

Meeting Minutes

City Council Special Meeting

October 14, 2024 | 4:00 p.m.
Chandler City Council Chambers
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

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

Staff in Attendance

Tadd Wille, Assistant City Manager
Andy Bass, Deputy City Manager
Matt Dunbar, Budget & Policy Director
Matt Burdick, Communications & Public Affairs Director
Alexis Apodaca, Mayor & Council Public Affairs Senior Manager
Ryan Peters, Strategic Initiatives Director

Discussion

1. FY 2025-26 Budget Kickoff Work Session
 1. FY 2024-25 Budget Actions
 2. Budget Process
 3. Strategic Framework Focus Areas
 4. FY 2025-26 Budgetary Impacts
 5. Capital Guidelines

6. Financial Policies and Budget Practices
7. Key Dates

MAYOR HARTKE called for a presentation.

JOSHUA WRIGHT, City Manager, introduced the discussion item.

MATT DUNBAR, Budget & Policy Director, presented the following presentation.

- FY 2025-26 Budget Kickoff with Mayor and Council
- Agenda
 - I. FY 2024-25 Budget Actions
 - II. Budget Process
 - III. Strategic Framework Focus Areas
 - IV. FY 2025-26 Budgetary Impacts
 - V. Capital Guidelines
 - VI. Financial Policies and Budget Practices
 - VII. Key Dates
- FY 2024-25 Budget Actions
 - Sales tax rates unchanged - one of the lowest in AZ
 - Reduced property tax rate from \$1.0926 to \$1.0826 per \$100 of assessed value – 9th year of reduction
 - No changes to Water/Wastewater/Reclaimed & Solid Waste Rates
 - Added increases to capital budgets to compensate for inflation affected projects, maintain aging infrastructure, as well as finishing planned parks and arterial streets
 - Continued to address pension debt through additional one-time funding to maintain the paid off status off the Public Safety Personnel Retirement System (PSPRS) unfunded liability (+7M / \$205.3M to date)
 - Added funding for new two-year labor association commitments and general employee pay increases
 - Added 48 positions, 34 of which (70%) were converted from one-time funded to ongoing funding or have an offset from grants or other revenue and 5 were to fill the needs of new capital projects
 - Budget Stabilization Reserve continues at \$10M

MAYOR HARTKE asked if the seven million set aside for PSPRS is an estimate.

MR. DUNBAR said yes, it is a placeholder value for now to maintain Chandler's current funded status.

COUNCILMEMBER STEWART asked if the 34 positions converted from one-time funded to ongoing funded were majority public safety positions.

MR. DUNBAR said a majority were public safety positions.

MAYOR HARTKE noted that this would be the first year seeing impacts from the rental tax going away.

MR. DUNBAR said yes, next year the full impact will be understood.

MR. DUNBAR continued the presentation.

- Where We Are 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), 2 (March) and 3 on the CIP (March)
 - Proposed budget brought to Council for discussion at all-day briefing (May 2nd)
- FY 2025-26 Budget Theme “Strength in Numbers”
- Strategic Framework Guides Our Decision Making
 - Council Retreat Coming Spring 2025
 - Focus Areas
 - Economic Vitality
 - Sustainability and Technology
 - Connectivity
 - Neighborhoods
 - Quality of Life
 - Community Safety
 - All CIP and Decision Package adds are tied to their related Focus Area
- Fiscal Year (FY) 2025-26 Budgetary Impacts - The Brightside
 - Personnel/Staffing
 - PSPRS unfunded liability continues its paid off status, which allows for freed up ongoing funding (biggest impact will be this upcoming FY)
 - Making progress on the number of vacancies
 - Added positions (54% Police/Fire) to reduce pressure in high need areas and shift one-time funded positions to ongoing
 - Local Economic Impacts
 - Local revenues in line with budget
 - Industrial construction impacts are still being seen in our monthly revenues
 - New retail and entertainment concepts continue to open that bring destination-based experiences to Chandler
 - State shared income tax will level downward to new normal
 - Long tradition of strong financial management
 - AAA upgrade on ETRO Bonds and maintained on GO Bonds

MAYOR HARTKE asked if the number of positions filling vacancies in public safety roles included over hires.

MR. DUNBAR said this does not include over hires, only FTEs which includes any FTEs added last fiscal year. There is a total of eight vacancies and 10 over hires.

COUNCILMEMBER ORLANDO commented that the goal is then to fill 18 remaining public safety vacancies.

MR. DUNBAR said the early hires are not considered in the vacancy amount. Early hires wait for retirements to occur to then fill a FTE spot.

MAYOR HARTKE asked if there are 23 vacancies in total.

MR. WRIGHT said that is correct, there are 15 vacancies including early hires with 8 current vacancies.

MR. DUNBAR continued the presentation.

- Fiscal Year (FY) 2025-26 Budgetary Impacts - The Challenges
 - Economy & Inflation
 - Costs, driven higher by prior year inflation, remain high; concern of recession continues
 - Bond Election needed for additional authorization in four categories
 - Technology
 - Multi-year citywide Enterprise Resource Planning (ERP) system replacement continues
 - Cybersecurity posture / Infrastructure
 - Governance / speed to delivery
 - Mobility and flexibility / more to do
 - Personnel/Staffing
 - Retirement and vacancy impacts will continue to be an issue
 - ERP system will require significant citywide staff effort
 - Still some reliance on temp labor for critical services
 - Legislative Impacts
 - Legislative Impacts to local tax base and Model City Tax Code continue to be watched (e.g., grocery tax)
 - Full effect of Residential Rental tax removal bill will impact new FY (est. impact \$11M ongoing or about 6% of TPT revenue)
 - Prop 479 in voters' hands in November

MAYOR HARTKE added Proposition 479 affects city transportation projects as well.

MR. DUNBAR agreed, the outcome will have an impact of Chandler's CIP.

MR. DUNBAR continued the presentation.

- Fiscal Year (FY) 2025-26 The Challenges Budgetary Impacts Delineating Ongoing vs. One-Time
 - This year 82% ongoing GF TPT revenues and 18% one-time was budgeted
- Fiscal Year (FY) 2025-26 The Challenges Budgetary Impacts Delineating Ongoing vs. One-Time
 - Evaluation is done for each TPT category and their ongoing versus one-time components

VICE MAYOR HARRIS asked about distribution deadline dates for ARPA funds.

MR. DUNBAR said ARPA funds must be spent or encumbered by December 2024 and spent by December of 2025. Chandler is in line with these deadlines.

VICE MAYOR HARRIS requested information on where the APRA funds are spent or encumbered.

MAYOR HARTKE asked about any funds that may be encumbered but not spent by the deadline.

MR. DUNBAR said some allocations can be transferred between funding sources.

COUNCILMEMBER ORLANDO asked when the flat tax levy impacts will be studied.

MR. DUNBAR answered that the flat tax will be studied in FY 25-26. Currently there is a onetime excess above the normal rate, that later will be ongoing a constant amount.

COUNCILMEMBER ORLANDO asked for more information later.

COUNCILMEMBER ORLANDO asked if the TPT increase is onetime.

MR. DUNBAR said the increase for utilities is ongoing.

MAYOR HARTKE asked when it is expected for heightened construction costs trail off.

MR. DUNBAR said December 2025 is expected to be the end of construction impact from Intel.

MR. DUNBAR continued the presentation.

- Council Priorities for One-Time Dollars
 - 1. Maintain reserves sufficient to meet financial policies
 - 2. Reinvest in existing aging infrastructure, systems, and projects that generate ongoing savings
 - 3. Focus operating & capital spending to move forward strategic focus area action items
 - 4. New initiatives and capital, including sustainability

COUNCILMEMBER STEWART asked if the reserves sufficient to meet financial policies is an amount that carries forward each year that fluctuates and asked if the funds come out of the budget each year.

MR. DUNBAR said it is a percentage of the total budget or percentage of total revenues over a four-year period which may adjust based on revenue incomes. The amount required to sustain the reserve may fluctuate year-to-year.

COUNCILMEMBER STEWART asked if the revenue funds are set aside.

MR. DUNBAR said it is in the general fund balance that is invested.

COUNCILMEMBER STEWART asked if the reserves are ever used or added to.

MR. DUNBAR explained that the reserves are there to be used to maintain the city in case of emergency. It does not need to be funded because it already exists.

COUNCILMEMBER ELLIS said the categories are agreeable and commented that Chandler is always looking for innovative ways to move forward. Councilmember Ellis suggested that priorities three and four could be switched.

MAYOR HARTKE said priority three and four do work together. Projects may meet more than one priority at a time.

MR. DUNBAR explained that priority three focuses on onetime funding that meets Council focus areas. Priority three focuses on existing projects, but four includes new projects that may not have been part of the capital plan. The priorities help gauge viability of budget projects when they meet these Council priorities.

COUNCILMEMBER ORLANDO asked if there are any high yield bonds that could be bought down.

MR. DUNBAR said staff meets with bond representatives frequently. Chandler typically sells bonds every two years. There are some bond sales that could increase returns. The best opportunity may be in March, Chandler typically sells in November. Depending on need and market opportunity, the sale may happen in March or November.

COUNCILMEMBER ORLANDO asked if Chandler is positioned to pay back its debt.

MR. DUNBAR said yes. An option could be to pay down debt early instead of refinancing.

COUNCILMEMBER ELLIS asked about potential downsides to selling bonds early.

MR. DUNBAR explained there is a lot of effort into selling bonds, and changing interest rates could impact any cost savings. There is a cost in selling bonds, there is some risk in the correct timing of a sale. As of now, a spring sale may be beneficial.

Council consensus agreed with the existing Council Priorities for one-time 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

- Ensure sufficient bond authorization exists to complete projects desired by residents
- Balance timely completion and coordination of capital projects with impacts to neighborhoods and businesses

MAYOR HARTKE said this is the guiding philosophy for capital.

COUNCILMEMBER STEWART asked what kind of projects Chandler has been able to do with onetime funds.

MR. DUNBAR said many general fund onetime dollars fund projects, for example the Forensic Facility. Cost increases can be covered by onetime funds to complete these projects, instead of seeking bond sales to fund them. Onetime extra revenues above budget become onetime revenues which are used for a significant portion of capital projects.

COUNCILMEMBER STEWART said onetime items may get working into the budget for an ongoing basis.

MR. DUNBAR said onetime items do not always get rolled in to ongoing in the same fiscal year, but they are planned for in upcoming fiscal years. Onetime expenditures from general fund from capital are including in the CIP to plan out for future year allocations.

COUNCILMEMBER STEWART discussed the point of balancing timely completion and coordination of capital projects and mentioned the influx of road projects. Councilmember Stewart asked if this was due to increased use of federal funds.

MR. WRIGHT said there were many factors including federal spending and investing in the community.

MAYOR HARTKE added that some projects are private, but the city does receive some benefits.

MR. DUNBAR continued the presentation.

- Resident Budget Survey
 - Maintain similar Budget Survey process to generate community involvement (1,310 for FY 2023-24 | 1,768 for FY 2024-25)
 - Run from Nov. – Jan.
 - Run ad campaign to encourage participation
 - Offer in English, Spanish, and Mandarin
 - 15 questions, 1-2 in each focus area with comment box
 - Additional updates to questions or process?

COUNCILMEMBER ELLIS asked if there will be paper copies available.

MR. DUNBAR said paper copies of the survey would be available at reception desks of many city facilities.

COUNCILMEMBER ORLANDO noted that he would prefer to hear from residents what is important to them.

MR. DUNBAR said the survey is used as a guidepost to set up the new budget. If there are items that the community deems important, they are considered.

COUNCILMEMBER ORLANDO asked to focus questions on what the community deems important and ask specific targeted questions to determine what is important to residents.

MAYOR HARTKE added that there was a study done specifically on parks that rated priorities. Mayor Hartke asked to consider previous input from residents and incorporate current needs.

MR. DUNBAR explained that the budget survey is one piece of resident feedback included in the budget process. One of the existing CIP guidelines is to use existing surveys and feedback in planning. Residents could rank project priorities that may already be in capital planning.

COUNCILMEMBER ORLANDO reviewed the resident budget survey and inquired how to make the survey more specific.

COUNCILMEMBER ELLIS said the survey asks demographic questions and every area has their own needs. The resident budget survey is applicable to all residents to guide the city's needs in the future.

COUNCILMEMBER ORLANDO said the yes or no questions do not help prioritize items the budget.

MAYOR HARTKE requested realigning fill in the blank questions, while accepting answers if residents are satisfied overall.

COUNCILMEMBER STEWART said that there are two different concepts in the resident budget survey – asking what residents think of the city and what are the budget priorities. It is possible to include both types of questions with some rearranging.

MR. WRIGHT said a draft will be returned before the survey is distributed.

MAYOR HARTKE looks forward to hearing responses from residents. Mayor Hartke asked about using the ILA devices or hosting the budget survey at different cultural events to complete the survey to hear responses in other languages.

MR. DUNBAR said the software used has a variety of languages it supports, the challenge is ensuring content is translated correctly.

MR. DUNBAR 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*
- Will review and bring to Council any recommended updates along with the required update for the pension policy
 - * Updated February 2024
- 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
 - 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 for reduction

VICE MAYOR HARRIS asked about the PSPRS paydown and what funds are being released in this budget and any economic impact from large private projects.

MR. DUNBAR said information will be provided at the first budget workshop.

MR. DUNBAR continued the presentation.

- FY 2025-26 Budget Process Updates
 - Continued Modified Zero Based Budget (MZBB)
 - Helps ensure current budgets are right-sized based on services provided
 - Analysis includes review of services, related expenditure category spending trends, and line-item reviews
 - Started with 2 departments/divisions in first year, 3 more in current year
 - Results to be reported at All Day Budget Briefing
- Feedback Received Last Budget Process Additional Thoughts?
 - Council Process changes implemented in FY 2024-25 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

- New process changes for FY 2025-26?

COUNCILMEMBER POSTON said it is helpful to get a deep dive from departments in presentation format.

MAYOR HARTKE asked for clarification.

COUNCILMEMBER POSTON said she would like to see directors exploring the department priorities in depth.

MAYOR HARTKE asked how directors could best present department priorities at the budget briefing. COUNCILMEMBER ELLIS asked for department directors to present more than just bullet points and seeing perspectives of what will happen if the project is done or not done, the needs of the departments - what value is added to the community by these projects.

COUNCILMEMBER ORLANDO asked about receiving the presentations earlier to have time to review.

MR. DUNBAR said the department slides are easy to provide ahead of time.

MAYOR HARTKE commented that spending more time with the Finance team to talk through any individual questions before the all-day budget briefing was helpful to have questions answered in advance.

VICE MAYOR HARRIS added that the previews with the Finance team was helpful.

COUNCILMEMBER ENCINAS asked to clarify if there is a request for presentations on additional discussion as to what the department is planning that year.

COUNCILMEMBER ELLIS explained that they would like to see more future-focused presentation.

COUNCILMEMBER ENCINAS said an example would be to see goals and what resources are needed to accomplish the goals, and what the benefit to the community would be.

COUNCILMEMBER STEWART asked if the budget is expected to be lower this year.

MR. WRIGHT said the budget process is just starting, it may be too early to determine due to many different factors.

MR. DUNBAR continued the presentation.

- Tentative Key Budget Dates
 - Public comment opportunities are now a part of all these budget meetings

COUNCILMEMBER POSTON asked about televising the all day budget briefing.

MR. WRIGHT said it is up to the Council.

MAYOR HARTKE said that the city can try this next year.

- Questions?

Public Comment

None.

Adjourn

The meeting was adjourned at 5:14 pm.

ATTEST: *Dana R. DiLong*
City Clerk

Kevin Hartke
Mayor

Approval Date of Minutes: November 4, 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 14th day of October 2024. I further certify that the meeting was duly called and held and that a quorum was present.

DATED this 4th day of November, 2024.

Dana R. DiLong
City Clerk

