

MINUTES OF THE SPECIAL BUDGET WORKSHOP MEETING OF THE HONORABLE MAYOR AND CITY COUNCIL OF THE CITY OF CHANDLER, ARIZONA, held in the Council Chambers, 88 E. Chicago Street, on Monday, February 11, 2013 at 5:10 p.m.

THE MEETING WAS CALLED TO ORDER BY MAYOR JAY TIBSHRAENY.

The following members were present:	Jay Tibshraeny	Mayor
	Jack Sellers	Vice-Mayor
	Rick Heumann	Councilmember
	Jeff Weninger	Councilmember
	Trinity Donovan	Councilmember
	Kevin Hartke	Councilmember
	Nora Ellen	Councilmember

Also in attendance: Rich Dlugas, City Manager; Pat McDermott, Assistant City Manager; Mary Wade, City Attorney; Marla Paddock, City Clerk; Dawn Lang, Management Services Director; Greg Westrum, Budget Manager; David Bigos, Mayor & Council

Opening remarks were given by Mayor Tibshraeny and City Manager Dlugas.

CITIZEN BUDGET SURVEY RESULTS

Ms. Lang reminded the Council there was another workshop scheduled for March 11<sup>th</sup> and the Budget Briefing would be held on May 3<sup>rd</sup>.

Ms. Dawn Lang said in the last several years the City has successfully transitioned through a sudden economic downturn followed by a major Intel development that produced significant one time revenues as well as increased infrastructure and service demands. She stated that cuts from the federal level could significantly impact municipalities.

Chandler is beginning to see improvement in ongoing sales tax revenues from new growth and development and increased consumer spending. "Fiscal sustainability and growth" is the "theme" of the 2013-14 budget.

Ms. Lang asked Budget Manager Greg Westrum to explain the citizen budget survey.

MR. WESTRUM said a survey was completed in mid-January and the results have been distributed. He concurred with the City Manager on the great participation that occurred in the survey – 706 respondents – double from the prior year. The survey was advertised in print media, Twitter, Facebook, and the City's website.

Mr. Westrum highlighted the results. He noted that paper copies of the survey were also made available to those who did not have access to a computer.

COUNCILMEMBER HEUMANN asked if there was a limit on how many times the survey could be taken. Mr. Westrum replied the limit was three times from one IP Address.

### PRIORITY BASED BUDGETING:

Mr. Westrum said this process has been in place for the last two years. It helps to align the budget with the Council's goals and provide an additional framework to help make resource decisions.

Mr. Westrum referred to the PowerPoint slide and explained the term "desired results" are designed to support the Council goals, not replace or be different than the Council goals. He added that the desired results were also used as a framework for the budget survey. The priority based budgeting process is used during the decision package review that the City Manager is doing.

Over 400 city programs are all arranged into "quartiles". Quartile 1 programs most directly support the desired results. Quartile 4 programs are important but not as directly involved with the desired results.

COUNCILMEMBER WENINGER asked if he could get information showing what was actually spent in each department over the past 3 years.

MS. LANG said that was an analysis that was done in during the downturn, but what makes it complicated is there is ongoing and one time actuals that are being spent. The one time decision packages will reflected in those numbers which will not make the analysis as clear. The actual carry-forward by department can be provided and the one time could be noted. She said it would not be clear as spending is done if it's from one time, base or carry forward.

She said one of the exercises the directors did was to break down the savings to identify if further ongoing savings or reallocations available.

COUNCILMEMBER DONOVAN asked about the numbers from vacancy savings and what determines if positions are being held and why. Ms. Lang replied the vacancy savings is tracked every quarter and they work with Human Resources to determine what positions are being held and are being filled. They can provide additional information to Council.

### PRELIMINARY 5 YEAR ONGOING GENERAL FUND FORECAST

Ms. Lang stated in the last several years, Mayor and Council has supported the key financial policy of using ongoing revenues to support ongoing expenses and one-time revenues to support one-time expenses, along with other initiatives to ensure that Chandler's operations remained financially sustainable. Council's immediate response to the economic downturn created reductions totaling about \$35 million in all funds in ongoing expenditures to more closely meet the new level of ongoing revenues. She reported actions such as the retirement incentives and involuntary separation packages to reduce personnel costs, that are the largest expense in the General Fund at 53%, created a 10% reduction in FTE's, along with reallocations of existing appropriation, helped achieve a structurally balanced budget that maintained existing services.

She stated local sales tax revenues have begun to recover, development is moving forward again and the State has kept state shared formulas consistent. However, uncertainties still exist that require them to remain cautious.

Ms. Lang stressed one of the biggest challenges moving forward was going to be determining what portion of our revenues is one-time vs. ongoing. When analyzing the various categories of sales tax, she explained it is easier to see one-time growth in categories such as contracting vs. when analyzing categories such as retail, restaurant and bars, hotel-motel and real property rental. Many times, they are required to make assumptions or interpret fluctuations using various trend data as well as actual development information.

She displayed a slide reflecting 18 years of General Fund largest revenue source: Transaction Privilege Sales Tax which makes up 50% of GF's revenues. The years shown include Chandler's highest growth years as well as the years of economic downturn. .

VICE MAYOR SELLERS asked how the projections were determined.

Ms. Lang responded that contracting category is typically the easiest one. The fuzzy area is under retail and other categories where there are many temporary workers using the restaurants and it is hard to tell what portion of that is sustainable, and that is where the trend data helps.

She noted on the chart the three years from 05/06 thru 07/08, those were the peak growth years in the city. In FY 09-10, she noted the city was substantially stable during that time. The recession just hit and noted that this was a good year of recalibrating the ongoing and that became the new base.

She noted the red line is meant to depict a base line of ongoing sales tax revenues with amounts above the red line being one-time in nature.

COUNCILMEMBER HEUMANN asked what numbers were being used for retail next year. Ms. Lang said she could get that information. Councilmember Heumann stated the reason for asking is that the Outlet Malls are scheduled to open up April 5 and he has heard that could be a 10-20% hit to our Mall. Ms. Lang said they built in a 15% impact to the overall Mall area. A \$700,000 reduction in the retail category and \$50,000 to amusements (theater).

Ms. Lang said another item that was built into the forecast and would potentially impact FY 13-14 is the tax bill on corporations leasing to themselves. That is a \$700,000 estimated hit.

Other major revenues reflected in the General Fund include Urban Revenue Sharing, State Shared Sales Tax, Vehicle License Tax, and Primary Property Tax which combined make up another 32% of the General Fund.

Ms. Lang said the chart reflects FY 2006-07 actual collections through FY 2014-15 projected. The low point was FY 2010-11 for State Shared Sales Tax, but FY 2011-12 for Urban Revenue Sharing due to the timing of income tax distributions. She emphasized that due to the economic volatility of these revenue streams, projections include ongoing levels at a lower rate than total collections.

She stated the projections are set slightly below the state forecast for the three State shared revenues. Chandler typically receives the final estimates for FY 2013-14 in March.

In addition, the Primary Property tax is decreasing for a 4th consecutive year. This reflects a cumulative assessed value decrease of 36% that includes a reduction of 7% for FY 2013-14. She stated on Saturday, Chandler received the actual valuations from Maricopa County and this

reduction is actually -4% due to higher new property valuation. This equates to about another \$223,000 in General Fund.

#### Preliminary 5-Year General Fund Ongoing Forecast

Ms. Lang referred to the PowerPoint slide that reflects a summarized version which rolls up the revenues into a revenue total. The current fiscal year revised is not shown. She stated this is based on actuals through December 2012.

She said the ongoing base is going up by about 4%, but sales tax in total, overall revenues in total between revised and the preliminary FY2013-14, is 1% less.

COUNCILMEMBER HEUMANN clarified that the revised property tax total is not reflected in the numbers. Ms. Lang said that is correct.

*Column 1* reflects the total general fund revenues (ongoing and one-time) that are anticipated in FY 2013-14. This is projected from the Revised FY 2012-13 revenues. It is then determined what portion of the total projected revenues anticipated in FY 13-14 are one-time.

*Column 2* In total, there is \$12.7 million in one-time revenue. That is 6.8% of the total revenue projected in FY2013-14. That revenue would be targeted toward one time need. The remaining amount is then determined to be ongoing. Ongoing current revenues are not expected to exceed 93.2% of total estimated revenues for FY 2013-14.

*Column 3* reflects the FY 13-14 ongoing portion that is then projected 4 more years to create our 5 Year General Fund Ongoing Forecast. The Total Revenues are reflected on line 3. All the expenditure categories are listed on line 16. Line 17 then shows the cumulative ongoing surplus.

Ms. Lang said revenues on average increase about 3% yearly. Expenditures are growing about 2.9% yearly.

She noted Line 6 reflects Personnel Services, Wages, and Benefits and shows a gradual increase. The grey section is shown to detail out the areas that are causing the increases. The majority of the increase is due to health care costs, retirement, workers comp, and remaining commitment to put Fire at 4<sup>th</sup> place. There are no new positions, no merit or COLA reflected.

The vacancy rate is still at 2%.

She stated the Ongoing Base is operating budgets for all Departments. Since Departments have reduced and reallocated over the last 4 years. Many requests have been received from departments for the upcoming budget year. In the FY2013-14 on going base budget, \$1 million has been added due to existing contract commitments, utility increases and other items to maintain committed current level of services.

In response to a question from Councilmember Heumann, Ms. Lang said the subsidized insurance rates are continuing to January 1, 2014 and then the 80 / 20 cost share will be effective.

Ms. Lang said both pension systems (ASRS and PSPRS) are underfunded. She said a 2% increase in Public Safety retirement has been included in the out years. Arizona State

Retirement is increasing the rate .4% this year. For 2014-15 and beyond, staff built in 1.5% increase.

The Capital Improvement Project Operations & Maintenance are additions to the operating budget due to new capital improvements. This reflects operations and maintenance on the current CIP, and will be updated after the final CIP is determined. Staff anticipates it will be slightly higher.

Ms. Lang stated the HURF shift is delayed one year.

The Council had a discussion regarding the severity of potential impacts to the budget by current proposed legislation.

Ms. Lang displayed the impacts of a 5%, 2% merit and one time to the budget and the outward years.

#### PRELIMINARY CAPITAL IMPROVEMENT PLAN UPDATE

MR. WESTRUM explained the CIP Coordination Team is made up of Directors and staff with special interest in the capital programs. There is considerable give and take in this process as the Team attempts to identify and fund the most critical capital needs within our available resources.

He reviewed the information being presented to Council and highlighted some of the factors involved in developing the preliminary CIP for the next 10 years:

- Continue constrained bond funding – no plan for any new bond sales for four years.
- Continue use of Infrastructure Maintenance Reserve established last year and programmed to be used for four more years.
- Decline in Impact Fees as the City moves towards build out along with legislation limiting the use of impact fees.
- No increase planned in the 10 years in Secondary Property Tax Rate

He stated the total 10 year preliminary CIP is about \$18 million higher than the last approved CIP and that is about a 2% increase.

Mr. Westrum reviewed the significant changes from the current CIP:

- Relocation of Fire Station #1 is being considered for advancement to FY 2013-14 or the first year of the CIP. This would build a new station on Pecos Road on land has already been purchased for this in front of the water treatment plant.
- The current Fire Station #1 on Hamilton Street would then be repurposed into labs and shops for T&D, Housing, and possibly some other users.
- Gilbert Road has funding scattered through the first 5 years of the CIP has been accelerated so that all of the funding is in the first year of the CIP to complete construction to Hunt Highway.

-Police Driver Training Facility is currently in the 5<sup>th</sup> year but because of the limited ability to sell bonds the recommendation is to include this as a General Fund project.

-The Museum remains in the second half of the CIP. There are continuing discussions on options or alternatives for this facility.

-The preliminary CIP already has Centennial Park planned for the first year, but also proposed is to add four new neighborhood parks staggered from year 3 to year 10 to meet the needs of homeowners in the southeast. The parks are 85% impact fee funded.

-Several maintenance and repair projects identified by the departments as General Funded Capital projects, and those are being evaluated by the City Manager team for funding possibilities.

Mr. Westrum highlighted the debt service assumptions. As mentioned earlier, the FY 2013-14 Secondary Assessed Values only decreased 3.5% which helps the future debt service balance. He stated staff has a meeting scheduled with the County Assessor's Office in March to try to get the best estimate for FY 2014-15 growth.

Mr. Westrum reviewed the debt service projections. He noted that with the updated secondary assessed values just received, the indicator that shows just under \$20 million will change to just OVER \$20 million, and then grow from there.

He explained in the early years, we are still paying out more than we are bringing in. As a result, the red line representing our Debt Service Fund balance will decline year by year until FY19/20 when it hits about \$2.3 million.

He displayed a chart that depicted the funding sources for the preliminary CIP and how they change over the years.

### PRELIMINARY GENERAL FUND BALANCE PROJECTIONS

Ms. Lang said Chandler was very fortunate to end FY 2011-12 with a healthy General Fund balance of \$144.9 million, \$5.23 million higher than projected. The additional funds are being targeted to new General Fund needs such as the sampling of items listed previously.

Total one-time requests for FY 2013-14 received totaled \$3.6 million. All requests are being reviewed with departments to determine true needs and priorities.

Ms. Lang stated the Mayor and Council have used General Fund Balance in fiscally responsible ways throughout the years, which has been looked at favorably by rating agencies and led to our AAA bond ratings. Each year the long-term impact on the fund is reassessed as new one-time revenues are received in General Fund and one-time drawdowns for Economic Development and Downtown Development, capital projects and non-recurring operational needs vie for the funds.

She explained Chandler continues the long standing practice of keeping a General Fund contingency reserve funded at 12% of operating revenues, currently at \$21 million. In addition, Council will still have the \$325,000 one-time and \$75,000 ongoing contingency to use during the amendment phase of the budget or throughout the year when opportunities arise. The current year remaining amounts is \$5,000 one-time and \$0 ongoing.

