

MINUTES OF THE SPECIAL BUDGET WORKSHOP MEETING OF THE HONORABLE MAYOR AND CITY COUNCIL OF THE CITY OF CHANDLER, ARIZONA, held in the Council Conference Room, 88 E. Chicago Street, on Thursday, March 12, 2015.

THE MEETING WAS CALLED TO ORDER BY MAYOR JAY TIBSHRAENY at 5:15 p.m.

The following members were present:	Jay Tibshraeny	Mayor
	Kevin Hartke	Vice-Mayor
	Jack Sellers	Councilmember
	Rick Heumann	Councilmember
	Terry Roe	Councilmember
	René Lopez	Councilmember

Absent & Excused: Councilmember Nora Ellen

ASSESSED VALUATION UPDATE:

BUDGET MANAGER GREG WESTRUM reminded the Council, at the last update, staff was using the best estimate for planning assumption and the projection was \$2.35 billion. That would have been a 3.1% increase for the primary value and a 1.3% decrease in secondary value. The final number came in at \$2.38 billion, that is about a 1% difference than projected. Mr. Westrum explained the primary is used for operating budget. The secondary can only be used for debt service for bonds sold or future sales.

MANAGEMENT SERVICES DIRECTOR Ms. Lang noted that in 2015-16 will be the first year for the tax rates will be based on the limited property values. She noted that many cities were not able to accurately project that and now are in the position of cutting capital improvement programs because of the difficulty in projecting. Mr. Westrum stated the projection based on that new number is now a 4.51% increase in primary value which added about \$95,900 to the General Fund budget and a -0.05 decrease in secondary. Mr. Westrum stated the Limited Property Value going forward is projected to increase 4.5% per year and reviewed the assessed valuation history and projection.

PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM (PSPRS)

Ms. Lang explained there are 256 employers that participate in the PSPR system and there have been many changes that have brought the unfunded liability in the plan to light. There have been requirements in the Government Accounting Standards Board that requires disclosure of that number in the city's financial report. She said it is important to show to the bond agencies that we are addressing the unfunded liability.

Ms. Lang said PSPRS is different as it's only pooled for the purpose of investment. Otherwise, it's actuarial analyzed based on the personnel in each city. Every city will be a little different depending on each cities amount of actives and retirees. In Chandler, we are 66.9% funded for Fire and 59.5% funded for Police. She stated the goal is to be closer to the 80-100% range. She reported Chandler is underfunded by \$106 million. This is a debt. No matter what future legislative changes take place, that will not minimize the unfunded liability.

The Mayor asked where our debt compares to other big cities in the valley. Ms. Lang responded Chandler was in the middle.

Ms. Lang noted the growth in the unfunded liability. She explained in 2003-04 the city's contribution was \$2.3 million. In 2015-16, the contribution is over \$12 million. She said there are many factors to this, although the actuaries are more detailed now. She commented the rate is made up of two portions, the normal rate portion, without the unfunded liability, would be 11.84% this year for Fire and 12.10% for Police. Adding on the unfunded liability rate it would be 21.45% this year Fire and 24.73% for Police. She said the goal is to look at it as debt and attempt to make larger contributions over a shorter amount of time to minimize that debt and help with the ongoing revenue as it is limited on an annual basis. She noted there is a healthy fund balance that could be put toward this.

Ms. Lang explained a PSPRS Task Force was formed in June 2014 in partnership with the League of Arizona Cities and Towns, Az City and Town Management Association, and Government Finance Officers Association. She said the three goals of the task forces were to inform and educate the employers and employees, to create employer recommended practices, and create a "yardstick" of creating characteristics of a well-designed plan. The Mayor interjected that any changes must be referred to the ballot by a legislative referral or an initiative.

Ms. Lang said the Task Force identified the reasons the unfunded liability has increased: Greater number of retirees, investment losses during recession, benefit increases like the Drop Program. She stated the biggest reason for the large unfunded liabilities is the failure of PSPRS to forecast permanent benefit increases (PBI) in the actuary models. They were not including a true number for increased wages and benefits into the future. She noted there are also a few court cases in response to Senate Bill 1609 that happened in 2011 that challenged that action.

Ms. Lang said fiduciary responsibility exists for each city locally. She said the plan changes will only effect future members, not existing. The unfunded liability (debt) must be paid down. The Fields case restored Permanent Benefit increases for retirees and the Hall case pending would restore PBI for actives and reduce employee contributions back to 7.65%. This would also affect the unfunded liability.

The Task Force is providing employer recommended practices and staff is recommending doing all of them. Ms. Lang said the contribution to PSPRS is budgeted annually. Instead of paying it every two weeks, to pay the annual contribution amount to PSPRS every July. If additional investments can earn, then that can be used to offset the unfunded liability. Ms. Lang said the City's financial advisor, Bill Davis, sits on the PSPRS Board as an employer representative.

She said what staff would challenge everyone to do is to think of the contribution differently. The normal rate portion can still be funded with ongoing dollars. Staff would like to transition the unfunded liability portion using one-time general fund balance.

The Mayor asked if staff was proposing to prepay the entire contribution or the unfunded part. Ms. Lang stated the proposal is to prepay the entire amount at the beginning of the fiscal year. The reason is that the City has these monies earning a small percentage and the PSPRS can invest them in an entire different scenario in long term investments with the opportunity to earn more. The additional investment earnings could offset the unfunded liability.

In response to a question, Ms. Lang stated the actuary analysis is done annually. Accounting does a detail report for contributions on every single police officer and fire fighter and that is sent

every two weeks. We would prefund that and PSPRS would draw on that. Ms. Lang stated that in FY2014-15 we are contributing \$9.3 million. She added that the recommendation is to "lock in" and fund the \$9.3 million with on-going monies and any future increases with one-time funds. After the budget is adopted, staff would like to formulate an unfunded liability pay-down plan and reserve policy.

Councilmember Heumann confirmed that the DROP program is no longer in existence.

#### Preliminary General Fund Forecast

Ms. Lang reviewed the 5-year General Fund Balance Projection. She stated the projection for FY2014-15 was \$145 million and the actual was at \$159 million. She said for the current year, the projection is \$156 million. She reviewed a bar graph included in the packet. She stated the out years also incorporate the PSPRS increases on an annual basis. She commented this was still a healthy position in one time monies and the ongoing monies are managed realistically with a different methodology.

Ms. Lang then reviewed in greater detail the FY 2015-16 projected General Fund Balance. She stated the preliminary total one-time funds available is \$174,753,000. She noted on the expense side, monies are set aside for Strategic Economic Development Reserve and note the items listed which included commitments made previously through development agreements. The Downtown Redevelopment reserve has two project identified with Site 6 and Site 7 for potential parking structure.

Mr. Westrum reviewed the General Fund CIP projects identified to be funded by General Fund one-time monies.

Mrs. Westrum reviewed the Neighborhood and Community Services projects.

Mayor asked what the Fire Station #1 would be converted to. Mr. Westrum replied it will be a police SAU (special assignments unit) facility. Chief Duggan said there will be two members assigned there and training will occur there along with equipment storage.

Mr. Westrum noted the Public Safety Training Facility design will come next year. As of now, there is not enough bond funded dollars for the project at this time.

During the overview of the Transportation and Development projects, Councilmember Heumann asked if Dakota Street is part of the punch through for Sites 4 & 5. Mr. Zeder explained there are two pieces for Dakota. The "punch through" would go through the hotel property from Buffalo to Commonwealth. The second part of Dakota Street would run through Sites 4 & 5.

In response to a question from Councilmember Heumann on the priority of Arizona Avenue, Mr. Zeder explained the option showing is for right of way only for Washington Street, not construction. Mr. Zeder noted this would allow right of way all the way to Pecos and when funding comes available, it would allow the construction of the road and the relocation of Winn Park. Mr. Zeder noted there is some utility work that will be funded that is not shown in the number for Arizona Avenue.

Mr. Westrum commented that this is just the General Fund portion of the projects. There could be other funding associated with them.

Councilmember Heumann asked for the list of the carry forward projects.

Ms. Lang said one time is also used for operating one time needs such as fuel and utility reserves.

She said there are approximately 8 million in one-time decision package requests from departments and the total being granted is \$4,646,795. Councilmember Heumann stated he would like to receive the entire list.

She noted Airport Enterprise fund is a combination of an ongoing deficit as well as capital needs with the majority of the amount being capital needs. If a grant is not received, then the city match rolls back in the general fund, but this allows the appropriation.

Ms. Lang noted in the PSPRS increase toward unfunded liability said nothing has been added to address any potential future rate increases.

She said this brings the ending fund balance to \$99,762,352 if everything was spent. She noted the breakdown for the contingency and reserve allocation for the remaining fund balance.

In response to a question from Councilmember Heumann, Ms. Lang said next year would be the last year for the Infrastructure Maintenance Reserve before returning to use bonds.

In response to a question from the Mayor on the lump sum agreement reserve, Mr. Westrum said that is when a developer would need to make improvements and defer that until a later time when they develop. They would pay the city instead.

The Council concurred the recommendations from staff regarding the approach to PSPRS payments were a good approach.

### Preliminary 10-Year CIP

Mr. Westrum said CIP would be approximately \$1.12 billion and that would be the largest ever. There has not been a GO Bond sale for many years; although there may be a fairly small GO Bond sale for street, park and museum. At that same time will be an Excise Tax Revenue Sale for Water/Wastewater capital projects.

He reported the debt service fund is currently about \$12 million. We want to bring that balance down. He reported the secondary property tax will bring in about \$23 million a year and the debt service cost is about \$25 million.

Mr. Westrum noted the Museum project. In FY2015-16 there are design dollars appropriated through the museum bond fund. FY2017-18 would be construction at the Price House.

Councilmember Heumann asked about the Existing Cultural Affairs Facilities Improvements and asked there will be backup data for description of the projects. Staff said that would come out with the proposed budget. Mr. Westrum noted in addition to the \$300,000 of the General Fund, there is also \$1 million in bond fund to potentially buy some land for additional park use at Snedigar. Councilmember Heumann confirmed that by 2020 every neighborhood park will have been built.

Regarding Public Safety Training Facility, Councilmember Heumann confirmed the bonds monies showing are the authorization from the 2007 bond election. Mr. Westrum said there are no plans to go out for a bond election in the next 10 years. As property has been purchased for a police driving track, the monies used when the land is sold will be returned to the fund.

In regards to Fire, Health and Medical, Mr. Westrum noted the truck purchase in 2016-17 and construction of the Southeast Fire Station in 2017-18 with impact fees, not bonds.

In addition is the expansion for the Burn Tower. Chief Clark explained it will be a multi-faceted building for versatility in training.

Mr. Westrum highlighted several line items for Streets, noting the southeast arterial impact projects that are in the cycle. The largest project is repaving that includes General Fund, HURF and bond funds to provide the level of support needed for the street paving program.

Councilmember Heumann asked if the bus pullouts and stops project was due to the added routes. Mr. Westrum replied yes. Mr. Westrum noted that some of the funding is being reimbursed by Prop 400 funds.

Mr. Westrum noted the largest project in Water is the Joint Water Treatment Plant with the cooperation of the Town of Gilbert. Mr. Siegel noted it will increase capacity from 12 to 24 mgd. Councilmember Heumann asked about the water purchases in years 2018-19. Mr. Siegel said staff will provide a briefing to the Council in the near future.

Solid Waste has two projects: Solid Waste Services Facility Improvements, and Paseo Vista Recreation Area Improvements.

Mr. Westrum noted no General Fund dollars are spent on the Water/Wastewater/Solid Waste projects, it is supported by user fees. Ms. Lang said they currently have a water-wastewater rate study occurring and will have council subcommittees scheduled soon.

Mr. Westrum highlighted the Storm water Management Area 2 project which purpose is to get the standing water out of the area that attracts birds.

Councilmember Heumann asked if the T-shades are new. Mr. Westrum replied they are and would require either an ADOT loan or a loan from the City. It is in the plan but final financing is not complete.

Ms. Lang said there will a budget briefing on May 1<sup>st</sup>, but prior to that the proposed budget will be distributed. The tentative budget is scheduled for adoption on May 25<sup>th</sup>. In June will be the public hearing for the tax levy.

The Mayor noted the budget recently approved by the legislature includes a \$21 million hit to cities and counties. Ms. Lang said while it was originally thought the hit would be \$400,000 to Chandler, it appears will be \$700,000 on going.

In response to a question from the Mayor, Ms. Lang said staff is recommending the same property tax rate which will be approximately \$100,000 additional to the primary and approximately \$300,000 more in the secondary from estimated to the current.

