

Meeting Minutes

City Council Special Meeting

February 8, 2024 | 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 OD Harris
Councilmember Angel Encinas
Councilmember Christine Ellis
Councilmember Mark Stewart
Councilmember Matt Orlando
*Councilmember Jane Poston

Appointee Attendance

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

*Councilmember Poston attended telephonically.

Staff in Attendance

Tadd Wille, Assistant City Manager
Dawn Lang, Deputy City Manager / CFO
Andy Bass, Deputy City Manager
Alexis Apodaca, Mayor & Council Public Affairs Senior Manager
Matt Dunbar, Budget and Policy Assistant Director
Matt Burdick, Communications & Public Affairs Director

Discussion

1. Budget Workshop #1, Fiscal Year 2024-25
 1. Opening Remarks
 2. Resident Budget Survey Feedback
 3. Financial Policies and Considerations

4. Preliminary Budget

- a. General Fund Forecast Inflows and Outflows
- b. Major Revenues, Expenditures, and Drivers
- c. Public Safety Personnel Retirement System (PSPRS)
- d. Preliminary Capital Improvements Plan (CIP)
- e. Property Tax Discussion

5. Key Budget Dates

6. Closing Remarks

MAYOR HARTKE called for a staff presentation.

JOSHUA WRIGHT, City Manager, introduced the discussion item.

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

- FY 2024-25 Budget Workshop #1
- Agenda
 - Resident Budget Survey Feedback
 - FY 2024-25 Resident Budget Survey
 - Foundations
 - Financial Policies and Considerations
 - FY 2024-25 Economic Updates
 - FY 2024-25 Preliminary Budget
 - General Fund Forecast Inflows and Outflows
 - Major Revenues/Expenditures and Drivers
 - Public Safety Personnel Retirement System (PSPRS)
 - Preliminary Capital Improvement Plan (CIP) Overview
 - Property Tax Discussion
- Chandler Budget Process Timeline

COUNCILMEMBER ORLANDO asked how staff utilizes input received via the budget survey.

MS. LANG said it will be discussed in the presentation.

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

- Resident Budget Survey Feedback
- FY 2024-25 Resident Budget Survey
 - The survey ran from November 27, 2023, through January 12, 2024
 - CAPA assisted with a video ad campaign to encourage participation
 - Continued expanded the outreach on social media
 - Additional facilities provided paper copies, signage and survey QR codes
 - Emailed working lists of residents to encourage participation with Boards & Commissions, Recreation and Library users

- The survey consisted of 17 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
- Tested a custom survey engine that provided an additional 633 responses for a total participation level of 1,768
- Budget Survey Results
- Budget Survey Results
- Original Budget Survey Comment Themes

COUNCILMEMBER STEWART asked if the survey directly addresses housing.

MR. DUNBAR said the survey does not address housing; it was a comment received in the open response to the Neighborhoods focus area.

MR. DUNBAR continued the presentation.

- Original Budget Survey Comment Themes
- Custom Survey Comment Themes

MAYOR HARTKE said this is the first time we have done this custom survey, so we can work on extracting data in later years.

MR. DUNBAR agreed and said there was additional fields for demographic input. It adds a different context to data received.

COUNCILMEMBER ORLANDO asked if there were specific ideas connected to the themes mentioned, how does staff interpret responses into action for the city.

MR. DUNBAR answered that sometimes responses are more specific, but when categorized for this presentation, they are placed into broader categories.

COUNCILMEMBER ORLANDO said staff can take these specific requests and move forward with related actions.

COUNCILMEMBER ELLIS asked what the difference was between last year's survey responses.

MR. DUNBAR said there are more comments about approving affordable housing, requesting fewer apartments due to traffic concerns, and supporting multi-modal transportation for walking and biking were common.

MS. LANG continued the presentation.

- Financial Policies and Considerations

- Strategic Framework Guides Decision Making
 - Our Brand: a safe, diverse, equitable and inclusive community that connects people, chooses innovation and inspires excellence.
 - Focus Areas: Community Safety, Connectivity, Economic Vitality, Neighborhoods, Quality of Life, Sustainability & Technology
- Financial Policies – Revised and updated by Council January 14, 2016
 - Chandler’s 9 Financial Policies Institutionalize Strong Financial Management Practices
 - Operating Management*
 - Capital Management*
 - Reserves (Apr. 27, 2023)
 - Debt Management*
 - Long-Range Financial Planning
 - Grant Management*
 - Investment (May 28, 2020)*
 - Accounting, Auditing, and Financial Reporting*
 - Pension Funding (annual update; April 27, 2023)*
 - *Recommended updates included on February 8, 2024 Council agenda, Res. #5768
- FY 2024-25 Financial Considerations
 - Economy has seen inflation and supply chain issues easing. Federal Reserve monetary policy is being closely watched.
 - Growth of sustainable (ongoing) revenue was reset in FY 2023-24 to reflect forecasted development increases, but is being reviewed for additional growth
 - Finalizing large infrastructure projects and spending on federal grants (ARPA, ERA, etc.). Decisions on related ongoing levels continue.
 - Possible recession or self-inflicted downturn remains in most economists’ predictions due to consumer confidence, interest rates, fuel pricing and a potential drop in home values.
 - Residential Rental legislation impact will start January 2025, with full \$11M ongoing impact realized in FY 2025-26.
 - Development revenues lower on single family residential but increasing again with 197 permits issues in last 6 months.

COUNCILMEMBER STEWART noted that inflation may have stopped increasing, but it is not decreasing.

MS. LANG said inflation is stable, but still at a high.

MR. DUNBAR continued the presentation.

- National Economic Indicators
- National Inflation Now Trending Lower
- Lower Inflation means prior year high spending remains, but new increases are lower

MAYOR HARTKE asked when we will know the impacts of recent Chandler developments like Scheels on local sales tax.

MR. DUNBAR said that we can start to see effects two months after opening – so the next quarter after they open, we can see the impacts. Ongoing benefits are still unknown.

MAYOR HARTKE estimated seeing results in August.

MR. DUNBAR said yes, likely in year-end reports.

MS. LANG added that we are also behind on seeing holidays sales reported, but we will see them soon, we anticipate a strong 2023 holiday season.

MR. DUNBAR continued the presentation.

- Citywide Inflationary Impacts
 - Operating
 - Many contracts, chemicals and utilities have continued to see increases
 - Capital
 - Projections again increased +8.5% 1st year, then +5%, then +3.5% thereafter
 - Materials still showing effects of inflations are asphalt, steel, pipes, data fiber, anything cement-based, and anything with a computer chip
 - Projects are being costed based on market

COUNCILMEMBER STEWART asked if delaying our non-essential capital projects is an option.

MR. WRIGHT answered that we examine CIP projects on a yearly basis and some are pushed out. Some get more likely, and some get less likely, however it is a balance with what residents need.

MAYOR HARTKE

MR. DUNBAR continued the presentation.

- National Recession Gauge showing mixed results

COUNCILMEMBER STEWART asked what reporting we trust.

MR. DUNBAR said instead of judging reports from a national level, we look to our local economy for recession and economy health indicators.

MR. DUNBAR continued the presentation.

- Local Growth still projected

MS. LANG continued the presentation.

- Sound Budgeting Practices Support Financially Sustainable Goals
 - Chandler maintained AAA Bond Ratings from Moody's, Fitch, and S&P rating agencies and increased ETRO rating from Moody's
 - Continued adherence to all fiscal policies & strong reserves
 - Planned pay-off of pension obligation
 - Re-affirmed ratings at end of 2023
 - 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
 - Recommend Budget Stabilization Reserve at \$10M
 - Chandler manages expenditures to meet service demands
 - Maximize grant opportunities
 - Weigh positions vs. contracting
 - Ensure service continuity – Temp vs Employee
 - Start Modified Zero Based Budgeting to verify funding requirements to provide services
 - Control Primary Property Tax
 - Provide options to match expenditure needs or right size

COUNCILMEMBER STEWART asked what amount the 15% General Fund contingency reserve is.

MS. LANG said the contingency reserve is around \$45 million.

COUNCILMEMBER STEWART confirmed that this amount is carried over, not a new collection every year.

MS. LANG said that is correct.

COUNCILMEMBER ORLANDO requested information on our grant applications, and how many grants Chandler has successfully acquired, it is important to know how we are maximizing the use of these dedicated funds.

MR. WRIGHT said an update will be provided.

MS. LANG added that grants are often seen only when approved by council – we have recently put in place a procedure for departments to follow when seeking their own grants, to be able to track that metric.

COUNCILMEMBER STEWART said that the budget survey has such great feedback from our residents but asked about the balance between providing great services and monitoring budget increases.

MS. LANG noted that each year that balance is a challenge. Chandler is still growing, every time we add CIP, we add operations and maintenance costs. The question is about predictability and growth, which Chandler has not attained. We focus on maintaining what we have, while still allowing for new growth asked for through citizen response and in the strategic plan.

MAYOR HARTKE added that we will discuss our spending priorities between one-time and ongoing funds.

COUNCILMEMBER STEWART emphasized the importance of being mindful of this budget.

COUNCILMEMBER POSTON asked if the employee count includes temporary employees.

MS. LANG said the estimate only includes our full-time equivalent count, made up of part time and full-time employees.

COUNCILMEMBER POSTON requested more information on the number and type of temporary employees.

MS. LANG said that information will be provided.

MR. DUNBAR continued the presentation.

- FY 2024-25 Preliminary Budget
- FY 2024-25 General Fund Operating Revenues and Expenditures
- Ongoing / One-Time Local Sales Tax (TPT) Preliminary Revenues

COUNCILMEMBER STEWART said that this forecast chart is a good thing to look at.

MS. LANG said we anticipate this forecast to be close to the real outcome.

COUNCILMEMBER ORLANDO noted that the 81% spent of the estimated budget is closer to the projection.

MS. LANG said this considers only what we know today.

MAYOR HARTKE added that this is realistically what only Chandler spends, not including outside funds from collaborators.

MS. LANG agreed, and said this preliminary forecast still has a chance for updates before it is finalized.

MR. DUNBAR continued the presentation.

- New & Expanding Employers
 - Intel
 - Manufacturing
 - \$20B investment
 - 3,000 jobs
 - NXP
 - Manufacturing
 - Expansion in campus
 - 100 jobs
 - Viavi
 - Manufacturing
 - 104,000 SF facility
 - 233 jobs
 - Comtech
 - R&D/Manufacturing
 - 147,000 SF facility
 - 400 jobs
 - Advantest
 - Manufacturing
 - Multi-facility project
 - 400 jobs
 - Stryker
 - Manufacturing
 - 104,000 SF
 - 280 jobs
 - Edwards
 - Manufacturing
 - 200,000 SF
 - 200 jobs
 - EMD Electronics
 - Manufacturing
 - 75,000 SF facility
 - 100 jobs
- New & Expanding Employers
 - Insight
 - IT solutions
 - HQ relocation
 - 1,500 jobs

- Northrop Grumman
 - Manufacturing
 - 617,000 SF campus
 - 500 new jobs
- ASML
 - Semiconductor Svcs.
 - 38,00 SF expansion
 - 100 new jobs
- Rinchem
 - Semiconductor / Dist.
 - 50,000 SF expansion
 - 25 jobs
- Clarivate Analytics
 - Adv. Business Svcs.
 - 30,000 SF office
 - 150 jobs
- YES
 - Manufacturing
 - 123,000 SF facility
 - 100 jobs
- VirTra
 - Manufacturing
 - 76,000 SF facility
 - 140 jobs
- Bestway
 - Recreation Products
 - 130,000 SF U.S. HQ
 - 150 jobs
- New & Expanding Employers
 - CVS Health
 - Healthcare
 - 100,000 SF office
 - 500 jobs
 - Toyota Financial Services
 - Financial Services
 - 63,000 SF office
 - 300 jobs
 - Waymo
 - Autonomous vehicles
 - 66,000 SF testing & maintenance facility
 - Z Modular
 - Manufacturing

- 222,000 SF facility
- 150 jobs
- Isola
 - Manufacturing
 - 118,000 SF new HQ
 - 90 jobs
- Armor Works
 - Manufacturing
 - 70,000 SF new HQ
 - 85 jobs
- Laser Components
 - R&D / Manufacturing
 - 29,000 SF facility
 - 40 jobs
- Mechanicalkeyboards.com
 - Showroom / Logis.
 - 74,000 Sf facility
 - 40 jobs
- Key Local Sales Tax Revenues by Category
- Expanding Resident Base
- State Shared Revenues (In Millions)
- New Decision Package Requests Expenditures “Outflows”

COUNCILMEMBER ORLANDO confirmed if the value for the increase includes some of the already noted offsets.

MAYOR HARTKE added that it is not a net new FTE but a new funding source.

MR. DUNBAR mentioned that everything approved for one time funding will be in one time or ongoing this year.

MS. LANG continued the presentation.

- Optional Priorities for Ongoing Dollars
 - 1. Maintain existing service levels within core programs and strategic focus areas
 - 2. Continue converting successful one-time-funded programs and personnel to ongoing, sustainable sources
 - 3. Execute Strategic Framework priorities
 - 4. Continue to honor pension and other labor and personnel commitments to remain an employer of choice
 - 5. Service enhancements or additions, considering the option of one-time pilot programs first

MAYOR HARTKE noted that “Continue to honor pension and other labor and personnel commitments to remain an employer of choice” should be above “Execute Strategic Framework priorities”.

MS. LANG said it would make sense to shift those priorities. It is about PSPRS and ASRS commitments.

COUNCILMEMBER ORLANDO noted that this priority is a given.

MS. LANG said that the phrasing of that priority can be changed to incorporate it into maintain existing service levels.

MR. WRIGHT said that for non-labor employees, we have to set merit and market increases that are updated annually.

COUNCILMEMBER ORLANDO asked for more information on “Execute Strategic Framework priorities”.

MR. WRIGHT mentioned that there are some new programs to add – rather than ranking them the same, the Strategic Framework items are looked at more closely.

MS. LANG explained that is about the thought process when ranking priorities for funding.

COUNCILMEMBER ORLANDO that fulfilling our obligations is number one, followed by maintaining existing service levels.

MAYOR HARTKE said that there is a need for flexibility.

COUNCILMEMBER STEWART said maintaining our core competencies is not optional, we need to identify our must haves. Councilmember Stewart requested to return to this slide later.

MAYOR HARTKE said we are in agreement.

MR. WRIGHT summarized that we need to focus on our core competencies, with new additions coming in second priority.

MS. LANG continued the presentation.

- Effect of Strong Revenue Growth on One-Time Fund Balance

MAYOR HARTKE asked if there is an estimate of our over amount.

MS. LANG said an approximation will be provided. Last year's carryforward has been incorporated into the current year estimate.

MS. LANG continued the presentation.

- Priorities for One-Time Dollars
 - 1. Reinvest in existing aging infrastructure, neighborhoods & systems
 - 2. Operating and capital spending to advance Strategic Framework goals
 - 3. Maintain reserves sufficient to meet financial policies
 - 4. New initiatives and capital, including sustainability
 - Paid down large unfunded PSPRS liability to generate ongoing savings
- Public Safety Personnel Retirement System Update
- PSPRS Unfunded Liability Pay-Down Benefits
 - Generates ongoing savings by reducing annual contribution (est. cumulative \$8-\$10M over next three years; already built into forecast to fund projected public safety wage needs)
 - June 30, 2023 Actuarial Valuation Report reflects \$50M
 - \$73M payment not reflected until June 2024
 - Annual unfunded liability now managed through smaller one-time payments
 - Market conditions and public safety salary growth will impact annual projections
 - Secured future of public safety personnel
- PSPRS Actuarial Report Results 6/30/23
- PSPRS Net Unfunded Liability Balances Update
- PSPRS Employee/Employer Rates Comparison | Fire
- PSPRS Employee/Employer Rates Comparison | Police

MR. DUNBAR continued the presentation.

- Preliminary Discussion: Capital Improvement Plan (CIP)
- Fiscal Foundations – “Making it Happen”
 - Current 10-Year CIP Council Guidelines
 - Minimize increase in 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
- Continued Focus on Chandler's Aging Infrastructure
 - 65.7 square miles
 - 2,090 miles of streets

- 28,515 Street lights
- 238 signalized intersections
- 1,238 miles of potable water lines
- 958 miles of sanitary sewer
- 31 operating wells
- 69 developed parks (1,317 acres)
- 51 lighted fields
- 61 municipal buildings
- 821 fleet vehicles / trucks
- Maintaining high quality of life for our 285,554 residents
- Capital Project Review in Workshop #3
 - New Year CIP Considerations
 - Inflation continues to cause project cost increases
 - Bond authorization being utilized at faster pace. Additional authorization will be needed sooner
 - Studies completed which may cause some CIP adjustments
 - Some scope creep on projects needs addressed
 - Prop 400 extension is crucial funding stream for many transportation projects
 - Financial impact if referendum fails is \$12M Operating and \$101.8M Capital in current CIP

COUNCILMEMBER ELLIS asked about where we are at with the bond authorization output.

MR. DUNBAR said that it depends on the area – there is higher spending on streets and public safety, while we anticipated the bond authorization to last us until year 7, the scope is creeping closer than expected.

MAYOR HARTKE said later this year we will revisit where we are at with the 2021 bond projects.

MR. DUNBAR continued the presentation.

- Preliminary Property Tax Discussion Assessed Values Not Yet Received
- Property Tax Rate Comparison
- Breakdown of \$1 of Typical Chandler Property Tax Bill
 - Public Schools and Community College Districts 70 cents
 - Maricopa County & Special Districts 19 cents
 - City of Chandler 11 cents
 - Based on 2023 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 sine bond election anticipated an increase in assessed values
 - Evaluate Primary Rate options

- Offset appreciation in assessed values, if expenditure levels allow
- Offset entire increase for primary rate, if expenditure levels allow
- Keep rate flat to capture the increased valuation
- Primary Rate will be continuously evaluated until Tentative Budget adoption and can be revisited if revenue needs change

COUNCILMEMBER STEWART said that residents would pay more.

MR. DUNBAR answered that if the valuation of their property increases, they will pay the same rate, but a higher amount would fund the projects in the CIP.

COUNCILMEMBER STEWART asked what the average amount is.

MR. DUNBAR said valued rates have not come in.

MAYOR HARTKE estimated it would be around 5%.

MR. DUNBAR agreed with the 5% estimate, but was unsure of new buildings added which change value.

MAYOR HARTKE said that specific ideas on the secondary and primary tax rates will be presented later.

MR. DUNBAR said yes, at Workshop #2 the tax rates will be discussed once valuation rates have come in.

MR. DUNBAR continued the presentation.

- Key Budget Dates
- Questions?

Adjourn

The meeting was adjourned at 5:41 pm.

ATTEST: 
City Clerk


Mayor

Approval Date of Minutes: February 22, 2024

Certification

I hereby certify that the foregoing minutes are a true and correct copy of the minutes of the Special Meeting of the City Council of Chandler, Arizona, held on the 8th day of February 2024. I further certify that the meeting was duly called and held and that a quorum was present.

DATED this 22nd day of February, 2024.

Dana R. D'Long

City Clerk

