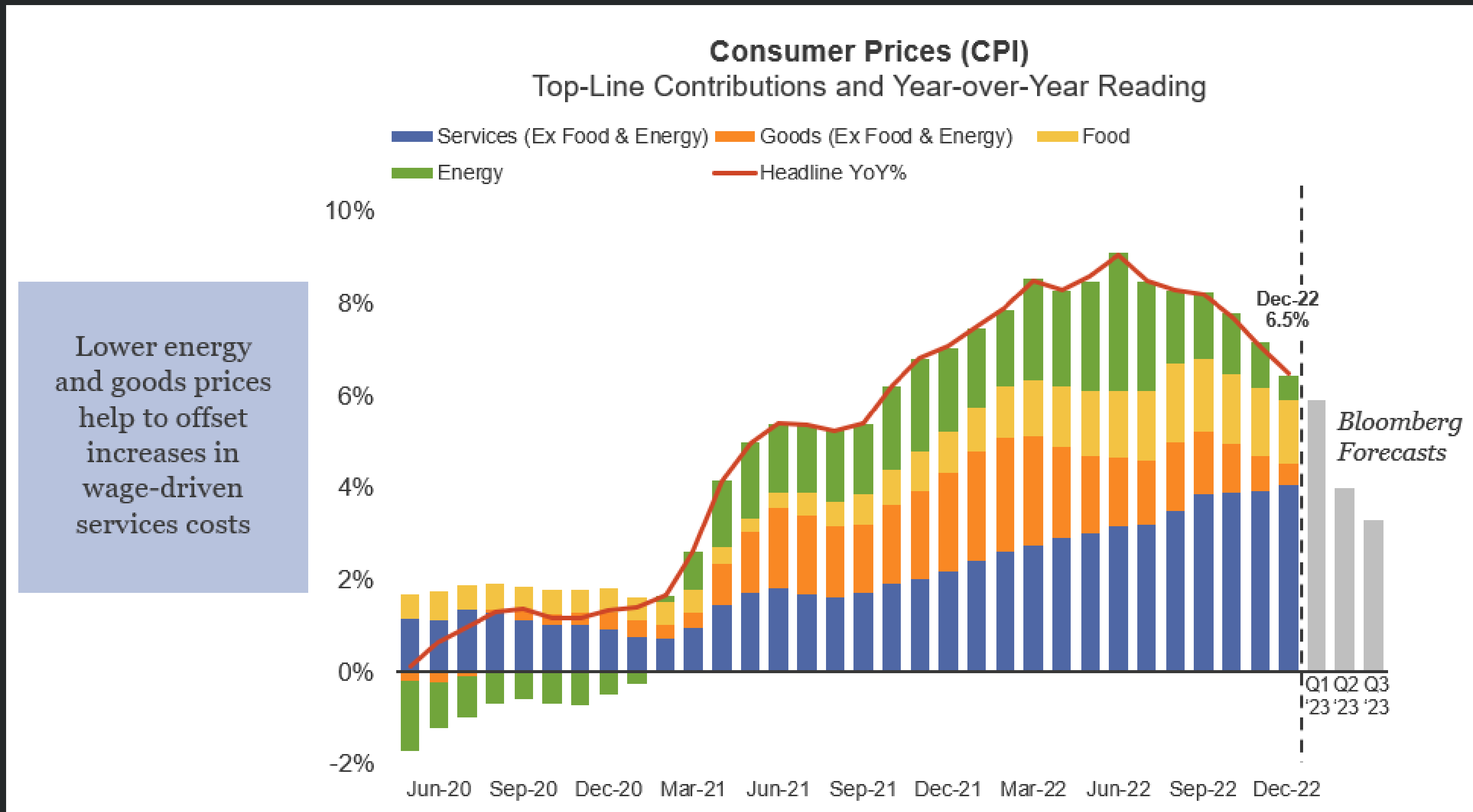
Potential State legislative and/or Federal actions may threaten City revenues, with large Infrastructure projects to support Intel and federal grants continuing to drive projected expenditures up (ARPA, ERA, etc.).

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.

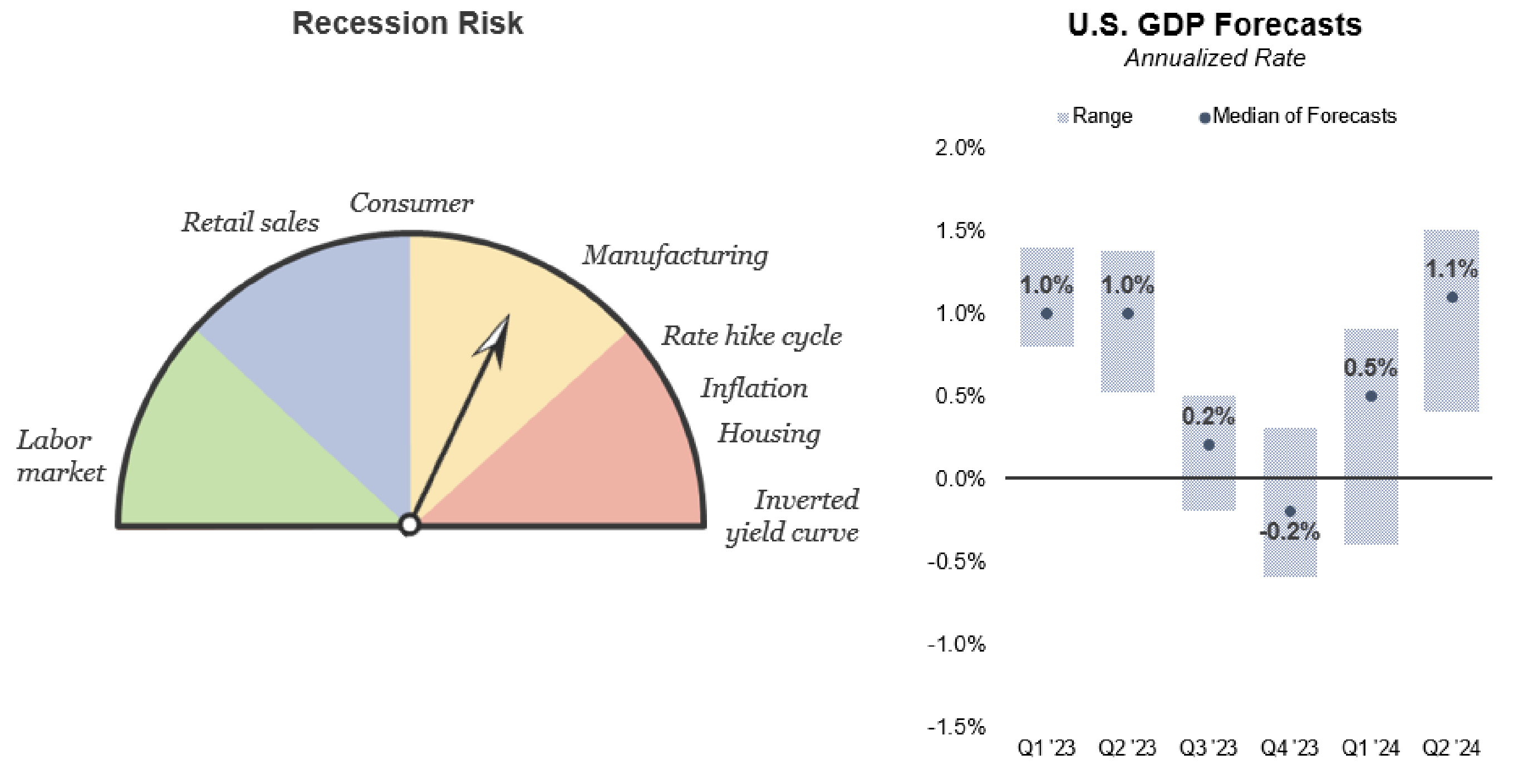
Inflation Now Trending Lower



Source: Bloomberg, as of December 2022

Recession Gauge Flashing Yellow

GDP Expected to Grow by End of Year



Source: Bloomberg, Economist Forecasts. Recession risk based on most recent economic data as of 2/1/2023



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



General Fund Inflows and Outflows

LAUREN LEE

Annual General Fund Revenues and Expenditures

Annual Inflows



86% Local taxes and licenses and
State shared revenues



6% Charges for services (i.e., parks,
rec., building, planning, library)



6% Primary Property tax and
Indirect costs



2% Misc. Receipts (i.e., Interest Inc.,
fines, leases, surplus sales)



Annual Outflows

61% Personnel (Wages/Benefits)



18% Ongoing Base Budget
(i.e., Ops./maint., supplies, utilities)



20% One-time decision package needs
(i.e., PSPRS, consultants, pilot programs)



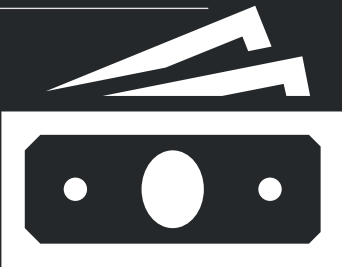
1% Transfers to replacement funds



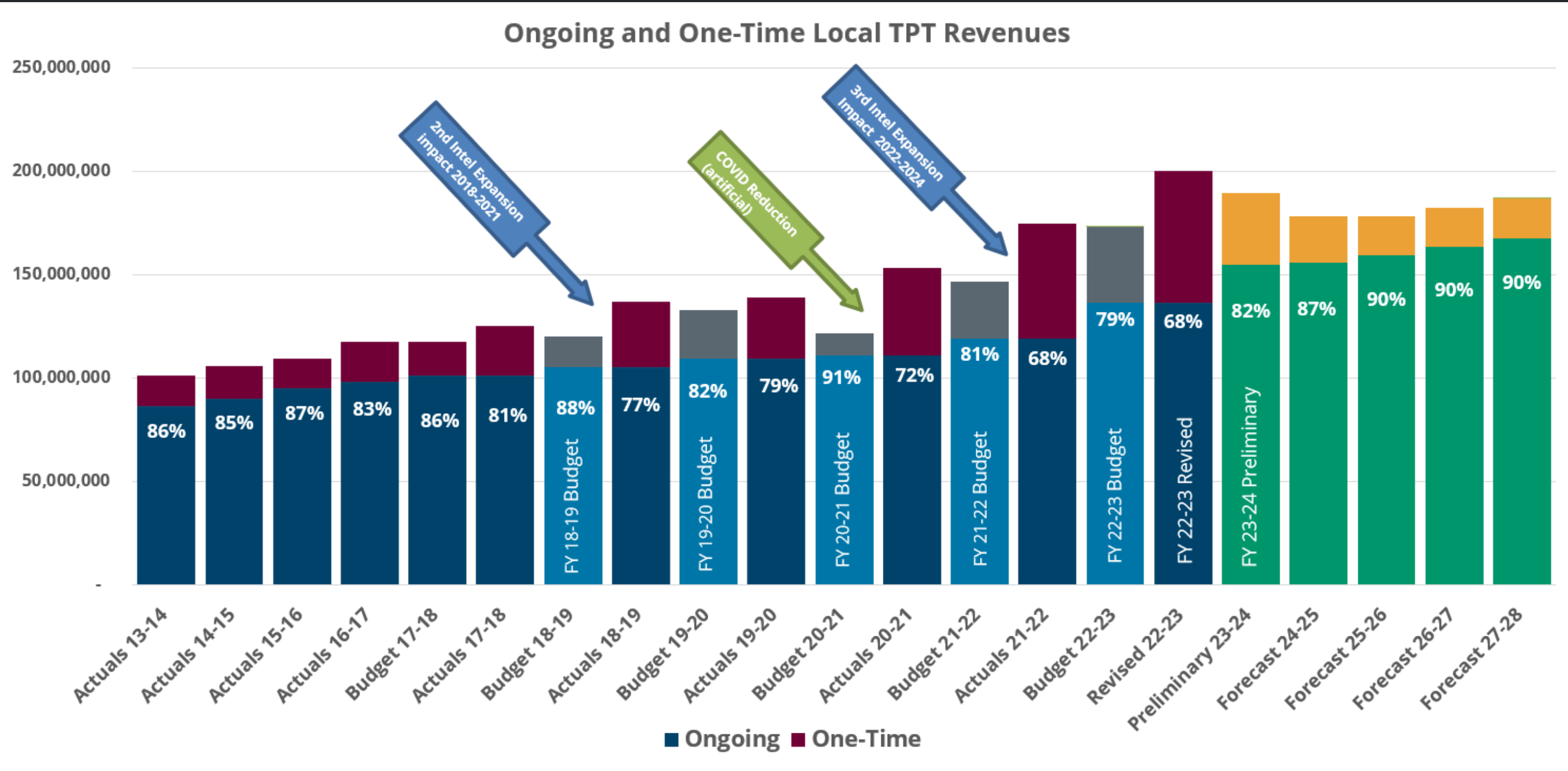
If Revenues exceed Expenditures, General Fund Balance increases

Based on FY 2022-23 Adopted Budget (reflects 80% of revenues as ongoing with the rest supporting one-time)

Ongoing/One-Time Local Sales Tax (TPT) Revenues



Potential Legislative Cuts of \$25M threaten 2 categories of ongoing TPT

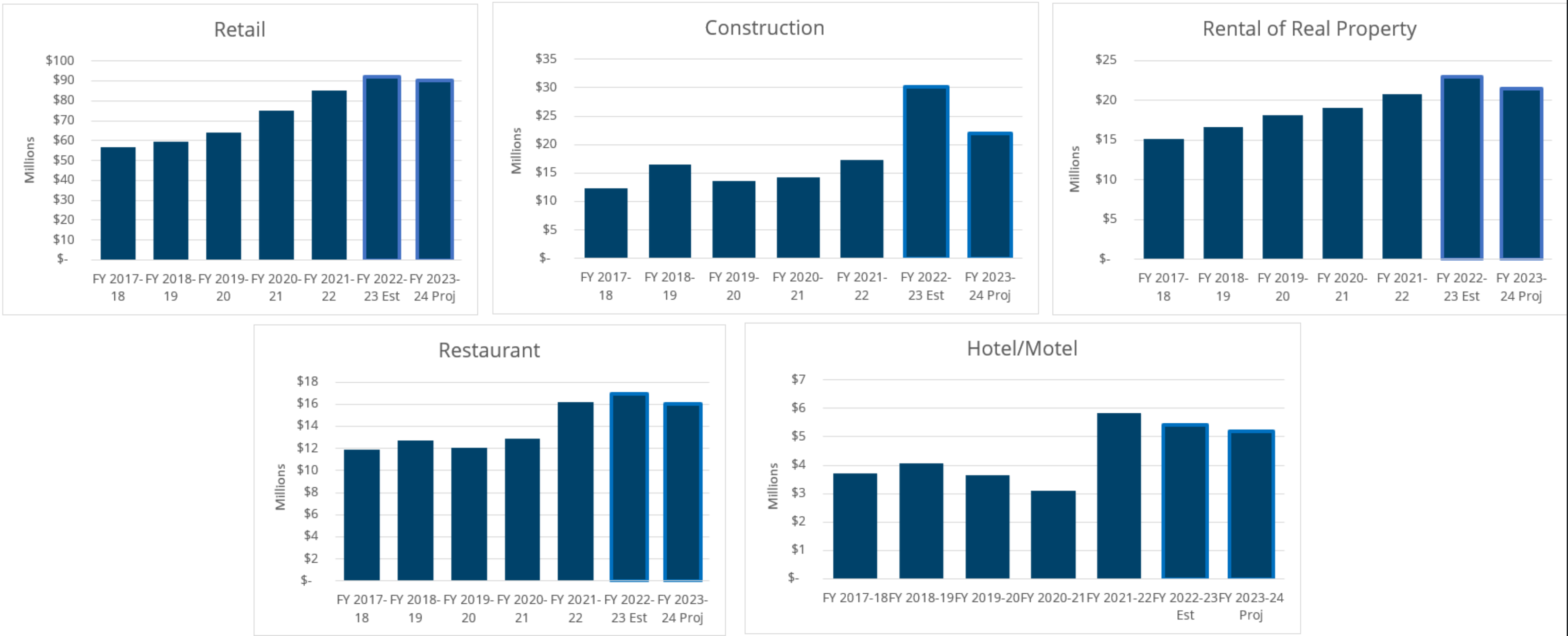


57% of General Fund revenue

Current revised revenues include inflationary impacts to revenues (Phoenix area about 10% impact)

Sales tax revenues fluctuate due to economic volatility, including increased development

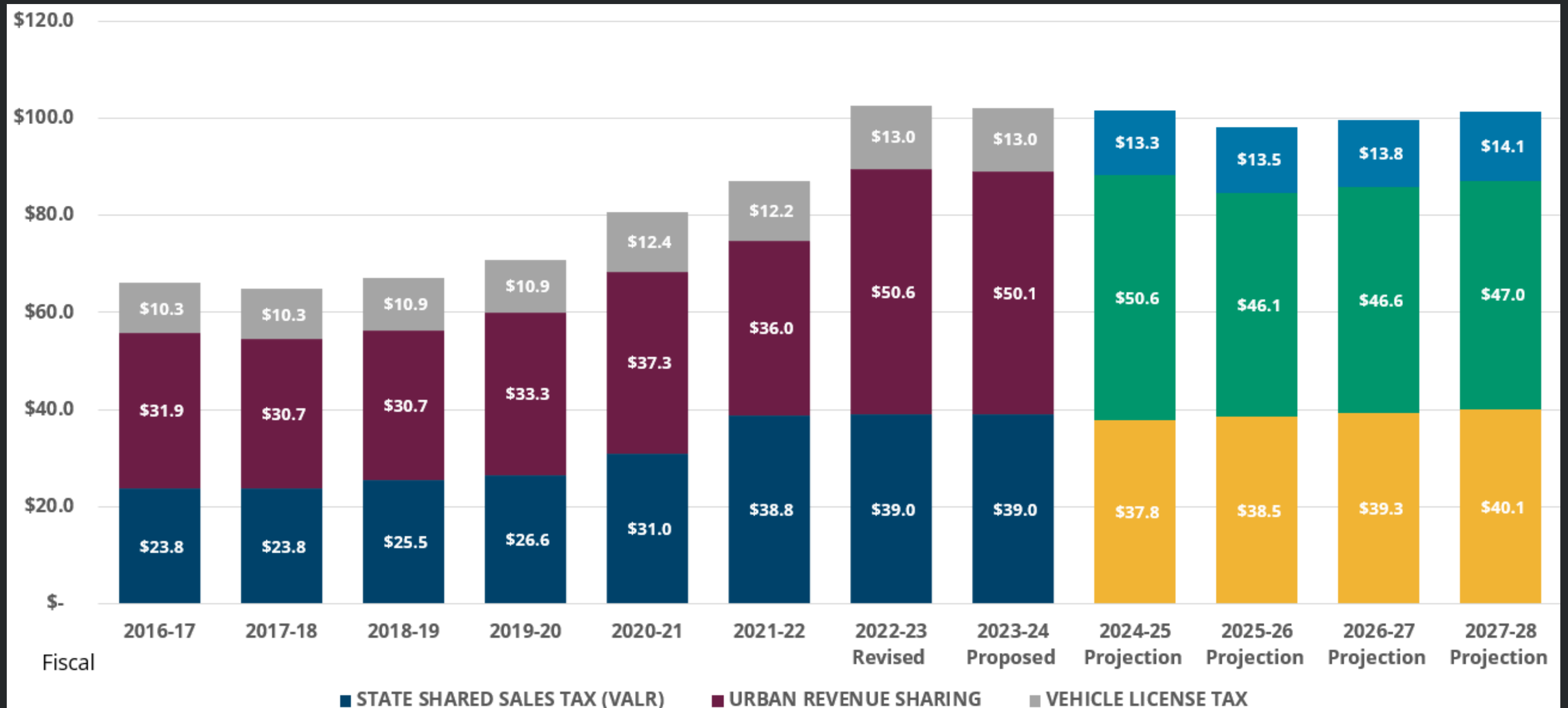
Key Local Sales Tax Revenues by Category



Higher fluctuations (increased one-time) experienced during Intel expansions

State Shared Revenues (in Millions)

29% of General Fund



Potential Ongoing & Other Legislative Impacts to FY 2023-24 Revenues

Legislative Item:	Financial Impact
Food for Home Consumption (Grocery) Tax	\$14,000,000
Residential Rental Tax	\$11,000,000
Exempt hygiene products (Governor's Budget)	\$2,000,000
Corporate Flat Tax	Two Year Delay \$5M future Impact
Failure of Proposition 400 Extension	\$12,000,000 Operating \$101,800,000 Capital

Preliminary FY 2023-24 Revenue Takeaways

- Positive Indicators:
 - Continued 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





New Decision Package Requests Expenditures “Outflows”

Ongoing Requests	One-time Requests
General Fund \$11.1M	General Fund \$17.1M
Total of All Funds \$15.8M	Total of All Funds \$18.5M

Total Decision Package Requests Net of Offsets: \$34.5M

Prioritize Ongoing Demands
(Maintain > Enhance > New)
\$20.1M \$11.0M \$3.4M
All Funds

Requests just to maintain service levels are higher again this year due to inflation

Focus on Chandler's Workforce

Population
has increased
11.2% since
2017 and
FTE has
grown 8.3%

Contract
labor used
to sustain
services

Succession
Planning

Class and
Comp

Contract
vs.
Employee

Health Care
Costs

Mentoring

Mental
Health

***1,727 FTE**

Updated
Technology

Workers Comp
& Safety

Professional
Development

Recruitment

Wellness

Work
Flexibility -
Balance

***Excludes 40 grant funded
and early funded positions**



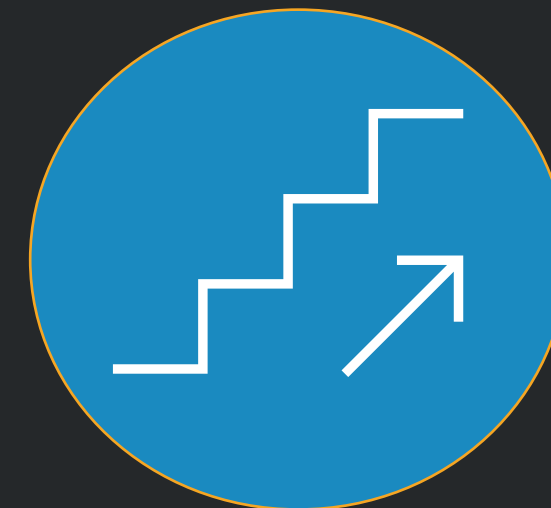
Citywide Inflationary Impacts

Operating

- Certain contracts, chemicals (+44%) and utilities has seen significant increases
- Budget Inflationary Changes (BICs) were identified and added in FY 2022-23
do not fully offset costs but has helped

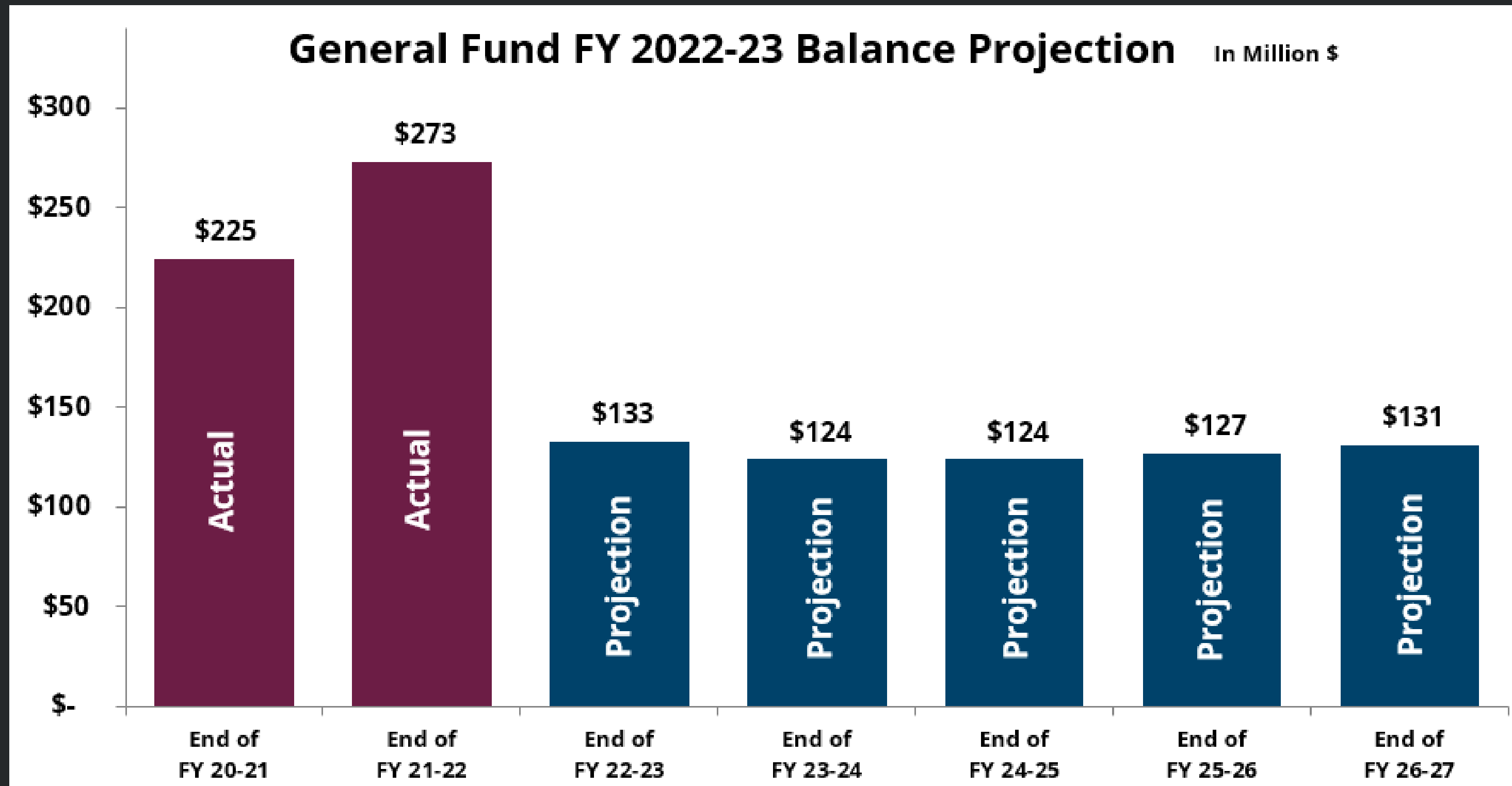
Capital

- Projections increased +8.5% 1st 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



**December
National
Inflation
+6.5% &
Local +9.5%**

Effect of Strong Revenue Growth on One-Time Fund Balance



Recommended Priorities for One-Time Dollars



1. Continue Reduction of PSPRS Pension Debt to generate ongoing savings

2. Reinvest in existing aging infrastructure, neighborhoods & systems

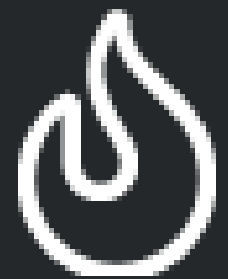
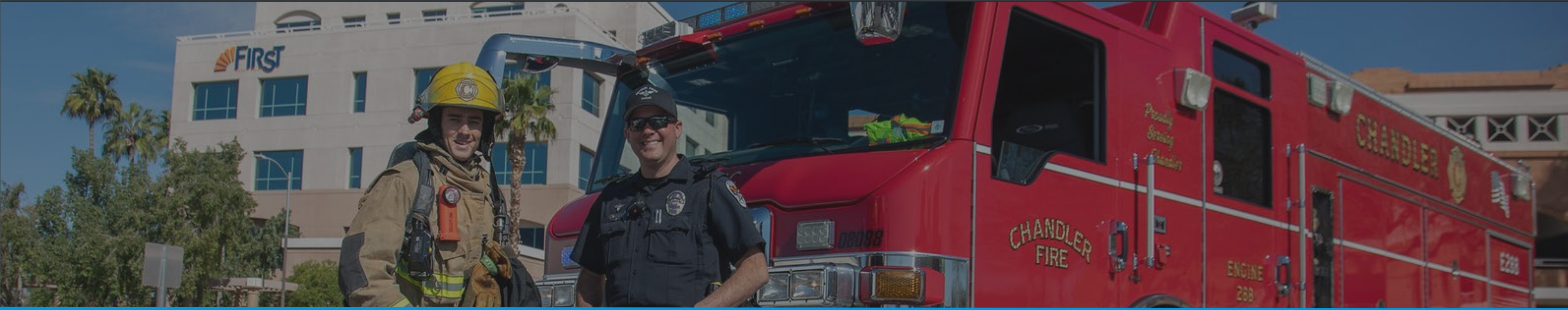
3. Operating & Capital spending to move strategic goals

4. Maintain Reserves sufficient to meet financial policies

5. New initiatives and Capital Including Sustainability

A mural by Lauren Lee is the background of the image. It features several saguaro cacti in various shades of green and blue. Two birds, one with black and white plumage and another with grey and white plumage, are depicted. The background consists of large, angular shapes in shades of blue and grey, with a large grey circle in the upper right. The artist's signature 'LAUREN LEE' is visible in the bottom right corner of the mural.

Public Safety Personnel Retirement System Update



PSPRS Unfunded Liability Pay-Down Benefits



- Beginning FY 2022-23, 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 FY 2023-24

PSPRS Actuarial Report Results 6/30/22

Unfunded Liability decreased \$17.5M
from Prior Year's total of \$154M

Police \$92.8M

Fire \$43.7M

Total \$136.5M

Employer contribution rate reductions
translates to about \$900K in ongoing
savings based on FY 2022-23 personnel
levels.

Note: \$50M payment not yet reflected

Normal portion
of contribution
37%

Unfunded liability
portion of
contribution
63%



PSPRS Net Unfunded Liability Balances Update

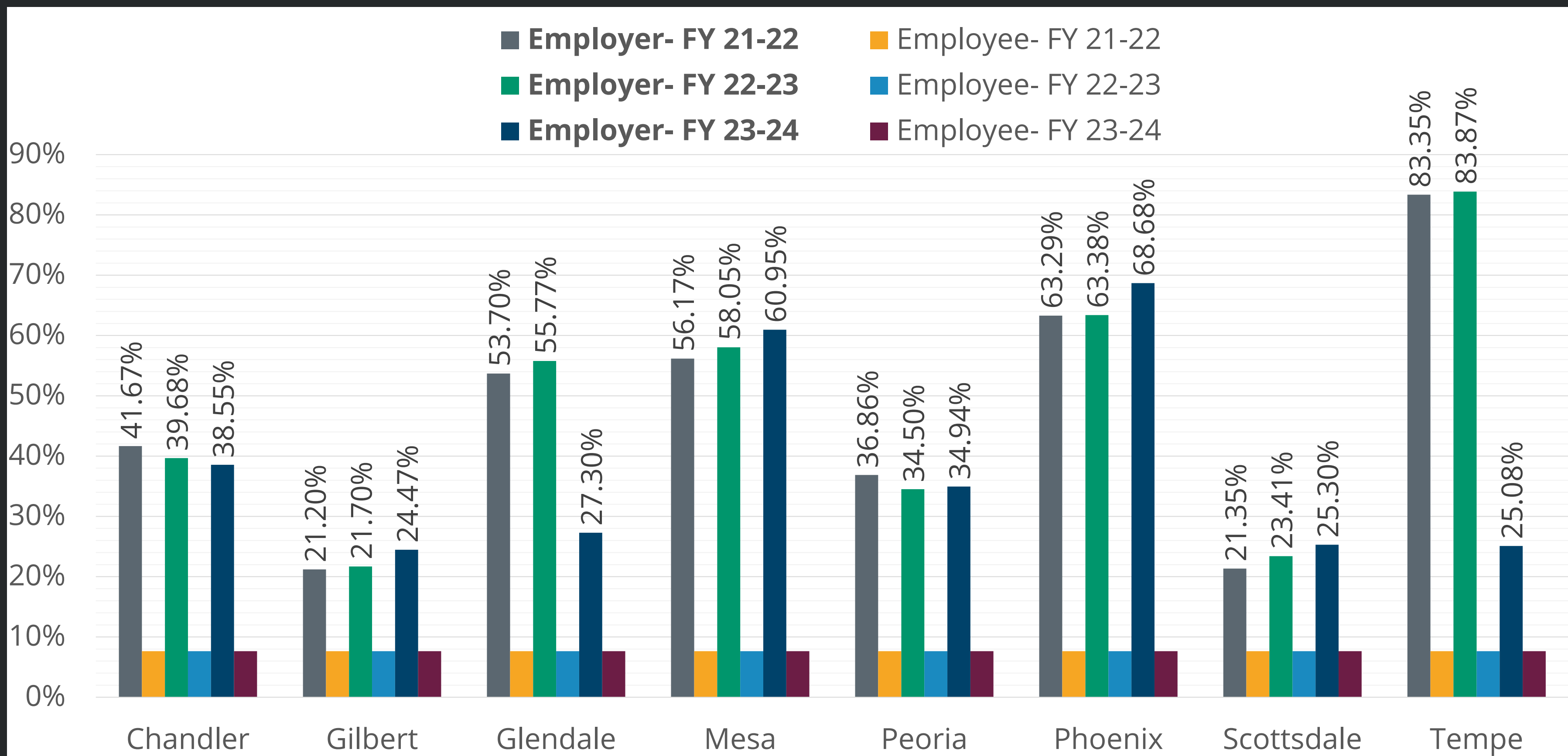
	June 2021	June 2022	Difference	% Change
Chandler	\$154M	\$136M*	-\$18M	-12.8%
Gilbert	\$27M	\$32M	\$5M	15.1%
Glendale	\$284M	\$59M**	-\$225M	-381.7%
Mesa	\$696M	\$720M	\$24M	3.4%
Peoria	\$104M	\$73M	-\$31M	-41.2%
Phoenix	\$3.39B	\$3.5B	\$103M	3.0%
Scottsdale	\$211M	\$182M	-\$29M	-16.0%
Tempe	\$338M	\$30M**	-\$307M	-1029.8%

**Chandler
% Funded**
2022- 75.2%
2021- 70.3%

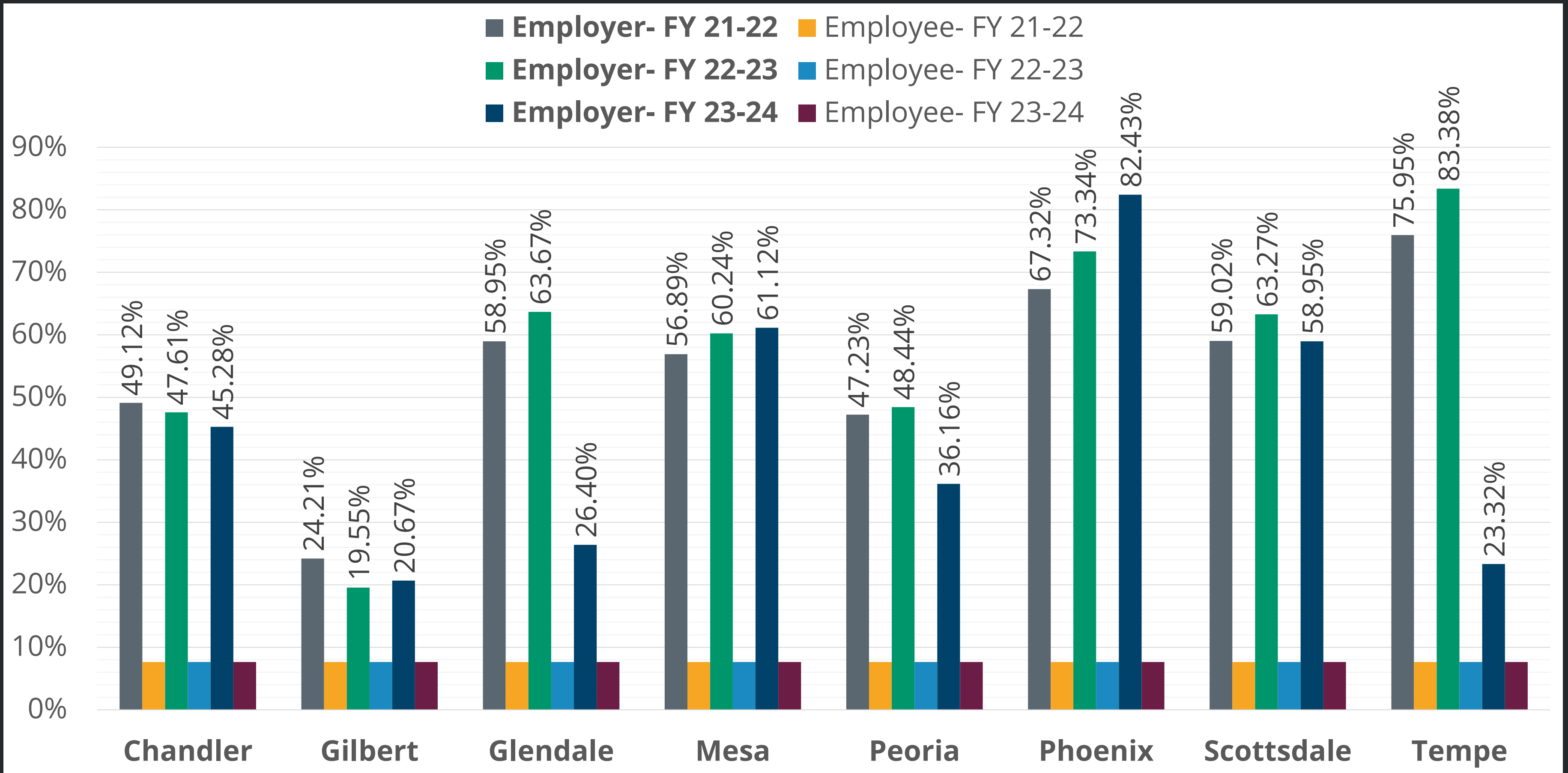
*Excludes \$50M overpayment made in July 2023

**Sold Pension Obligation Bonds and converted ongoing to a debt service payment

PSPRS Employee/Employer Rates Comparison | Fire

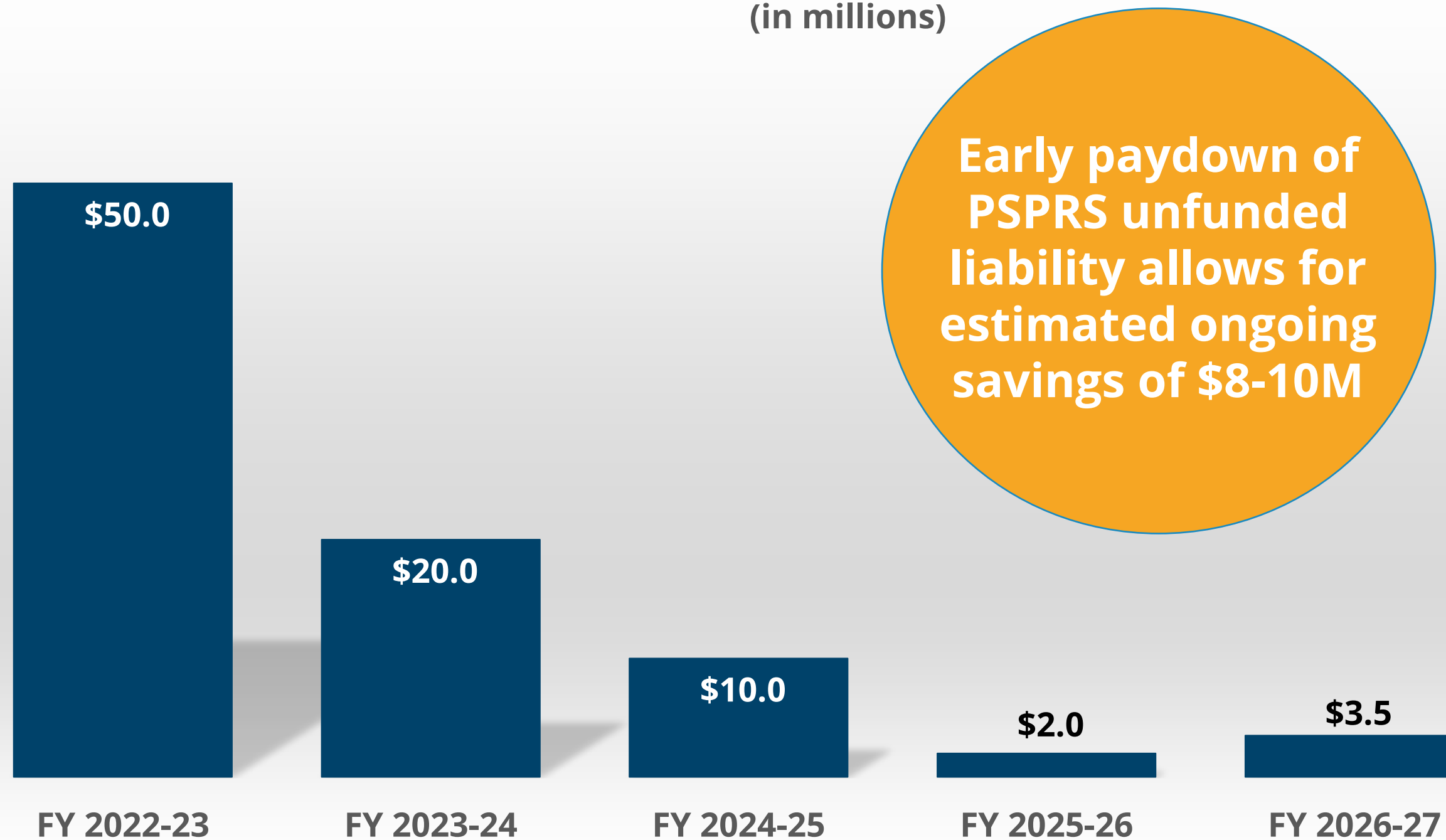


PSPRS Employee/Employer Rates Comparison | Police



PSPRS Contributions in FY 2022-23 One-Time Forecast

Planned One-Time Funding
(in millions)



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 2023-24 budget



Preliminary Discussion: Capital Improvement Plan (CIP)

A row of white, rectangular, modern-looking structures, possibly art installations or utility boxes, standing on a green lawn under a clear blue sky. The structures are arranged in a line, receding into the distance.

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



65
square
miles



2,090
miles
of streets



29,800
Street
lights



238
signalized
intersections



1,228 miles
of potable
water lines



958 miles
of sanitary
sewer



31
operating
wells



69 developed
parks
(1,316.67 acres)



51
lighted
fields



71
municipal
buildings



821 fleet
vehicles/
trucks



**Maintaining
high quality
of life for our
284,475
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 \$1.3M 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, 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/replacements

The image features a mural on a light blue wall. The mural depicts a black and white bird with a white breast and black wings, perched on a green cactus. The cactus has several arms and is covered in small white dots. To the left of the bird is a window with a black metal grille. The background of the mural shows a blue sky and a brown building. The right side of the image is overlaid with a dark, semi-transparent rectangle. Inside this rectangle, the text 'Preliminary Property Tax Discussion' is written in a large, white, sans-serif font. Below this, in a smaller white font, is the text 'Assessed Values Not Yet Received'. In the bottom right corner of the dark overlay, the name 'LAUREN LEE' is written in a small, white, sans-serif font.

Preliminary Property Tax Discussion

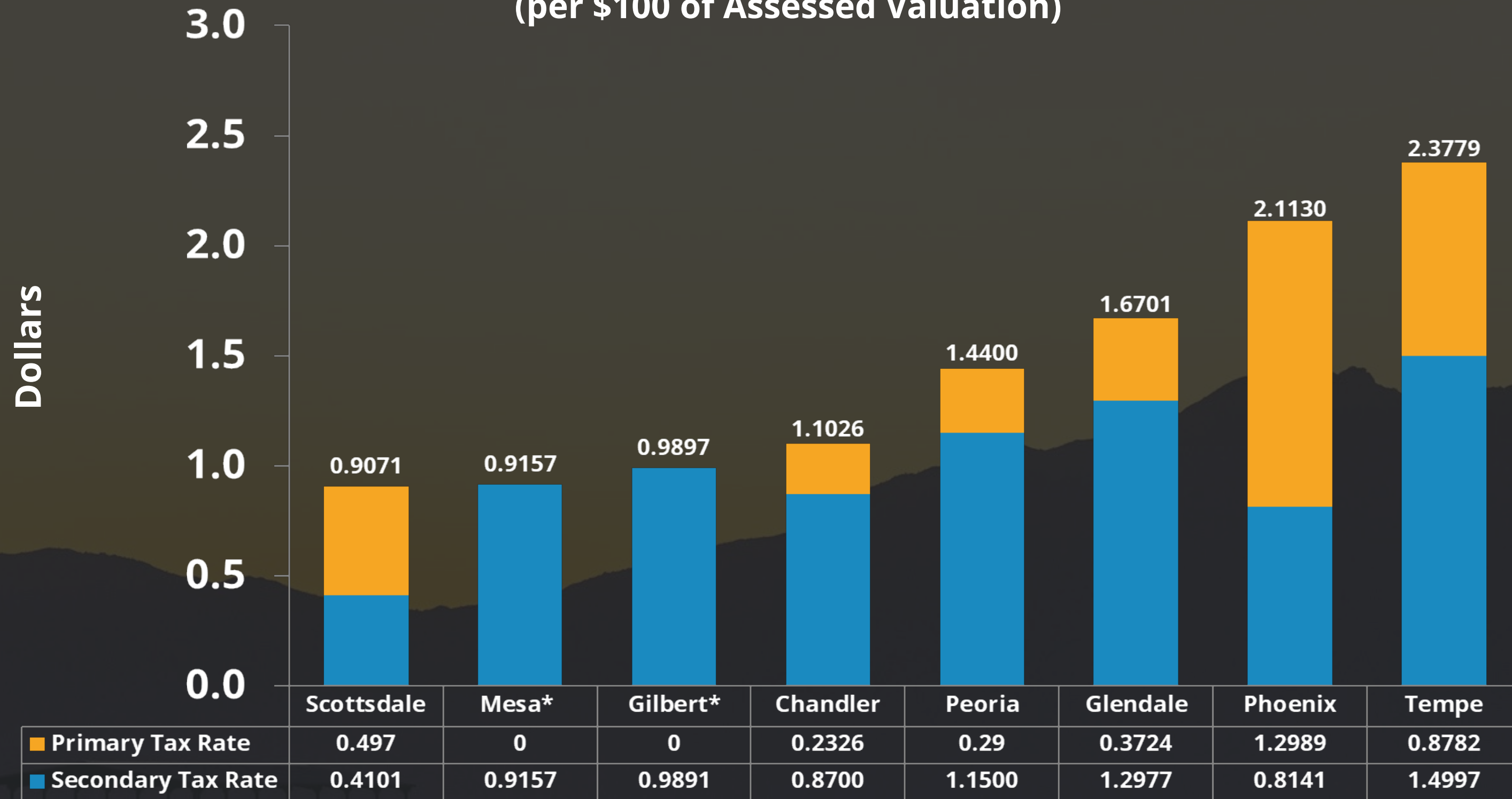
Assessed Values
Not Yet Received

LAUREN LEE

Property Tax Rate Comparison

FY 2022-23

(per \$100 of Assessed Valuation)

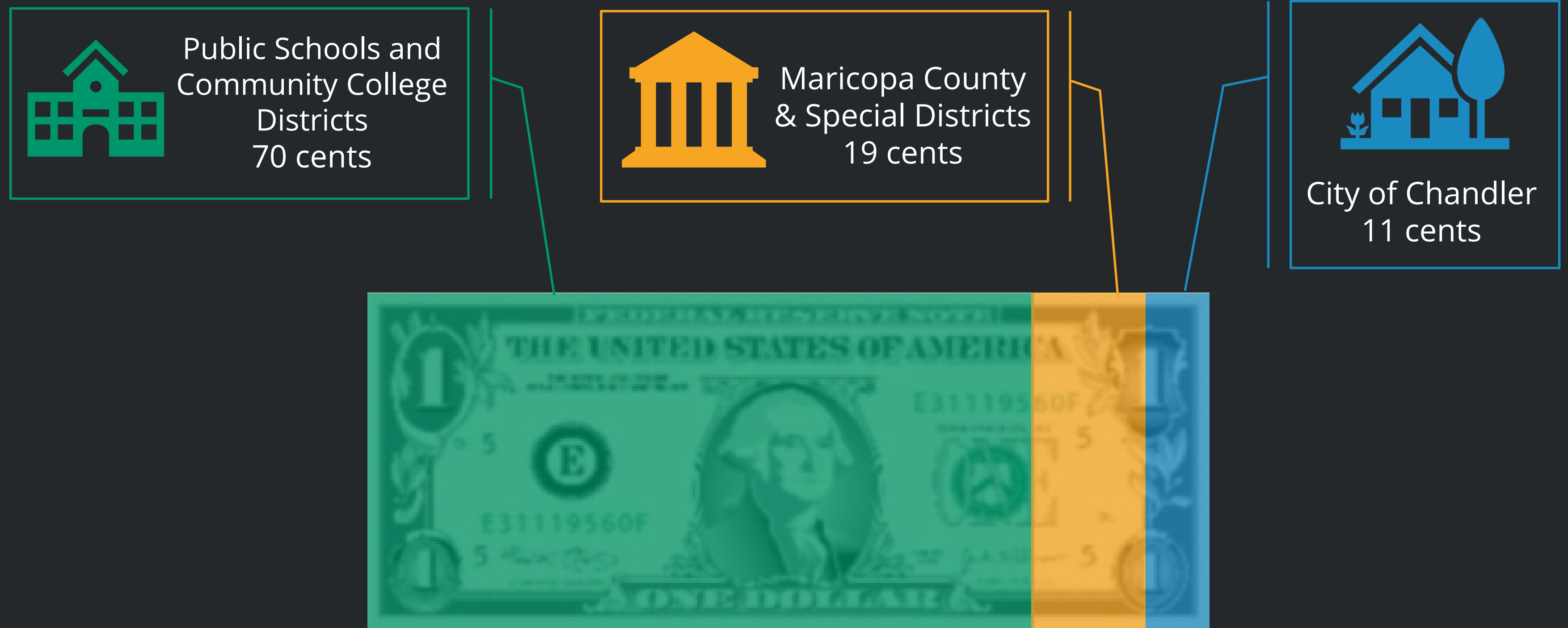


Impact of FY 2022-23 Tax Rate Reduction on Median Value Homeowner

FY 2022-23 Rates	2022	2023	% Increase
Full Cash Value (FCV)	\$292,700	\$386,300	31.98%
Limited Property Value (LPV)	\$214,040	\$224,742	5.00%
Assessed Limited Cash Value (10%)	\$21,404	\$22,474	5.00%
Primary \$0.2326/\$100 assessed value	\$51.93	\$52.27	0.67%
Secondary \$0.87/\$100 assessed value	\$186.21	\$195.53	5.00%
\$1.1026 total property tax rate			
Total City Property Tax Bill	\$238.14	\$247.80	4.06%
Annual increase		\$9.66 \$0.80/month	

Anticipate Assessed Values for FY 2023-24 by 2nd week in February

Breakdown of \$1 of Typical Chandler Property Tax Bill



*Based on 2022 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 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

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

Budget Event		Date
Council Budget Kickoff		Completed 10/27/22
Citizen Budget Survey and Poll Questions, with Council Outreach Videos		11/28/22 - 1/13/2023
Council Workshop #1		Tonight 2/9/2023
Council Workshop #2		03/23/2023
All Day Budget Briefing		04/28/2023
Council Meetings	Amendment Discussion	05/11/2023
	Tentative Adoption	05/25/2023
	Public Hearing and Final Adoption	06/15/2023
	Adoption of Tax Levy	06/29/2023



Questions?

