

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, March 7, 2011, at 5:30 p.m.

THE MEETING WAS CALLED TO ORDER BY MAYOR JAY TIBSHRAENY.

The following members answered roll call:

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

Management Services Director DENNIS STRACHOTA presented the Council with an overview on current budget figures. He went over changes that had been done since the last budget forecast. He told the Council that figures that showed one time or ongoing had not changed. He stated that total revenue was expected to go up in FY 2011-12. He stated that was due to local sales tax being up. He told the Council that staff had just received the previous month's sales tax numbers. He did not show any changes in the State shared revenue projections. Mr. Strachota explained that a reduction was reflective in property tax due to assessed values being down 16.5% for primary assessed values. He stated that primary assessed values did not near secondary assessed due to them being calculated differently. Mr. Strachota noted that there was a change in the projection staff had given in terms of total interest income. He stated that out of \$1.7 million dollars, \$1.5 million would be ongoing. He told the Council that the Budget Office had received projections for the end of the year from the City Departments.

Mr. Strachota then reviewed expenditures. He explained to the Council that the turnover savings rate had changed. He stated that the projection was now reflecting 1.5%. He explained that staff had done a projection after the end of the first quarter and again during mid-year. He told the Council that the ongoing base budget was reduced by \$2.1 million due to the efficiencies and savings that had been identified by Departments. He added that staff did not include savings from computer or fleet services purchases in the number. He identified increase in coming years to health insurance premium rates. The higher numbers were projected after conversations with the actuaries. He further reviewed the CIP O&M and noted the potential cost of Police radio equipment that would occur in FY2011-12.

In response to a question from COUNCILMEMBER WENINGER, Assistant Director for Finance DAWN LANG stated that there was an amount of \$500,000.00 in the preliminary projection for the current year for the Police radio equipment. She told the Council that the Police Department would get a one year warranty on the project. She explained that after the one year period, the maintenance number would be identified. She noted that staff expected the amount to be closer to \$250,000.00. She added that the figure had been built in to the FY2012-13 as a future estimate but had been taken out of the current budget year.

In response to a question from COUNCILMEMBER WENINGER, Mr. Strachota indicated that that there would have to be a maintenance amount paid for the radio equipment. He noted that the original amount that was in the CIP two years ago was \$500,000.00 but now would not be so high.

MAYOR TIBSHRAENY asked how much had been set aside for the budget stabilization reserve MR. STRACHOTA stated that close to \$8.4 million had been set aside for a three-year period, beginning in FY2010-11. He stated that staff was now projecting that they would need \$8.6 million.

In response to a question from COUNCILMEMBER HEUMANN, Ms. Lang explained that the forecast showed a full appropriation value with the amount as an offset to the ongoing. She indicated that staff was not showing an adjustment to the current year in the forecast. However, there was a reduction in spending shown in the one-time forecast due to the revenues coming in higher.

COUNCILMEMBER HEUMANN asked how much would remain this year in the stabilization fund. Ms. Lang said an estimate could be provided.

MR. STRACHOTA stated that the figures assumed that the City would be spending its entire budget. He noted that there had been a time when that was not done. He addressed concerns about the money being unaccounted for. MS. LANG clarified that the money would remain in the general fund.

Mr. Strachota further reviewed with the Council the general fund balance for the next five years. He stated the beginning fund balance to be \$117.2 million in 2011-12. He indicated that in FY2011-12, staff was estimating that there would be 5% or \$8.6 million available in one-time revenue from vacancy and departmental savings.

COUNCILMEMBER WENINGER asked if the number represented 100%. MR. STRACHOTA concurred. He noted the number had declined over the years due to budgets being reduced.

Mr. Strachota indicated that there would be total one-time revenues available of \$129.7 million next year. He added that the amount would decline over time. He clarified that it did not mean that the City would spend the \$129.7 million because that number includes reserves.

Mr. Strachota then reviewed with the Council different categories of spending. He highlighted numbers that reflected what staff believed would be actual spending by the Downtown Redevelopment and Economic Development Divisions. He noted that the expected spending was due to current development agreements and projects that were in

place.

MAYOR TIBSHRAENY believed Gangplank had been committed to \$10 million. He also believed that Paypal had been committed to a maximum, but questioned if there was an obligation with other monies. MR. STRACHOTA reviewed the other obligations with development agreements.

After questions regarding different projects in the City, Ms. Lang clarified that there were reserves set aside for projects. She indicated that after a development agreement gets signed, the project would become part of a CIP book that could be read by citizens.

Mr. Strachota noted the related projects brought forward by the City's Information Technology Oversight Committee (ITOC). He indicated that certain projects included the Oracle upgrade. He anticipated there being \$500,000.00 worth of projects. MS. LANG stated that in FY2012-13 there would be a project dealing with TaxMantra, the City's tax collection system.

Mr. Strachota then reviewed CIP projects that are funded by the general fund. He then stated that there would potentially have to be funds carried forward in one-time money for projects that have already been authorized.

COUNCILMEMBER WENINGER asked if the Downtown Redevelopment numbers represented the City's fees to the DCCP.

MR. STRACHOTA stated that it did not.

COUNCILMEMBER WENINGER questioned if the number represented façade improvements.

MR. STRACHOTA stated it did not. MS. LANG explained that the number represented the colonnade, demolition and acquisition that might happen in Downtown area and one-time maintenance cost that might come up in the year.

ACTING CITY MANAGER DLUGAS further explained that the costs represented repairs such as maintenance to the colonnade or fountain repairs. He stated that the one-time dollars would handle the repairs to anything in the Downtown. He added that the acquisition costs would be for any parcel or property that would become open.

COUNCILMEMBER WENINGER believed there hadn't been any Downtown acquisitions done this year. He asked if the \$500,000.00 associated would be left over.

MS. LANG concurred by stating that the dollars would be left in fund balance.

COUNCILMEMBER ORLANDO questioned if the monies had been mostly expended over the years. ACTING CITY MANAGER DLUGAS stated he didn't think that most of it had been spent, but it is one-time money that rolls over.

COUNCILMEMBER WENINGER requested the Council receive numbers showing the average amount spent out of the Downtown maintenance over the last five years.

MR. STRACHOTA then reviewed one-time operating costs. He showcased miscellaneous personnel spending costs, which included remaining costs of the retirement costs and one-time costs associated with union negotiations. He clarified that the numbers were place holders and that nothing had been approved. He mentioned that numbers would be adjusted each year. He highlighted one-time non-departmental expenses, which included on-going reserves for fuel which was intended to cover gas and electrical reserves for potential fuel charges that could be incurred by SRP or APS. He also pointed out the current gas prices in the valley.

Mr. Strachota then reviewed Decision packages that were approved or that had not been acted upon yet. He stated that the decision packages were brought forward by Departments. He pointed out that the numbers had been much higher in years past. He then highlighted one-time monies that had been encumbered to cover encumbrances for contracts where the work does not end by the end of the fiscal year. He highlighted other transfers to other funds including transfers to the Risk and Uninsured Liability Fund and the Airport fund.

COUNCILMEMBER ORLANDO asked if vacancy savings represented additional savings.

MS. LANG explained that staff appropriated 100% of wages and benefits on the ongoing forecast. She stated that staff then backed out the portion that was turnover savings. She explained that the appropriation was still in the budget but was then shifted from on-going to one-time. She added that the amount was then added to the funds available for spending. She stated that the funds had to be shown as one-time appropriation but then be added back due to it being true savings.

COUNCILMEMBER ORLANDO stated that the amounts did not represent additional vacancy savings. MS. LANG concurred saying it was 1.5% of the total wages and benefits.

MR. STRACHOTA explained that the total one-time expenditures and transfers consisted of adding up the spending and subtracting the resources available in order to come up with the ending fund balance which is \$93.9 million in the first year and reducing down to \$55.2 million in 2015-16.

In response to a question from MAYOR TIBSHRAENY, Mr. Strachota indicated that there were many projects that were occurring during the first two years of the projection, including the San Marcos and parking garage projects. He stated that the budget stabilization reserve would be around \$3 million in FY2011-12.

Mr. Strachota explained that staff was proposing designating another \$10 million towards the budget stabilization reserve. The reason was due to having a fair amount of uncertainty in terms of what would happen at the State level. He told the Council that staff did not know what the State would do with the tax base, shared revenues and indicated that they could do additional things even in FY2012-13 due to their deficit. He reiterated that the City's ability to carry out existing operations could be affected. He told the Council that with legislative decisions being known towards the end of the fiscal year, staff could not modify the budget that quickly without studying the impacts.

Mr. Strachota further explained that staff was recommending a new reserve for infrastructure maintenance. He explained that the City was cutting back on maintenance regardless of

what happened with the tax rate and believed it would be prudent for the City to have a reserve set aside to be able to do essential maintenance. He stated that it would help the City supplement things in the next four years.

MAYOR TIBSHRAENY noted that the amount in the reserve could be spent on doing critical infrastructure in the next few years.

ACTING CITY MANAGER DLUGAS added that the thought would be to use it on maintenance of things such as a mill and overlay or park maintenance and not necessarily building something new.

In response to a question from COUNCILMEMBER ORLANDO, Assistant City Manager Dlugas explained that the reserves allowed staff more time to look at solutions.

COUNCILMEMBER HARTKE asked how Chandler sat amongst other cities in terms of having reserves set aside. He stated that cities had begun spending their reserves for different reasons. He explained that planned spending had worked to Chandler's advantage. He stated that the reason that the reserves were going down was because there were planned expenditures. He believed that Chandler was higher in terms of reserves than other cities. Mr. Strachota then highlighted things that general funds had been spent on. Those items included spending for City Hall, retirement buyouts, voluntary separations, lump sum merits, the Incubator project and ICAN project.

Mr. Strachota indicated that guidance was needed from Council in regards to the secondary property tax rate. He stated that as values drop, if the tax rate is not changed, the funds to pay existing debt service will be short. He stated that there would be a shortfall if the rates were not changed. In the next five years, the shortfall will be \$35 million.

COUNCILMEMBER ORLANDO questioned what the assessed value was that was being considered in staff's projection.

MR. STRACHOTA responded that staff had assumed that the assessed values had dropped next year 20.7%. He added that the number was an actual number not an estimate for FY2011-12. He stated that staff did have an estimate for FY2012-13 is closer to 10%. He added that the amount rises in FY2013-14, but was still not enough to cover debt service. It grows 4% each year.

MAYOR TIBSHRAENY asked if staff had a scenario that showed what was needed to maintain current debt payments.

MR. STRACHOTA replied that the rate would have to be raised by .05 cents in FY2011-12 to meet existing debt service requirements.

COUNCILMEMBER HEUMANN what the rate would be at the highest point. MS. LANG stated that in going back in years, the highest rate was .97.

MAYOR TIBSHRAENY questioned what scenario would maintain the current level of commitment of debt. Mr. Strachota stated that .05 cents would meet the debt service. He added that if the Council wished to have additional bond capacity then .06 cents would give the City an additional \$23.5 million in borrowed money for general obligation bonds.

MR. STRACHOTA explained that having the increase up .20 cents would allow the City to do all of the maintenance that would be needed as well as park and road projects.

In response to a question from COUNCILMEMBER HEUMANN, Ms. Lang stated that the average tax bill was going down by an average of 21.6%.

ACTING CITY MANAGER DLUGAS discussed a slide shown to the Council that showed even though the tax rate was increased by .05 cents; the total tax bill would still decrease almost 10%.

After some questions on increasing the rates throughout the years presented by the Council, Mr. Strachota explained that it would take a lot to get up to par due to the fact that values had dropped so much over the past two years. He believed that it might not be until FY2014-2015 when the capacity is increased.

COUNCILMEMBER ORLANDO questioned if there was zero capacity at the moment. MR. STRACHOTA concurred and added that there would not be any additional general obligation bonds.

COUNCILMEMBER HEUMANN questioned how a change by .01 cent could represent \$23 million over a five-year period and how an additional .14 cents could represent an additional \$44 million.

MR. STRACHOTA differentiated the values by stating that the values were not even climb values. He added that the amounts were not easy multipliers nor where they proportional. The Council and Budget staff then discussed the different types of multipliers that were used by Budget staff to calculate their projects. Mr. Strachota reiterated that City would have to make up so much loss in assessed value which requires the rate moving up.

COUNCILMEMBER SELLERS noted that a .15 cent tax rate increase would hold the median taxes at the same level that they are this year.

MR. STRACHOTA then indicated the tax bill was going down in each scenario being presented to the Council. He highlighted the different scenarios showcasing how the tax bills would go down. He asked the Council to keep in mind that he was only speaking about the secondary rate. He added that the primary rate had not gone up either. He stated that the primary rate had not gone up at that the City was at 70% of the allowable limit under State law. He told the Council that it was harder to figure out the impact on the average home because of the way that the assessed values are calculated.

COUNCILMEMBER ORLANDO asked what the maximum allowable limit was. MR. STRACHOTA responded that the maximum is an increase of 2% a year. MS. LANG added that the City was allowed to go up to \$44.81 in FY11-12. She stated that the City was currently at \$32.92. She added that the limit had not been taken up to the maximum.

COUNCILMEMBER HEUMANN asked what the highest primary rate had been. MS. LANG replied that staff would have to get that information.

MR. STRACHOTA further explained that there was an ability to try to stem the loss that the

City was experiencing in terms of having enough funds available to maintain the current infrastructure.

COUNCILMEMBER ORLANDO questioned what the primary rates were used for.

MR. STRACHOTA responded that the primary rates funded operation and maintenance.

In response to a question from COUNCILMEMBER ORLANDO, Ms. Lang explained that for every penny that the primary and secondary rate went to, it would generate an amount just under \$400,000.00. COUNCILMEMBER ORLANDO asked if that was just for the primary rate. MS. LANG stated that she did not recall and what have to check into that.

The Council as a whole then discussed the different scenarios and how they had tax reductions to the citizens. COUNCILMEMBER SELLERS believed it was important to not raise taxes for people. He added that he had received a lot of feedback from people who were concerned with maintenance of parks and streets due to them believing maintenance of those entities was being neglected.

COUNCILMEMBER ORLANDO believed that the one-time funds covered the O&M for a couple of years. He added that there was also some coverage being provided in the event that any legislation or the economy impacted funds. He believed the real issue that the Council needed to discuss dealt with what to do with the secondary rate and coverage of debt service.

COUNCILMEMBER ORLANDO concurred with Councilmember Sellers' comments and believed that maintenance was important; however, he stated that it was also important to maintain the debt service.

MR. STRACHOTA told the Council that at the Community Budget Workshops, residents told staff that they did not want to see infrastructure deteriorate or lose what they currently have.

VICE-MAYOR DONOVAN stated that she has received feedback and at the Budget meetings that people were supportive of the City paying for what they feel they deserve as quality of life in Chandler. She believed it would be helpful if the Council received charts that showed the .09 cent and .14 cent differences. She asked staff to also identify what the percentage of decrease would be for Chandler citizens for the total Chandler taxes.

MAYOR TIBSHRAENY stated that a memo that staff had sent out to the Council after their retreat indicated that it would cost \$10-15 million a mile for the Chandler to construct a road, like Gilbert Road. He believed it would be difficult to do those kinds of roads unless the City received a big influx of one-time money. He stated that he liked the scenario that had \$13 million, because it could take care of some maintenance. He further stated that he had also heard concerns from people concerning maintenance in parks. He added that there would also be parks, sewer and roads infrastructure that would need to be vetted out.

COUNCILMEMBER HEUMANN asked if Gilbert road would be built as more development happened. MS. LANG responded that it depended on the collections due to the road itself being so expensive.

COUNCILMEMBER ORLANDO asked when the Council would receive updated CIP numbers. Acting City Manager Dlugas stated that the Director group had met and re-

