

Meeting Minutes

City Council Special Meeting

October 19, 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 4:00 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

Tadd Wille, Assistant City Manager
Dawn Lang, Deputy City Manager/CFO
Andy Bass, Deputy City Manager
Matt Dunbar, Budget & Policy Assistant Director
Rae Lynn Nielsen, Human Resources Director
Jennifer Edblad, Deputy City Clerk

Discussion

1. Budget 2024-2025 Budget Kickoff Worksession
 1. FY 2023-24 Budget Actions
 2. Budget Process
 3. Strategic Framework Focus Areas
 4. FY 2024-25 Budgetary Impacts
 5. Capital Guidelines

6. Financial Policies and Budget Practices
7. Key Dates

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

JOSHUA WRIGHT, City Manager, said the first discussion will be regarding the FY 2024-25-year budget, which is the initial step among many. This is something we have been doing for the past two years. The reason we do it so early is that it is before our departments start submitting their budget requests. This approach has benefited us in the past few years in getting high-level policy direction. Previously, the Council's first interaction with the budget would occur after the department requests were already in. This made it challenging to work backward and provide direction to staff retroactively from the Council's input. We will present options or other information you want us to research as we proceed through the future budget steps. Our focus will be on policy direction and policies for the Council, not numbers.

DAWN LANG, Deputy City Manager/Chief Financial Officer, presented the following presentation.

- Agenda
 - FY 2023-24 Budget Actions
 - Budget Process
 - Strategic Framework Focus Areas
 - FY 2024-25 Budgetary Impacts
 - Capital Guidelines
 - Financial Policies and Budget Practices
 - Key Dates
- FY 2023-24 Budget Actions
 - Sales tax rates unchanged – one of the lowest in AZ
 - Reduced property tax rate from \$1.1026 to \$1.0926 per \$100 of assessed value – 8th of reduction
 - Water/Wastewater/Reclaimed & Solid Waste Rate changes proposed to go into effect Jan. 1, 2024

COUNCILMEMBER STEWART asked what the total number is.

MS. LANG said the total is \$8,960,000.

MATT DUNBAR, Budget and Policy Officer, said water \$3.66 million, wastewater \$3.96 million, reclaimed water \$97,000, and solid waste \$1.2 million.

MS. LANG said a grand total of \$8.962 million.

MS. LANG continued the presentation.

- Added increases to capital budgets to compensate for inflation affected projects, maintain aging infrastructure, as well as finishing planned parks and arterial streets

MAYOR HARTKE asked if the items mentioned would have required bonding, but utilizing the one-time dollars serves as a pay-forward for all the mentioned items. This might bring about a potential change in the budget.

MS. LANG said that the only area we cannot bond for is technology.

MS. LANG continued the presentation.

- Continued to address pension debt through additional one-time funding to pay off the Public Safety Personnel Retirement System (PSPRS) unfunded liability (+73M/\$198.3M to date)

VICE MAYOR ORLANDO asked if the \$130M is excluded from the \$73M pension.

MS. LANG said it is not, it is just the capital portion.

VICE MAYOR ORLANDO asked if \$203 million of one-time funds would be used to pay off projects or pensions.

MS. LANG said the grand total of \$85 million over the calendar year was applied.

VICE MAYOR ORLANDO said the one-time funds are being used to pay down.

MS. LANG said yes.

MS. LANG continued the presentation.

- Adds funding for labor association commitments and general employee pay increases
- Added positions in critical areas such as Public Safety, Clerk, IT, ED, HR, Parks, Neighborhoods, and Public Works
- Increased Budget Stabilization Reserve to \$20M and updated Financial policy so that only ongoing revenues are used to calculate minimum reserve balance

COUNCILMEMBER STEWART asked about the budget stabilization reserve and whether it was a different one.

MS. LANG said the other financial policy reserves that were revised are the minimum fund balance reserve and the 15% reserve appropriated contingency.

COUNCILMEMBER STEWART said we have a bigger bucket to manage and asked if that is that around four months' worth of operations.

MS. LANG answered that we are required to maintain a minimum fund balance that is equivalent to four months of ongoing revenues. To calculate this balance, we divide the annual revenue by 12 and multiply it by 4. In 2023-2024, the minimum balance amounted to \$92.2 million, so we cannot go below this figure. We have a reserve policy that guides us on appropriate funds, including a 15% contingency reserve specifically for unforeseen expenses that arise mid-year. This reserve can be used for unexpected grants or projects or if the state decides to sweep an ongoing revenue source. It allows us to continue our budgeted expenditures without cutting back on essential services. This is the appropriated reserve, and that one equates to \$55 million.

COUNCILMEMBER STEWART asked if this was the total.

MS. LANG said, no, this is the 15%. It gets calculated as 15% of our operating revenues; that is what we appropriate. This is the only one that gets appropriated in our budget.

COUNCILMEMBER STEWART said that we have set aside 90 million dollars specifically for Operation and Maintenance expenses.

MS. LANG said operations and maintenance and staffing. \$92.2 is just our minimum balance that just invests. It just stays there, and that is our minimum reserves in our general fund.

COUNCILMEMBER STEWART asked the \$55 million is what.

MS. LANG said that \$55 million is appropriated from the \$92.2 million budget, but it is not counted towards the reserve for unforeseen circumstances. The council approves this reserve and requires their approval to be spent. However, it is not guaranteed that the reserve will be used. On average, only a tiny portion of the reserve is used, if at all. If unused, it falls back into the general fund and keeps our four-month reserve intact. Therefore, we do not need to budget an additional \$55 million on top of the \$92 million. We only need to budget the portion needed for our minimum reserve if we do not spend the \$55 million reserve.

VICE MAYOR ORLANDO said out of the \$92 million, only \$55 million had been appropriated.

MS. LANG said correct.

VICE MAYOR ORLANDO said the other \$37 million portion has not been appropriated, it is being held in reserve.

MS. LANG said we consider the four-month minimum as part of the count.

VICE MAYOR ORLANDO said the amount of \$20 million is being referred to as the budget.

MS. LANG said the \$20 million is also part of the \$92 million.

VICE MAYOR ORLANDO said the \$55 million and \$20 million are allocated either to manage the stabilized reserve and the \$55 million is allocated for the budget.

MS. LANG said we appropriate funds for one, but not the other. We do not expect to spend the funds which meet our reserve requirement.

VICE MAYOR ORLANDO said that is why we change the ongoing.

MS. LANG said that if we have a year with solid revenues, we do not want to overspend on our operating reserve, whether for ongoing or one-time expenses.

COUNCILMEMBER POSTON asked for an example of when we have used the \$55 million.

MS. LANG said there have been a couple of examples that came up with the police grant at \$2 million allocated.

COUNCILMEMBER POSTON asked if there were any more significant than that.

MS. LANG said the example in question pertains to additional funds that were added to our budget. Although we have not yet fully utilized these funds, we still need the appropriate authorization to be able to spend them. Therefore, we must transfer the appropriation to access the \$2.25 million.

MAYOR HARTKE asked if the police electrical failure was one that we also pulled out of and the water line failure.

MS. LANG said yes, that was the waterline, so we were able to use the contingency reserve out of the water fund.

MS. LANG continued the presentation.

- Where are we in the Budget Process
 - Kickoff allows for council direction on Strategic Focus Areas, policies & guidelines before budget process begins & Resident Budget Survey initiated
 - Decision Package and CIP recommendations submitted by departments in December
 - Financial forecast, funding decisions brought to Council during workshops 1 (February) and 2 (March)
 - Proposed budget brought to Council for discussion at all day briefing (April)
- FY 2024-25 Budget Theme "Chandler: Making it Happen"
- Strategic Framework Guides our Decision Making
- Focus Areas

- Economic Vitality
- Sustainability and Technology
- Connectivity
- Neighborhoods
- Quality of Life
- Community Safety

*All CIP and Decision Package adds are now able to be tied to the Focus Area they relate to

MR. DUNBAR continued the presentation.

- FY 2024-25 Budgetary Impacts- The Brightside
- Personnel/Staffing
 - PSPRS unfunded liability should in essence be paid off, which allows for freed up ongoing funding (full effects not seen until FY 2025-26)
 - Making progress on the number of vacancies
 - Added 53 FTE (45% public safety) over last 2 years to reduce pressure in high need years
- Local Economic Impacts
 - Local revenues continue to come in strong
 - Industrial construction impacts are still being seen in our monthly revenues
 - New retail that brought a destination-based shopping experience to Chandler now open
 - State shared income tax continues at 18% to offset flat tax implications, and will level out
 - Inflation continues to drive revenues higher
 - Long tradition of strong financial management

MAYOR HARTKE asked where this puts us in relation to our state shared revenues.

MR. DUNBAR said it will depend on the category of state-shared revenues from a transaction privilege tax perspective. That is where they are seeing a lot of reductions that will impact our shared TPT tax in the current year. We are watching that one closely because that will have an impact.

MAYOR HARTKE asked about the usual budget cuts for the state and city, and past projections that could affect the current legislative session, and previous budget cuts that we should consider when planning our budget.

MR. DUNBAR said that in the past, they have considered returning some of the state shared revenues back to the state, which they have not done for many years. Although they have many other options to consider before reaching that point, it is still concerning because we rely on them for a portion of our shared revenue. The voters authorized the generation of that revenue for the cities, and we need to keep a close eye on the situation.

MAYOR HARTKE asked about our state's shared revenues in the event of a sweep.

MR. DUNBAR said staff will follow up.

COUNCILMEMBER HARRIS asked about the impacts on retail. Are we factoring in the potential elimination of grocery taxes by legislation.

MR. DUNBAR said it is essential to keep a close eye on the budget. The decision to increase the budget stabilization from 10 to 20 million was made due to uncertainties surrounding the budget year. There are concerns regarding residential rental, food for home consumption, and some of the tax proposals that may have decreased revenue. Fortunately, the other tax proposals did not pass, but residential rental did pass after the fact. As a result, we now have a start date for when that revenue will begin to decrease. This could lead to a reduction in revenue, but other proposals could come up as well.

COUNCILMEMBER HARRIS said to be clear, we have already cut the rental tax that cost us \$11 million dollars.

MR. DUNBAR said the budget did not include removing a particular tax, as it had not been passed at the time of adoption. Therefore, we need to adjust our revenue projections in future forecasts to account for this. However, the tax has been passed unless there is a legislative action this year that would repeal it or introduce an alternative tax. Currently, the tax is still included in our budget as a revenue stream.

MAYOR HARTKE asked if that is expected January 2025.

MR. DUNBAR said that halfway through this budget year, we are planning for 2024-25.

COUNCILMEMBER STEWART inquired about the pressure of the macro and wanted to know the Chamber's observations.

MS. LANG said the savings have depleted due to COVID concerns, leading to growing debt and reduced spending that will impact the economy.

VICE MAYOR ORLANDO said we are still paying the PSPRS premium this year, even though it will not show up until next year.

MS. LANG said the report will reflect a \$50 million decrease, marking the first-year rates went down.

VICE MAYOR ORLANDO asked when the \$73 million payment was made.

MS. LANG said the payment was on July 1, 2023.

MAYOR HARTKE asked why there was a delay.

MS. LANG said it is like the financial year ending, as it takes that long to assemble all the financial reports.

MAYOR HARTKE asked if we get a credit when we give it, and we just do not hear what the impact is until later.

MS. LANG said it is part of the transaction for the year until they can analyze it.

MR. DUNBAR said we pay July 1, so during that entire year we are earning interest.

MS. LANG said the contribution that is paid on every sworn police or fire is prepay in July as well.

MR. DUNBAR continued the presentation.

- FY2024-25 Budgetary Impacts – The Challenges
- Economy & Inflation
 - Persistent effects still being felt in utilities, chemicals, construction materials, and labor, vehicles, and equipment; potential recession
 - Bond passed two years ago will not go as far
- Technology
 - Multi-year citywide Enterprise Resource Planning (ERP) system replacement
 - Cybersecurity posture/Infrastructure
 - Governance/speed to delivery
 - Mobility and flexibility/ more to do

COUNCILMEMBER STEWART asked when we plan to ask for a bond, should we start prioritizing and delaying certain projects.

MS. LANG said that if we continue building with CIP, we need to consider the availability of bond authorization for each project. If we do not have the necessary authorization, we are already shifting projects out. In other words, if a project lacks authorization, we delay it until we secure more bond authorization.

VICE MAYOR ORLANDO said this is nothing new, we still had bond authorization from 2008. We do this every time and that does not mean we have to do the next set of bonds.

MS. LANG said every year we look at it, with the recession and the bonds that one authorization lasts longer.

VICE MAYOR ORLANDO said when we sell the bonds in November it does not mean we need to utilize the project there is a timeframe where can utilize it for the contract.

MS. LANG said yes.

MAYOR HARTKE said by the time we get to the CIP discussion he would like to pull that out separately rather than trying to do one massive long meeting, and have a separate meeting.

MS. LANG said we will have a specific meeting around CIP.

COUNCILMEMBER HARRIS said having a review of previously approved projects to determine stopping points and push out timelines may mitigate potential issues.

MS. LANG said more information on the bond authorization and what the shifts might look like will be presented at a later time.

MR. DUNBAR continued the presentation.

- Personnel/Staffing
 - Retirement and vacancy impacts are still an issue
 - Attracting talent to fill vacancies
 - ERP system will require significant citywide staff effort
 - Developing new labor association contracts
 - Reliant on temp labor for critical services
- Legislative Impacts
 - Legislative Impacts to local tax base and Model City Tax Code continue to be an issue (e.g., grocery tax)
 - Residential rental tax removal bill passed (est. impact \$11m on going or about 6% of TPT revenue)
 - Prop 400 extension will go to voters but future unknown
- FY 2024-25 Budgetary Impacts – The challenges
- Services & Position Needs Citywide
 - Analysis is underway with each Department to evaluate current services and staffing levels
 - Framework will provide details into what would be accomplished with additional staff
 - There may be additional ongoing requests this year as we evaluate needs city-wide
 - Need to align one-time needs to one-time positions and services and ongoing needs to ongoing positions and services
 - Decisions will be contingent on financing
 - Example One-Time Funded Positions in FY 2023-24
 - Digital Media Producer, CAPA
 - Management Assistant, Community Services
 - Downtown Operations Coordinator, Cultural Dev.

- IT Service Desk Technician, IT
- Crime and Intelligence Analyst, Police
- Example One-Time Services in FY 2023-24
 - Contigo Special Event, DEI
 - Marketing & Promotional Campaigns, CAPA
 - Translation Services, CAPA
 - Court Security Officer Contract, City Magistrate
 - Managed Services and Various Contracts, IT
 - Homeless Services
 - Chemicals and Contract Increases

COUNCILMEMBER HARRIS asked about changing the term "homelessness" to "unsheltered".

MS. LANG said yes.

MATT continued the presentation

- FY 2024-25 Budgetary Impacts – The Challenges
- Delineating Ongoing vs. One-Time
 - This year 77% ongoing and 23% one-time was budgeted
 - Evaluation is done for each TPT category and their ongoing versus one-time components

COUNCILMEMBER STEWART asked about the difference between the terms "unsheltered" and "homeless", could you explain the reason behind it.

MAYOR HARTKE requested staff recommendations and noted that the label change would not affect funding.

MR. DUNBAR continued the presentation.

- Council Priorities for One-Time Dollars
 - Reinvest in aging infrastructure, neighborhoods & Systems
 - Operating & Capital spending to move strategic focus area action items
 - Maintain Reserves sufficient to meet financial policies
 - New initiatives and Capital including sustainability

COUNCILMEMBER HARRIS said he supports the priorities, but suggested adding a focus on community and neighborhoods, and exploring how one-time funds can benefit these areas.

COUNCILMEMBER HARRIS agreed with the priorities.

COUNCILMEMBER STEWART suggested flipping priorities 1 and 2. One-time dollars used for infrastructure. Prioritize core projects requiring ongoing attention.

MAYOR HARTKE asked Councilmember Stewart for clarification on priorities 1 and 2. He thought that Councilmember Stewart mentioned priority 1, but asked if he was referring to priority 2.

COUNCILMEMBER STEWART said that water and road infrastructure should be the top priority and suggested that it is important to be specific about which projects need to be addressed first.

MS. LANG said that reinvesting in aging infrastructure, whether it is from the general fund, one-time water funds, or one-time wastewater funds, is where we would put capital fund dollars.

MAYOR HARTKE said we are not highlighting any specific project we are just looking over the general principles.

COUNCILMEMBER POSTON agreed with the priorities.

VICE MAYOR ORLANDO asked if sustainability is part of our strategic plan and why it is specifically called out.

MR. WRIGHT said that was a good point.

MS. LANG said in item four we had new initiatives and we added capital, including sustainability we could just say new initiatives.

COUNCILMEMBER ENCINAS agreed with the priorities.

MAYOR HARTKE said he approves because we have one-time funding and are maintaining our current resources.

COUNCILMEMBER HARRIS said he wanted to make sure we are continuing with the infrastructure act and that we are targeting federal dollars.

MAYOR HARTKE said we could get an update on that.

MR. WRIGHT mentioned leveraging federal dollars.

MR. DUNBAR continued the presentation.

- Capital Guidelines
 - Minimize increase in secondary property taxes
 - Re-imagine resident amenities scheduled for replacement
 - Prioritize aging 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
- Resident Budget Survey
- Maintain similar Budget Survey process to generate more community involvement
 - Run from Nov. – Jan., with Council outreach video
 - Run ad campaign to encourage participation
 - Expand the outreach on social media
 - Weekly poll questions
 - 5 total polls- one for each focus area
 - Offer English, Spanish, and Mandarin
 - 15 questions, 1-2 in each focus area with comment box

MAYOR HARTKE said if you have new ideas go ahead and incorporate them.

COUNCILMEMBER STEWART asked for a briefing on the survey before it goes out.

MS. LANG said a briefing would be provided.

COUNCILMEMBER STEWART recommended sharing information to residents in person at upcoming city events.

MAYOR HARTKE said it was a good idea to email the volunteers.

MS. LANG said yes.

COUNCILMEMBER POSTON said the board and commission members get the same emails can we scrape the emails that come into the Mayor and Council and send an email to them.

KELLY SCHWAB, City Attorney, said yes, we can legally do it.

COUNCILMEMBER HARRIS mentioned partnering with the Chamber of Commerce.

MAYOR HARTKE said whatever events emails we can find.

COUNCILMEMBER POSTON asked if there is a way we can use any other means to reach people not online.

COUNCILMEMBER ENCINCAS said that by paying utilities in person we could have the survey there.

COUNCILMEMBER ELLIS asked if they had spoken with the Senior assisted living.

MAYOR HARTKE suggested a kiosk at Tumbleweed to take a 5-minute survey.

MS. LANG continued the presentation.

- Financial Policies
 - Operating Management
 - Capital Management
 - Reserves (updated Apr. 27, 2023)
 - Debt Management
 - Long-Range Financial Planning
 - Grant Management
 - Investment
 - Accounting, Auditing, and Financial Reporting
 - Pension Funding (annual update; Apr. 27, 2023)

Will review and bring to Council any recommended updates along with the required update for pension policy
- Council Approved Budgeting Practices Support Financial Sustainability
- Maintain AAA bond ratings from Moody's, Fitch and S&P
 - Continue adherence to all fiscal policies
- Remain 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
- Balanced expenditure growth
 - Focus on maintaining and/or modernizing existing services
- Control Primary Property Tax
 - Provide options should the forecast allow reduction
- FY 2024-25 Budget Process Changes
- Implemented new budget software
 - Paperless process with automated approvals
 - System links budget data to book creation software
- Began Modified Zero Based Budget (MZBB)
 - Helps ensure current budgets are right sized on services provided
 - Analysis will include review of services, related expenditure category spending trends, and line-item reviews
 - Results to be reported at All day Budget Briefing

MAYOR HARTKE asked how long it would take to get through the entire organization.

MS. LANG said it could take five to six years.

COUNCILMEMBER STEWART asked about the possibility of hiring a third party to assist with the project.

MS. LANG said she is not sure of the results from a company that does not know our budget process well and said the cost would be expensive.

VICE MAYOR ORLANDO said it is a good way of reevaluating the departments every year.

MS. LANG continued the presentation.

Council Process Feedback from FY 2023-24 Budget

- List department accomplishments without making them the focus of the presentation
- List all capital projects and decision packages, but focus presentations on the highlights
- Additional discussion of timing of projects where policy direction may be needed
- Provide Council a "Review Guide" to help with budget book review process
- Hold All-Day Budget Briefing on non-Council meeting week

Feedback Received last Budget Process Additional Thoughts?

VICE MAYOR ORLANDO said we must keep flipping back to the CIP is there any way we can put the Police and then the CIP.

MS. LANG said yes, we could do that.

MS. LANG continued the presentation.

- Tentative Key Budget Dates
- Budget Event
 - Council Budget Kickoff – Tonight
 - Resident Budget Survey with Council Outreach Videos – Nov 2023 – Jan 2024
 - Council Workshop 1 -February 8, 2024
 - Council Workshop 2 – March 23, 2024
 - All-Day Budget Brief – April 26, 2024
 - Council Meetings:
 - Amendment Discussion – May 23, 2024
 - Tentative Adoption – May 23, 2024
 - Public Hearing & Final Adoption – June 13, 2024
 - Adoption of Tax Levy – June 27, 2024
- Questions?

Adjourn

The meeting was adjourned at 5:31 p.m.

ATTEST: _____
City Clerk

Mayor

Approval Date of Minutes: November 6, 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 19th day of October 2023. I further certify that the meeting was duly called and held and that a quorum was present.

DATED this _____ day of November, 2023.

City Clerk