

MINUTES OF THE SPECIAL MEETING OF THE HONORABLE MAYOR AND CITY COUNCIL OF THE CITY OF CHANDLER, ARIZONA, held at the Council Conference Room, 88 E. Chicago St., on Monday, January 24, 2011, at 5:02 p.m.

THE MEETING WAS CALLED TO ORDER BY MAYOR JAY TIBSHRAENY.

The following members were present:

Jay Tibshraeny	Mayor
Trinity Donovan	Vice-Mayor
Kevin Hartke	Councilmember
Matt Orlando	Councilmember
Jack Sellers	Councilmember
Jeff Weninger	Councilmember

Absent and Excused: Rick Heumann Councilmember

Also in attendance:

Rich Dlugas	Acting City Manager
Pat McDermott	Assistant City Manager
Mary Wade	City Attorney
Marla Paddock	City Clerk
Dennis Strachota	Management Services Director
Dawn Lang	Assistant Director for Finance
Greg Westrum	Acting Budget Manager

1. BACKGROUND DISCUSSION IN ADVANCE OF PREPARATION OF THE FY2011-12 CITY BUDGET AND CAPITAL IMPROVEMENT PLAN

MAYOR TIBSHRAENY stated that the purpose of the meeting was to serve as a Budget Workshop. The intent of the meeting was to start a dialogue and to provide staff with feedback.

ACTING CITY MANAGER RICH DLUGAS stated that the Budget Workshop was the first step in the budget process. He explained that even more detailed discussions about the budget would take place at the Council's Retreat in February. He told the Council their discussion during the Budget Workshop would serve as an overview of the 5-year forecast. He explained that the forecast consists of the same set of assumptions which include no COLA's, merit, or addition of personnel. He added that no addition of new programs other than what was already plugged into the CIP and would require on-going maintenance. He added that a PowerPoint interactive would show the Council the impact of certain items over a 5-year period. He stated that one of those items could be an across the board percentage COLA given to all employees. Other scenarios would be on-going merit and changing the percentage of revenue that was allocated to on-going.

He further explained that the Department Directors had been working identifying efficiencies and savings in their budgets that could be potentially reallocated to another resource or eliminated from the base budget or in the 5-year forecast. He told the Council that Directors then did an exercise on 5% and 10% service reductions in preparation for what the State does on State shared revenues. He added that an overview of the CIP would also be presented to the Council, and what it does in selling general obligation bonds. He stated that with this information discussed, staff would be able to bring information forward at the

Council's retreat in February.

Mr. Dlugas announced that 3 Public Budget Meetings will take place in February. Union negotiations would also commence in February.

MANAGEMENT SERVICES DIRECTOR DENNIS STRACHOTA presented to the Council and overview of preliminary 5-year forecast. He emphasized that the forecast was preliminary and that there was information that was not final and that staff did not have, that could change numbers. He told the Council that staff would not receive final assessed values until February and would then adjust the preliminary information. He added that staff did not have information reflecting the Christmas Holiday sales but noted that would be known by the February. He added that the information could change the forecast. He indicated that the current year spending and revenue estimates from departments were also not finalized.

Mr. Strachota told the Council that the interest income estimate was too high and would be lowered. He reiterated that it was unknown as to what would happen with State-shared revenues, including grants. He mentioned that there was indication as to what the Governor would be recommending but noted it could change at the committee level. He indicated that there were bills that have been introduced that would shift bills from the state to cities. He noted that there were other bills that could impact the City, including bills that would change exemptions of tax credits.

Mr. Strachota presented to the Council a spreadsheet showcasing the General Fund, detailing projections for on-going revenues and on-going expenditures. He told the Council that they were not seeing any fund balance or one-time balances. Any funds being carried from prior years was not reflective in the forecast that was being presented to them. He reiterated that the forecast represented the status quo in terms of spending assumptions. He reiterated that increases in merit, COLA and on-going increases to the budget were not forecasted.

Mr. Strachota highlighted a spreadsheet showcasing the 2010-11 Adopted Budget, Proposed Revenue Expenditures, 2010-11 Revised Estimates which is based on revenues, and Annual Percentage Change for the Revised Budget over the 2009-10 Actuals. He indicated that urban revenues were down by 24.5%. He explained that the urban revenue sharing dropped off because income tax collections dropped off two years ago. He stated it was showing up in the City's budget for the first time. He provided explanation on the 2010-11 on-going amounts and total revenues.

Mr. Strachota explained to the Council that staff percentages varied by revenue type. He stated that staff was trying to make assessment of where the City would be in the future. He indicated there would be some cases where that would not occur until build out.

Mr. Strachota, along with Assistant Finance Director DAWN LANG presented the Preliminary General Fund Forecast for FY2011-12 through FY2015-16.

After discussions regarding calculations, COUNCILMEMBER ORLANDO questioned how the totals for revised estimate amounts and totals for on-going amounts differed.

MR. STRACHOTA explained that one line item consisted of the total revenue where the

other line item was just the on-going. He explained that the revised estimate showed that the City was up \$1.5 million over the adopted budget. He stated that a big reason why numbers were coming in better was due to sales tax. He indicated that Chandler was running 5.5% ahead of the budget.

COUNCILMEMBER ORLANDO asked if the revised estimate amounts were \$10 million over the on-going amount. MR. STRACHOTA concurred.

COUNCILMEMBER ORLANDO stated that if the expenditures were added to that amount, it would show that the fund was \$10 million dollars over. He asked if there would be one-time \$10 million dollars rolled over next year.

MR. STRACHOTA responded that the amount is being spent. He stated the one-time was not being reflective. He explained that the one-time expenditure consisted of things such as contributions to the Risk Management fund, one-time decision packages, Council contingency, and retirement incentives.

MR. DLUGAS noted that the funding for the DARE program that occurred last year would have been funded from the one-time money.

COUNCILMEMBER ORLANDO questioned why \$9 million dollars would be spent if an accumulative \$3.2 million dollar deficit. He asked why \$6 million wouldn't be spent to have a zero balance.

MR. STRACHOTA responded that it was due to needs that were identified by the Council.

COUNCILMEMBER ORLANDO asked where the \$3.2 million dollars had come from.

MR. STRACHOTA replied that the amount came from fund balance. He explained that the amount was one-time money, other than current revenues. He explained that the budget stabilization reserve would be what was set aside from fund balance to cover the difference.

COUNCILMEMBER ORLANDO noted it seemed like an ongoing expense was being funded with \$3 million dollars of the one-time expense.

MR. STRACHOTA concurred. He stated it was part of the prolonged strategy to balance the budget. He noted that it was clear that a budget would not be developed by budget cuts themselves without getting into situations where staff was laid off. He stated that although Council approved incentives, there was still a gap.

COUNCILMEMBER SELLERS asked if some of the one-time expense was for health insurance.

MR. STRACHOTA responded that it was not all included in the number. He added that there were over \$30 million dollars in one-time costs including over \$10 million dollars for pre-funding the health insurance.

VICE-MAYOR DONOVAN noted that it was done as a way not to fall away from the intent of having ongoing revenues pay for on-going expenses.

MR. STRACHOTA stated it was done in recognition due to the economic times. He explained that the reserve was set-up as a way to justify using one-time dollars with a term limit.

In response to a question from VICE-MAYOR DONOVAN, Mr. Strachota indicated that budget policies were altered to reflect the creation of the Budget Stabilization Reserve. He stated the policy stated that the City cannot spend more than three years of reserve to meet ongoing spending requirements.

COUNCILMEMBER WENINGER asked if there had been thought given to paying for some items through the CIP such as roads. MR. STRACHOTA responded that could be done.

MR. STRACHOTA indicated that it had been determined that the City was not spending as much reserves when the reserves were currently applied to the City's deficit.

COUNCILMEMBER WENINGER questioned the calculation of State Shared revenue. Mr. Strachota explained that Staff had built in their estimates the assumption that the State's growth would be slower than that of the City's.

MS. LANG said the urban revenue sharing numbers came from the Department of Revenue.

COUNCILMEMBER ORLANDO asked if State shared revenues had a two-year lag.

MR. STRACHOTA responded that it was a two-year lag for earned revenue sharing but sales tax was current. Mr. Strachota further stated that the State's sales tax number were still negative.

MAYOR TIBSHRAENY noted that some of the sales tax numbers were increasing and were above their 2009 collection.

VICE-MAYOR DONOVAN recalled last year that Chandler had done better than the State. She indicated that people were spending more money in Chandler than they were in other parts of the State.

MR. STRACHOTA concurred. He attributed this to the fact that some of the personal income levels were a little higher in Chandler. MAYOR TIBSHRAENY noted areas in the State where their economy was turning around slower than Chandler.

In regards to spending, Mr. Strachota stated that the personnel services represented 76% of ongoing costs. He stated that staff had factored benefit increases in the forecasts presented to Council. Staff assumed that employer contribution rates for ASRS and PSPRS would go up in the next year. He told the Council that the estimated ongoing additional debt represented some expenses related to innovations that would be offset by revenue in 2013-2014 and software maintenance and utility costs that would go up. He stated that the CIP O&M was not getting anything added to it but was changed to reflect latest estimates.

In response to a question from COUNCILMEMBER WENINGER, MS. LANG explained told the Council that staff was currently accepting decision packages from departments for the 5% of the current revenues that would go towards to onetime needs. MR. STRACHOTA stated that the City generally ran between \$7-10 million in onetime expenditures on an

annual basis.

Mr. Strachota told the Council that staff projections were done with the assumptions that sales tax would increase.

MAYOR TIBSHRAENY asked what the sales tax figures were for the current year over the last years forecast.

MR. STRACHOTA stated that the increase was between 4-5%. He believed that there would be some concern if there was not a spike in holiday sales tax over what was seen in growth prior to the holidays. He told the Council that at some point the increases would level off. He concluded by stating that things looked positive for the City for the next year, however, he reminded that the Council that they did not yet know how the State would affect the City's budget.

VICE-MAYOR DONOVAN asked when that would be known.

MAYOR TIBSHRAENY stated it could be as late June 30. He believed the State would make their decisions in May or June. He recalled reading that their deficit projections were decreasing.

COUNCILMEMBER WENINGER asked if Census figures would impact the budget. MR. STRACHOTA explained that urban revenue sharing would be impacted. He stated that staff factored a figure in their calculations by adding a lower growth rate.

MAYOR TIBSHRAENY noted that the Census figures would be available in February.

In response to a question from COUNCILMEMBER WENINGER, MR. STRACHOTA stated that the numbers would take effect in the next fiscal year. He stated that staff was already projecting a lower growth rate. MS. LANG stated that once the State gave out new distribution numbers in February, they would reflect new Census numbers.

MR. STRACHOTA reiterated that things looked positive for next year with the exception of not knowing what the State was going to do. He reminded the Council that COLA's and merit increases are not included in the forecast. He then went over potential scenarios that would alter the City's budget and deficit if COLA's and/or merit increases were included, as well as how they would affect future years budgets. He noted that in the scenarios, COLA's would be given to the all employees, where merit increases were given to merit eligible employees. He added that vacancy rates were also factored in, with the assumption that the vacancy rate would be 2.2%. Mr. Strachota stated that there would be major impact if things in the budget returned to what it was before the recession.

COUNCILMEMBER WENINGER asked if staff was aware of what other cities were planning on doing.

MR. STRACHOTA responded that the City of Glendale had discussions regarding their Police Department.

ACTING CITY MANAGE DLUGAS explained that the City of Glendale was discussing adding a pay step in the pay ranges for under their Public Safety Contract that would affect

the City of Chandler if Glendale did not use their fiscal crisis language. He reminded the Council that there was language in the City of Chandler's contracts that CLASA and CLEA would remain 4th among Valley cities. He noted that if Glendale moved forward with the step, it would move them to 3rd which would result to Chandler having to increase their pay ranges by 2% for CLASA and .08% for CLEA to remain at 4th position. He indicated to the Council that other East Valley Cities were dealing with bigger deficits and did not know what they would be doing.

In response to a question from COUNCILMEMBER SELLERS, MR. DLUGAS stated that the union contracts were up this year. He stated that proposals were being cost out and that more information would be discussed with the Council in February.

MS. LANG went over potential 2011-12 General Fund Savings and Reallocation. She told the Council that the Department Directors had met as a group to discuss process changes. She stated that there was talk of having an admin pool in using temporary budget throughout the City. She noted that there could be a savings of \$262,000 by creating an Administrative Pool. She added that other things discussed included travel and training, reduction in contract services and leases as well as having Fire personnel conduct landscape maintenance at some of the Fire Stations. She also explained that there were reductions identified for Downtown Redevelopment that included special events, contracts, printing and tourism money.

COUNCILMEMBER ORLANDO asked for clarification regarding Firefighters doing maintenance. MR. DLUGAS stated that right now things were done as part of a landscape contract. He stated that the proposal would be to have firefighters during their off time mowing lawns and doing landscape.

COUNCILMEMBER ORLANDO questioned what would happen if the Firefighters were hurt while conducting the landscaping. MR. DLUGAS stated that it would be treated as if they were on the job and would fall under Workers Compensation.

COUNCILMEMBER ORLANDO did not feel that it would be worth the savings if a Firefighter ended up getting hurt.

In response to a question from COUNCILMEMBER ORLANDO, MR. DLUGAS stated that most neighborhood and community parks were landscaped under contracts. He stated that the Department Directors were looking into changing frequencies under contracts such as changing the frequency that the parks were mowed, etc. He stated that there were various contracts such as elevator maintenance, generator maintenance and landscape maintenance that were being looked at by Directors. Mr. Dlugas noted that staff did not have to move forward with the Firefighters conducting landscaping duties, but explained it was something that was looked at as part of reduction savings.

MS. LANG then reviewed citywide expenses that were related to consumption and energy management that included utilities and fuel expenses. In addition, she noted that there were ongoing base budgets that were not used every single year and staff was proposing moving those funds from on-going and funding those projects as one-time expenses. She stated that Departments would put forward decision packages as needed for those items.

VICE-MAYOR DONOVAN stated that she wanted to ensure that Departments were not

competing for limited funds. MS. LANG noted that some things would take priority such as election funding that would be needed during certain years.

MS. LANG further explained to the Council that there were large items that related to the purchases of fire trucks under the Fleet Replacement Fund. She stated it was being suggested to remove the ongoing contributions and pay for the replacements under a one-time basis. She stated that the replacement fund had sufficient monies to cover costs for the replacement of the Fire equipment for 5 years but would then have to shift to either bond or General Fund funding.

COUNCILMEMBER WENINGER noted that if the shifting was done and added to the CIP, it could potentially delay other projects.

In response to a question from COUNCILMEMBER SELLERS, Ms. Lang explained that the funds would be shifting from contributing funds annually. She stated that one-tenth of the funding would be set aside each year for 10 years and to have the trucks replaced by the tenth year.

COUNCILMEMBER HARTKE questioned how much money was actual savings as opposed to shifting of funds/costs.

MS. LANG replied that \$2 million dollars was true savings. She noted that there would be a shifting in the way things were funded/budgeted.

COUNCILMEMBER WENINGER voiced some concerns over the computer replacement program. He noted he had supported the change of the program from three years to four.

MS. LANG noted that the replacement program was now on a five year cycle.

COUNCILMEMBER WENINGER expressed concerns over having the computer replacement program to a seven year cycle. He asked if it was a problem for someone to have a computer replaced before the seventh year.

MR. STRACHOTA indicated that an emergency replacement could be done. He stated that change assumed that the City would move into a thin client environment where the servers would not have hard drives.

COUNCILMEMBER WENINGER asked if that had been looked at before. MR. STRACHOTA believed there had been some licensing issues in the past but believed there were still some opportunities available.

COUNCILMEMBER WENINGER asked if a review had been done on City used cell phones. MS. LANG stated there had been a review previously done that resulted in Directors and employees doing away with cell phones. She stated that in 2009-10 there had been a new contract negotiated that resulted in savings.

VICE-MAYOR DONOVAN concurred with Councilmember Weninger's comments regarding the computer replacement program. She asked if there was an industry standard of how long a computer should last in an organization.

MS. LANG mentioned potential savings in Police Radio upgrade.

MAYOR TIBSHRAENY believed the list of reductions was a good exercise by staff. He asked if the City Manager's office was continuing to review the filling of positions.

MR. DLUGAS replied that there was a current freeze in effect until the end of February until the holiday sales tax data becomes available. He stated there had been a few exceptions. He stated that if hiring is reinstated it would go through a process, with internal recruitment done first.

In response to a question from MAYOR TIBSHRAENY, MR. DLUGAS explained to the Council that the Department Directors met in various subcommittees to look over contracts, temporary help and other issues working on the information regarding efficiencies and reductions.

MR. STRACHOTA told the Council that the Department Directors were asked to look at potential 5 and 10% reductions if the City had received significant cuts from the State. The Department Directors were asked what would be done to their service levels. He indicated that there were no longer efficiencies available anymore but would result in real cuts to services. He indicated as an example, that the reductions would impact his own staff in the Utility Billing counter would result in reducing Counter staffing from full days to half days. He stated the cut would represent a 10% cut. He explained to the Council that in the case of a larger Department such as Fire could result in the elimination of one Fire company which would impact their response time.

MAYOR TIBSHRAENY asked if it would result in the elimination of one company or one company per station.

MR. DLUGAS indicated it would result in the elimination of one company at one station.

MR. STRACHOTA further stated that if a 10% cut occurred then two companies would be eliminated. He stated with the companies being eliminated then they would not be able to do the non-emergency response work such as inspections and hazardous waste clean-ups. He told the Council that a 5% reduction in Police could result in the elimination of one beat.

COUNCILMEMBER WENINGER asked if his scenarios were dealing with cuts done across the board. MR. STRACHOTA clarified that the Council would make choices about where the dollars would come from. The Council could give higher priority to certain services to others. He told the Council that 5% cuts mean different things to each Department but felt that a significant impact would occur wherever the 5% cut is done.

COUNCILMEMBER WENINGER stated that it was assumed that every single possible efficiency was realized without impacting services, but he did not know if that was true or not.

MR. DLUGAS indicated that part of the citywide efficiency exercise was done for the Department Directors to think about what they would cut if they had to do 5 or 10% cuts.

COUNCILMEMBER WENINGER indicated he would not propose a cut done across the board.

MR. STRACHOTA stated that 77% of the General Fund ongoing expenses were personnel costs. He noted that once those sizeable reductions were done then they would impact personnel.

MR. DLUGAS reminded the Council that significant cuts had been done in the last two years. In addition, almost 200 positions had been eliminated. He stated that the organization had gotten to the point where if large dollar reductions occurred then some services would be impacted.

Acting Budget Manager GREG WESTRUM presented the Council with current projections of how declining assessed values are impacting the Capital Improvement Program. He told the Council that when the staff developed the FY2009-10 Budget, staff could see the declining home values and the recession that would severely impact the City. He informed the Council that additional information on assess values had been received from the County. He stated that the County provides tentative and then final numbers in what is an ongoing process. He indicated that staff's projections did not match as staff had anticipated assumptions for change in secondary assessed values to be -8% for 2010/11, -6% for 2011/12 and plus +4% for 2012/13. Instead, the numbers now show that the assumptions for change in secondary assessed values will be -11.3% for 2010/11, -15% for 2011/12 and -5% for 2012/13.

In response to a question from COUNCILMEMBER SELLERS, Mr. Westrum indicated that the bond sales changed from \$20.5 million in FY2010-11, to \$9.9 million for FY2011-12 due to the structure of the sale and the current capacity and debt being projected out for 20 years. He added that the \$9.9 million dollar bond sale had just been completed. He further mentioned that in terms of bond sales, there would not be anything until 2015/16. In response to a question from MAYOR TIBSHRAENY, Mr. Westrum clarified that the assumption for change in secondary assessed value for FY2011-12 that staff was currently working on was not a final number.

MR. STRACHOTA indicated that FY2011-12 represented 2009-10.

COUNCILMEMBER WENINGER asked that if it was staff's assumption that there would be some increases in values during FY2011-12.

MR. WESTRUM concurred. He indicated that there should be normal growth after the four years of decreasing.

MS. LANG stated that a commercial reduction was also being factored in at -5% but clarified that the commercial reduction could be larger than that.

MR. WESTRUM expressed some good news in terms of funds being available for the CIP program. He stated that there was some cash on hand in both the Streets and Park bond funds. He added that there was money going into the CIP for the repaving program as well as grant opportunities available in Transportation. In addition, impact fees could be used for the first 5-years of the CIP. He mentioned that a lot of the money that was in the CIP from the Streets side was from the Prop. 400 reimbursements. There is a year lag from completed projects, with the money then returning to the City to use for the next projects.

MAYOR TIBSHRAENY asked if those funds could be bonded.

MR. WESTRUM responded that they had to be cash funded projects. He indicated that the CIP committee would be working with the data for the next few weeks to put together the CIP.

COUNCILMEMBER HARTKE asked if there would not be any bondable money until FY2015/16 for parks, police, fire or public buildings.

MR. WESTRUM explained that the numbers were impact fees and there was not money set aside for those projects at this point.

MR. DLUGAS stated some of the Street projects did not come up with O&M. He indicated that the Council could look fund balance during the Council's retreat in February to talk about the one-time, one-time reserves and fund balances.

COUNCILMEMBER SELLERS stated that based on the data, people's property taxes would be going down within the next coming year. He asked if staff would show the Council what various rates would do. MR. WESTRUM stated that staff would provide the Council with at least two scenarios.

COUNCILMEMBER SELLERS believed that there were some projects that he felt could not wait 5 years to be done.

COUNCILMEMBER WENINGER asked if there was \$30 million dollars set aside for a potential convention center.

MAYOR TIBSHRAENY believed there was not money set aside for such a project as he had asked staff that question before.

MS. LANG clarified that there was a fund set-up 2 years ago, but that fund has since gone away.

VICE-MAYOR DONOVAN asked when the Council would receive copies of the one-time decision packages. She assumed it would occur later after there were meetings with Departments.

MR. DLUGAS concurred.

COUNCILMEMBER WENINGER asked if the Council could be given a preview or hypothesis of the CIP.

MAYOR TIBSHRAENY and MR. DLUGAS asked the Council to bring requests forward to staff that they would want to have in preparation of the Council's retreat.

VICE-MAYOR DONOVAN stated she would like to look at specifics as to what the CIP was last year and what it would mean to the future CIP.

COUNCILMEMBER WENINGER questioned what the format of the Community Budget Meetings would be.

