

Meeting Minutes

City Council Work Session

June 27, 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 Christine Ellis
Councilmember Matt Orlando
*Councilmember Jane Poston

Appointee Attendance

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

*Councilmember Ellis attended telephonically until 4:25 pm and then attended in person.

*Councilmember Poston attended telephonically.

Absent

Councilmember Angel Encinas - excused
Councilmember Mark Stewart - excused

Staff in Attendance

Dawn Lang, Deputy City Manager / Chief Financial Officer
Alexis Apodaca, Mayor & Council Public Affairs Senior Manager
Matt Burdick, Communications & Public Affairs Director
Ryan Peters, Strategic Initiatives Director
Helen Parker, Budget and Research Principal Analyst
Matt Dunbar, Budget and Policy Director

Discussion

1. Presentation and Discussion of Options for Financing the City's Capital Improvement Plan

MAYOR HARTKE called for a staff presentation.

JOSHUA WRIGHT, City Manager, introduced the discussion item.

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

- Capital Project Funding Bond Election Discussion
- Agenda
 - 2025-2034 Capital Improvement Plan (CIP)
 - Deep Dive on Bond & General Funded Projects
 - Inflation Impacts to Funding Plan
 - Secondary Property Tax as CIP Funding Source
 - Supplementing CIP with Alternate CIP Funding Source
 - Other Valley Cities
 - Bond Election History and Timelines
 - Options and Council Direction
- Strategic Framework Capital Needs in All Areas
 - Focus Areas
 - Economic Vitality
 - Sustainability and Technology
 - Connectivity
 - Neighborhoods
 - Quality of Life
 - Community Safety
- 2025-2034 Capital Improvement Plan (CIP)
 - \$2,488,884,031
 - Total 10-year CIP is funded as follows
 - 7% Grants
 - 68.4% Bond Funded
 - 22% Current Revenues/ Fund Balance
 - 1.9% System Development Fees

VICE MAYOR HARRIS asked if the higher value of grants making up CIP is due to the grants program manager who was recently hired to work solely on grants.

MS. LANG said that is part of it, and there is a high amount of federal and state funding due to COVID.

VICE MAYOR HARRIS asked if the city has received any funds for infrastructure.

MS. LANG confirmed Chandler has received funds for infrastructure.

RYAN PETERS, Strategic Initiatives Director, added that funds have been allocated through congressional spending, and past authorization entitlement funds in greater volume.

VICE MAYOR HARRIS asked if there is a chance for the 7% in grants to increase.

MR. PETERS said it is situational, depending on project types and how funds are distributed.

MAYOR HARTKE commented that after COVID, grant funds are diminishing.

MR. PETERS said that is correct, the city will continue to evaluate how best to pursue future grant funding for appropriate projects.

MS. LANG continued the presentation.

- 68.4% of 10-Year CIP is Bond Funded
 - Total 10-year CIP is \$2,488,884,031

MAYOR HARTKE asked is there a financial advantage to either method of bond funding.

MS. LANG said because both are AAA bond rated, they have a similar debt class in the market and are comparable.

MS. LANG continued the presentation.

- GO Bond Authorization
 - GO Bonds cannot be issued without residents authorizing this first
 - Bond Authorization usage higher than anticipated and will be exhausted by FY 2025-26 for Police, 2026-27 for Streets and Parks, and FY 2028-29 for Fire. Additional Bond Authorization needed to continue capital program in these areas.
- Deep Dive on GO Bond & General Fund 10-Year CIP Projects
 - Refer to Handouts
 - GO Bond Funded Projects (\$626M)
 - Summarized by bond category (blue lines)
 - Projects not highlighted will use existing bond authorization
 - Projects highlighted need additional bond authorization to complete (\$395M)
 - Supports new and existing infrastructure
 - General Funded Projects
 - Summarized by department/division
 - Supports areas without bond authorization (i.e. Technology, Fiber, Airport)
 - Higher revenue used to fund bond eligible projects to extend current bond authorization

- Applied ARPA to some freeing up General Fd
- Higher General Fund revenue (over \$60M) is result of inflation, Intel and other developments, and shift to 2.5% flat tax in State Shared
- Typical one-time revenue is \$21M to \$30M

COUNCILMEMBER ORLANDO asked if this is based on the 10-Year CIP.

MS. LANG said yes.

MS. LANG shared the handout 2025-2034 Capital Improvement Program - GO Bond Funded Programs.

MAYOR HARTKE asked if Councilmembers can move out project start dates.

MS. LANG said yes. The CIP plan resets each year – the first-year projects are currently in progress, but further out projects can be changed.

MAYOR HARTKE commented some projects have been added to the 10-Year CIP since the 2021 bond election because of the importance of these projects.

MS. LANG shared the handout 2025-2034 Capital Improvement Program - General Funded, including Airport (General Fund Subsidy).

COUNCILMEMBER ORLANDO talked through an example of where projects are at in the current fiscal year and spending one-time dollars over time. A project can be funded by grants, one-time funds, and bonds; and due to decreasing amounts of one-time funds, a different funding source is needed.

MS. LANG said bond funding has always been a part of the CIP. Currently, the first two years are due to an anomalous amount of one-time funds being spent on these CIP projects. There are multiple reasons why – Intel expansion, results of inflation, and the shift to a 2.5% flat tax in state shared revenue. The normal amount of one-time funds is around the twenty-million-dollar range depending on the economy.

MAYOR HARTKE commented that it was expected that the previous bond authorization would be less than the expected seven years due to high inflation and the changing economy.

MS. LANG added that when project costs were projected out, the current high rate of inflation was not accounted for.

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

- GO Bond Projects Project's Impacted from 2021 Election

- Parks
 - Existing Neighborhood & Community Parks
 - A J Chandler Park Renovation
 - Mesquite Groves Phase II and III
 - Existing Community and Neighborhood Park Improvements
 - Folley Pool/Park Renovation
 - Lantana Ranch park site
- Streets/Transportation
 - Street Repaving*
 - Traffic Signal Additions and Repairs
 - Kyrene Rd (Chandler Blvd. to Santan 202) (portion)
 - Price Rd Queen Creek Intersection
 - McQueen Rd (Warner to Pecos)
 - Washington Street Improvements
 - Ocotillo Rd shared use path
- Public Safety Fire
 - Fire Station 4 Rebuild (portion)
- Public Safety Police
 - Forensic Services Facility
 - Police Main Station and Criminal Investigation
 - Bureau (CIB)/Communications Renovations

MAYOR HARTKE talked about the Gila Bridge in Arizona experiencing some issues due to age. The work was expected to build a new bridge due to expansion, not due to erosion. Mayor Hartke asked if the model used to determine infrastructure conditions is an appropriate model.

MR. DUNBAR said for most of these projects, the modeling has been accurate. There have been more challenges accounting for underground infrastructure and water and wastewater. The city is focusing on preventative efforts to avoid catastrophic failure.

MS. LANG added that street repaving is a policy set by Council. More general funds are being dedicated to increase the pavement quality index.

MAYOR HARTKE noted that in the past, the city had cut back on the repaving program during the recession and intended to come back to it later.

MS. LANG responded that the cost of asphalt is rising quickly. The rising inflation environment sets back all projects and putting in general fund dollars has made a difference.

MR. DUNBAR continued the presentation.

- GO Bond Authorization Project Drivers
 - Parks

- Regional Park Development Auth \$18,074,000, now \$61.5M
 - 4 Diamond Fields \$22.3M + Ryan Rd 5.9M
 - Pickleball \$6.6M (12 to 18 courts) & 3 Tennis Cts/Lights \$2M
 - Multi-Gen Expansion \$14.8M (gym delayed)
 - Mesquite groves Ph 1 \$10M (SDF Shortfall)
- Streets/Transportation
 - Streets Auth \$10.9M, now \$42.9M
 - Cooper/Insight Loop \$13.5M
 - Alma School (Germann to QC) \$10.1M
 - Price/Queen Creek Intersection \$19.3M (Beg. FY 2025-26)
 - Cost Changes since 2021
 - Arterial +19.2%
 - Intersect. +19.1%
 - Collectors +21.4%
- Public Safety Police
 - Forensic Facility Auth \$38,325,000
 - Forensic Facility \$64.8M (incl. \$9.1M GF)
- Public Safety Fire
 - Fire Stations Auth \$15,670,000
 - Station 2 Rebuild \$10.7M (+1.4M GF)
 - Station 4 Rebuild +16.8M (beg. FY2028-29)
- Increases as high as +30% to +50% in Capital Project costs

COUNCILMEMBER ORLANDO asked if the \$5.9 million for Ryan Road improvements were funded by one-time dollars.

MR. DUNBAR responded that it was bond funded.

MR. DUNBAR continued the presentation.

- Inflation's New Normal
 - In last 20 years, only one year would have seen project costs coming down 0.4%

COUNCILMEMBER ORLANDO asked if the baseline is reset at this new level of inflation.

MR. DUNBAR said yes.

MR. DUNBAR continued the presentation.

- Construction Price Index New Normal
 - Construction Costs continue to go up, just not as fast

COUNCILMEMBER ORLANDO asked if 2009 is used as a baseline in this index.

MR. DUNBAR explained that the data is sourced from the Mortenson Construction Cost Index, which considers the past 15 years.

MR. DUNBAR continued the presentation.

- CIP Inflation Impact Example Forensic Facility
 - Should future partnerships happen, authorization would last longer for other projects
 - Anticipate cost of build to continue to increase
 - Project at \$55.340M using current bond authorization and \$9.1M of General Fund included in FY 2024-25 and FY 2025-26
 - Study anticipates new build since growth of Police Department has exceeded current Police Admin building
 - Options retrofitting existing or building new are both large capital costs
 - Partnership options may be available, but size of facility would be larger with larger savings being on ongoing operations
- CIP Inflation Impact Example Mesquite Groves
 - Costs anticipated to increase this year under this new normal (\$12M/phase est. pre-COVID)

COUNCILMEMBER POSTON asked when the Mesquite Groves Park project was planned for.

MR. WRIGHT said Mesquite Groves was conceptualized about 15 years ago. The redesign contract is currently ongoing.

COUNCILMEMBER POSTON asked when the redesign update would come forward to Council.

MR. WRIGHT said that information will be provided.

COUNCILMEMBER ELLIS explained that property owners in the area may expect the park to be complete.

MS. LANG said the first time Mesquite Groves was in the bond program was 2007. Authorization was given, and it was in the plan, and the project was delayed due to the recession. The authorization was used for other limited projects at the time. The project is still on the books, but no bonds have been issued for this specific project. There is still some authorization remaining in the parks section. The current authorization will not cover all the project in today's prices. Impact fees will pay back debt service fund in the future. All three phases of Mesquite Groves are built into the current forecast.

COUNCILMEMBER ORLANDO asked if Phase I of the Mesquite Groves project can be started using impact fees.

MS. LANG said Phase I can be started by using impact fees but would end up short by \$10 million. It is planned to pay the \$10 million deficit with bonds, and then use impact fees to pay that back.

MR. DUNBAR continued the presentation.

- Funding the 10-year CIP Secondary Property Tax Supports GO Bonds (AAA bond rated = low-cost debt)
 - Property Tax Rate supporting current 10-year CIP in Orange
 - Property Tax Rate supporting current bond auth only in Blue
 - Benefits of utilizing Secondary Property Tax:
 - Tax Rate approved by voters and collected annually
 - Deductible on personal taxes
 - Considered a more stable revenue source
 - Equitable – pay over time
 - Levy funds debt service of entire 10-year plan without rate increase based on current projects

MAYOR HARTKE said keeping the secondary tax to support general obligation bonds is a stable source. There could be an equalization over time.

MR. DUNBAR said that is correct.

MR. DUNBAR continued the presentation.

- Funding the 10-year CIP Supplementing Secondary property Tax when Existing Bond Authorization is Fully Utilized
 - Current TPT Rate in Orange
 - Tax Rate supplementing secondary tax when existing bond authorization is fully utilized in Blue
 - Considerations:
 - Changes impact businesses
 - Rate change every three years would be needed or increase from 1.5 to 1.85 to meet debt service need
 - Would constrain use of ETROs for Utility projects and ongoing operations
 - Tax increase must remain for life of bonds

MAYOR HARTKE commented that other changes in the city may change the circumstances around supplementing transaction privilege tax rate.

MR. DUNBAR said changes may affect revenue sources for the city.

MAYOR HARTKE noted that a strength of the city is a diversified income stream.

MS. LANG added that the ongoing five-year forecast was presented during the FY 2024-25, and there may be an ongoing need in the future.

MS. LANG continued the presentation.

- Who is in 'The Same Boat' with Chandler?
 - Scottsdale TPT-Nov
 - Phoenix 2023
 - Tempe 2024
 - Surprise 2023
 - Glendale 2025
 - Buckeye 2024
 - Mesa 2024
 - Gilbert 2025-26
 - Chandler recommend Fall 2025

MAYOR HARTKE said other cities are facing struggles when it comes to bond approval.

- Bond Election History
 - The City of Chandler has had great success with residents voting to approve bond authorization to support the capital plan. Since 2000 the City has held 4 bond elections. All with significant education/outreach.
 - The table shows the bond authorization amounts approved in each category since 2000.

MAYOR HARTKE asked why bonds were not pursued in the late 2010s.

MS. LANG said assessed values dropped during that time over 30%. Assessed values are part of the formula for generating the tax levy – there was not enough tax levy to pay under the current rate. Taxes would have had to be increased. Instead of a large tax increase, the decision was to extend projects out during that time.

MS. LANG continued the presentation.

- Previous 2021 Bond Election Results
 - Council direction was to not increase secondary property tax rate
 - Parks
 - \$72,985,000
 - 68.24% Yes
 - Police
 - \$55,190,000
 - 69.33% Yes
 - Fire
 - \$25,160,000

- 73.22% Yes
- Facilities
 - \$33,570,000
 - 65.69% Yes
- Streets
 - \$85,780,000
 - 73.14% Yes
- Previous 49 Member Bond Exploratory Election Committee
 - Purpose of committee: to provide recommendation to City Council of bond authorization needed to support important public capital/infrastructure based on highest priorities
 - Newly formed committee focus can be reimagined

MAYOR HARTKE said the process was influenced by Council; many individuals that Council recommended served on bond exploratory election committees.

MS. LANG continued the presentation.

- Bond Exploratory Sample Committee Timeline
 - July-Aug 2024 Committee Selected
 - Aug.-Sep. 2024 Kick-off begins
 - Sep.-Nov. 2024 Committee meetings take place
 - Dec. 2024 Final Review with Finance Sub-committee in December 2024
 - Jan. 2025 Recommendation approved by Committee
 - Jan.-Feb. 2025 Draft report prepared
 - Feb.-Mar. 2025 Committee chair reports to Mayor and Council on recommendation and presents executive report
 - Call for Bond Election by May 8, 2025, for November 4, 2025, election

MAYOR HARTKE said there is about a ten-month window from the start of the bond exploration to the decision to call the election by Council. Council would make recommendations, approve members, and approve any recommendations from the committee.

MS. LANG said once Council selects the committee, Council reengages once the recommendation is brought forward.

MAYOR HARTKE restated that Council has full opportunity to go through the committees' recommendations.

COUNCILMEMBER ELLIS said Council still has opportunities to review the outcome of the bond committee. It is a great way to get the public involved.

MS. LANG continued the presentation.

- Bond Election Sample Process

VICE MAYOR HARRIS said Council has until May 8 to call for the election.

MAYOR HARTKE asked why 2025 is the year to have a bond election.

MS. LANG said current bond authorization covers up until 2025-2026. The 2026 ballot may have many issues such as home rule, general plan, Mayor and Council, and any charter changes. Staff desires to reduce the chance of delaying bond authorized projects.

MAYOR HARTKE said ballot costs have sometimes been split between other entities, and asked if there was any foreseen in 2025.

MR. WRIGHT responded that there are not any elections expected, but opportunities to share costs will be examined at that time.

MS. LANG continued the presentation.

- Options and Council Direction
 - Begin formulation of Bond Exploratory Committee to evaluate project merits, financing options, and timelines
 - Evaluate other sources of CIP financing to maintain as much of 10-year plan as possible (e.g. TPT, impact fees_
 - Significantly pare back 10-year CIP to avoid bond authorization shortfalls post-2026 with no additional revenue stream

MAYOR HARTKE commented that the three options can be combined to fund these CIP projects.

MS. LANG said when it comes to financing capital, combining options could lend itself to the operational side, rather than the borrowing side required for the CIP.

MAYOR HARTKE read a prepared statement on behalf of Councilmember Stewart:

Here are my comments for this evening's discussion about the bond. I have a couple of concerns. First, we are buying into an inflationary environment where the cost of the materials and building is exorbitantly high compared to previous years before COVID, we are competing with private sector for labor and materials which could be contributing to higher construction costs for concrete buildings. I think it might be prudent for us to forego nonessential initiatives over the next few years. Secondly, I am adamantly against raising taxes of any kind to cover the expense of these bond initiatives. Lastly, any exploratory committee needs to discuss more details with the neighbors around Mesquite Park. They have been eagerly anticipating that park for many years and think it would be prudent to ensure that the park is developed in accordance to what was voted on in the general plan in 2006 and 2016.

COUNCILMEMBER ORLANDO asked about the bond exploratory committee.

MS. LANG said the bond steering committee was the main committee that all the committees sent information to.

COUNCILMEMBER ORLANDO requested to talk to stakeholders about the proposed bond election and share information about what the city is facing right now and gather opinions. Councilmember Orlando requested a full ten-year plan to capacity, to see what is needed to complete the plan. Councilmember Orlando requested adding information technology to these bonds.

VICE MAYOR HARRIS said attitudes may have changed over time over the expectations of bond projects. Sharing data of previous bond elections will be essential in understanding how to get bonds passed.

COUNCILMEMBER ELLIS said that on the previous bond committee, stakeholders were brought in after the fact. Committees must lead and drive the direction forward. When considering what bonds will be able to do for the city, building a CIP plan at capacity is important.

MAYOR HARTKE stated one of the city's strengths is the diversified income source. Chandler has been a leader in investing in its future. Mayor Hartke asked to pursue asking key stakeholders to serve on a bond committee for community input. There is a point in the future in raising TPT to cover general, but Chandler needs to continue to be responsive and keep revenues at a maximum. Mayor Hartke requested to move forward with pursuing a bond exploratory committee.

COUNCILMEMBER ORLANDO said assessing key stakeholders to determine if there is a desire to begin a bond election should be conducted before formally beginning the committee process.

MAYOR HARTKE commented there is not a large window of time to go out to stakeholders first.

COUNCILMEMBER ORLANDO said there is approximately ten months before statutory election deadlines begin to have an effect.

VICE MAYOR HARRIS agreed that outreach throughout the process is essential. Whatever can be done now to get ahead of the curve is best. Vice Mayor Harris said to not pursue tax increases but was for moving forward with a bond committee and going out to stakeholders first.

COUNCILMEMBER ORLANDO said that Council and staff should inquire after stakeholders' thoughts on holding a bond election.

MAYOR HARTKE said then the inquiry can be if the stakeholders do want to serve on a bond committee.

COUNCILMEMBER POSTON said other sources of committee members could be CIVIC graduates and Board and Commission members. Councilmember Poston would like to hear community feedback. Investigating the scale and what residents want on some older conceptualized projects would be beneficial to revisit.

Council consensus was to begin formulation of Bond Exploratory Committee and to get feedback from stakeholders and through community outreach.

Adjourn

The meeting was adjourned at 5:53 p.m.

ATTEST: _____
City Clerk

Mayor

Approval Date of Minutes: July 15, 2024

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 27th day of June 2024. I further certify that the meeting was duly called and held and that a quorum was present.

DATED this _____ day of July, 2024.

City Clerk