



Chandler • Arizona
Where Values Make The Difference

Retreat

OCT 19 2015

MEMORANDUM

Management Services Memo No. 16-025

DATE: OCTOBER 15, 2015

TO: MAYOR AND COUNCIL

THRU: MARSHA REED, ACTING CITY MANAGER *MR*

FROM: DAWN LANG, MANAGEMENT SERVICES DIRECTOR *DL*

SUBJECT: PRESENTATION FOR FISCAL YEAR (FY) 2015-16 COUNCIL MICRO RETREAT DISCUSSING UPDATED FINANCIAL RESERVE POLICY AND PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM (PSPRS) UNFUNDED LIABILITY PAY-DOWN PLAN OPTIONS

Attached is the PowerPoint (PPT) presentation and updated Financial Reserve Policy to be discussed at the Micro Retreat in the Council Conference Room on Monday, October 19, 2015, beginning at 6:00 p.m. The topics will be the proposed updated Financial Reserve Policy and the PSPRS Unfunded Liability Pay-Down Plan options.

If you have any questions about the presentation or the retreat, please feel free to contact me at x2255.

Attachments: PPT Presentation
Updated Financial Reserve Policy

c: Nachie Marquez, Assistant City Manager
Greg Westrum, Budget Manager



**FY 2015-16 COUNCIL MICRO RETREAT:
UPDATED FINANCIAL RESERVE POLICY
AND
PSPRS UNFUNDED LIABILITY
PAY-DOWN PLAN OPTIONS**

**COUNCIL CONFERENCE ROOM
OCTOBER 19, 2015, 6 PM - 7 PM**

Chandler Arizona
A Progressive,
Dynamic
Destination with
Hometown
Traditions Amid a
World-Class
Innovation Hub.....
The Place To Be!



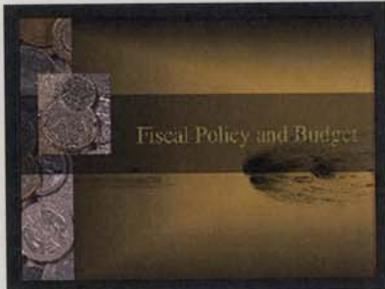
AGENDA

- Updated Reserve Policy Discussion
- Public Safety Personnel Retirement System (PSPRS) Overview and Options
 - Unfunded Liability Pay-Down Plan
 - Updated General Fund Balance Projections
- Other Financial Policies In Process
 - Creating Grant Management Policy
 - Contract Threshold for Council Consideration

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UPDATED RESERVE POLICY DISCUSSION



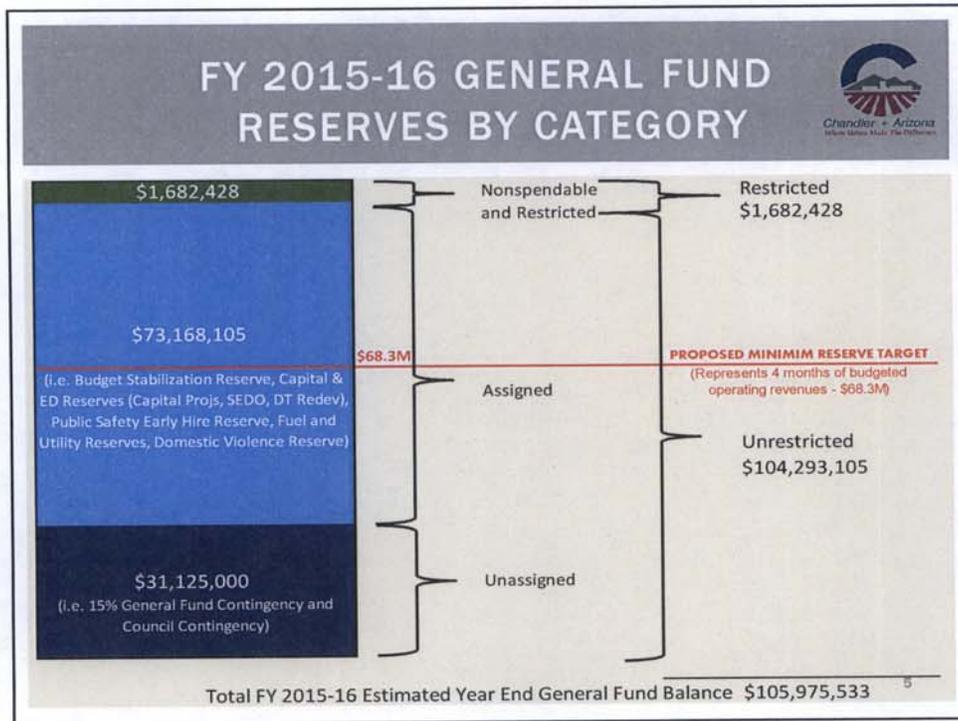
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PROPOSED RESERVE POLICY

Reserve Policy	GFOA Recommended Criteria	Current	Proposed
1	Documents City's approach to establishing and maintaining adequate reserves		
2	Identifies funds supporting City operations that reserves should be maintained, considering all types of risks		
3	Establishes target reserve levels and the methodology for calculating reserve levels		
4	Establishes criteria for the use of reserves and the process and timeframe to replenish reserves		
5	Identifies specific types of reserves, whether appropriated or not, and level of restriction based on use		

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PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM (PSPRS)

OVERVIEW & OPTIONS

Public Safety Personnel Retirement System of the State of Arizona

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CHANDLER'S PSPRS OVERVIEW



Chandler	Fire	Police	Total
% Funded	66.9%	59.5%	
% Active	72%	69%	
% Retired/ DROP/Inactive	28%	31%	
Unfunded Liability or DEBT Balance 6/30/14	\$34,965,775	\$71,559,235	\$106,525,010
FY 2014-15 City Contribution to PSPRS	\$2,962,169 (202 sworn)	\$6,370,251 (322 sworn)	\$9,332,420
FY 2015-16 City Contribution to PSPRS	\$3,718,149 \$800K (26%) Incr	\$8,299,038 \$1.9M (30%) Incr	\$12,017,187 \$2.7M (29%) Incr
FY 14-15 to FY 15-16 Rate: Normal Rate Portion & Unfunded Liability Portion	21.45% / 26.84% 11.84% / 11.76% 9.61% / 15.08%	24.73% / 31.58% 12.10% / 12.19% 12.63% / 19.39%	

PSPRS OVERVIEW



- **Fiduciary Responsibility Exists for Each City Locally**
 - Fields Case Restored PBI for Retirees 6/1/11
 - Hall Case Pending Would Restore PBI for Actives and Reduce Employee Contributions Back to 7.65%
 - Unfunded Liability (DEBT) Must Be Paid Down
 - Plan Changes will only Effect Future Members, Not Existing
- **Success in Sustainability is a Combined Responsibility**




- **PSPRS Taskforce Formed June 2014**

STATUS OF PSPRS TASKFORCE RECOMMENDATIONS



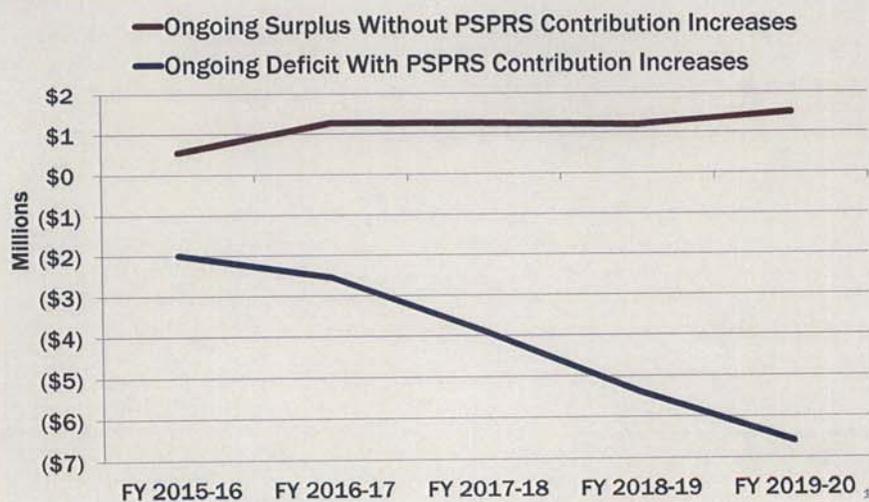
■ Council Approved Implementing PSPRS Taskforce Employer Recommended Practices

- Do Not Defer Fields Case -DONE, Paid Full Increase in Rate
- Prepay Budgeted Contribution - DONE, \$12M sent 7/1/15
- Review Local Board Practices - In Process
- Budget Contributions for DROP Members - Pay as 1-Time
- Create a Pension Funding Policy and Payoff Unfunded Liability (DEBT) Earlier - In Process, Reserve Policy Update, including PSPRS Unfunded Liability Pay-Down Plan



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PSPRS OVERVIEW IMPACT ON 5-YEAR ONGOING FORECAST (BASED ON CURRENT SWORN POLICE AND FIRE COUNT)



PSPRS ANNUAL CONTRIBUTION ONGOING VS. ONE-TIME						
<ul style="list-style-type: none"> ■ Council Approved New Approach for Annual Contribution <ul style="list-style-type: none"> ➢ Cap Ongoing at FY 2014-15 Contribution of \$9.3M ➢ Pay Cumulative Future Contribution Increases with One-Time Beginning FY 2015-16 						
Year	1	2	5	9	10	
	FY15/16	FY16/17	FY19/20	FY23/24	FY24/25	
Ongoing vs. One-Time Analysis						
Actual Ongoing Normal Rate Portion	4,832,575	5,245,719	6,460,913	8,326,475	8,840,814	
Actual One-Time Unfunded Rate Portion	7,184,612	7,688,934	9,461,734	12,182,996	-	
Total Employer Contribution	12,017,187	12,934,653	15,922,647	20,509,471	8,840,814	
Ongoing Capped at \$9,332,420						
Ongoing Capped at \$9,332,420	9,332,420	9,332,420	9,332,420	9,332,420	9,332,420	
One-Time Balance Drawdown - Option 1	2,684,767	3,602,233	6,590,227	11,177,051	-	
Total Employer Contribution	12,017,187	12,934,653	15,922,647	20,509,471	9,332,420	
Additional One-Time - Option 2	-	2,500,000	2,500,000	38,596	-	
Total One-Time Balance Drawdown - Option 2	2,684,767	6,102,233	9,090,227	11,215,647	-	

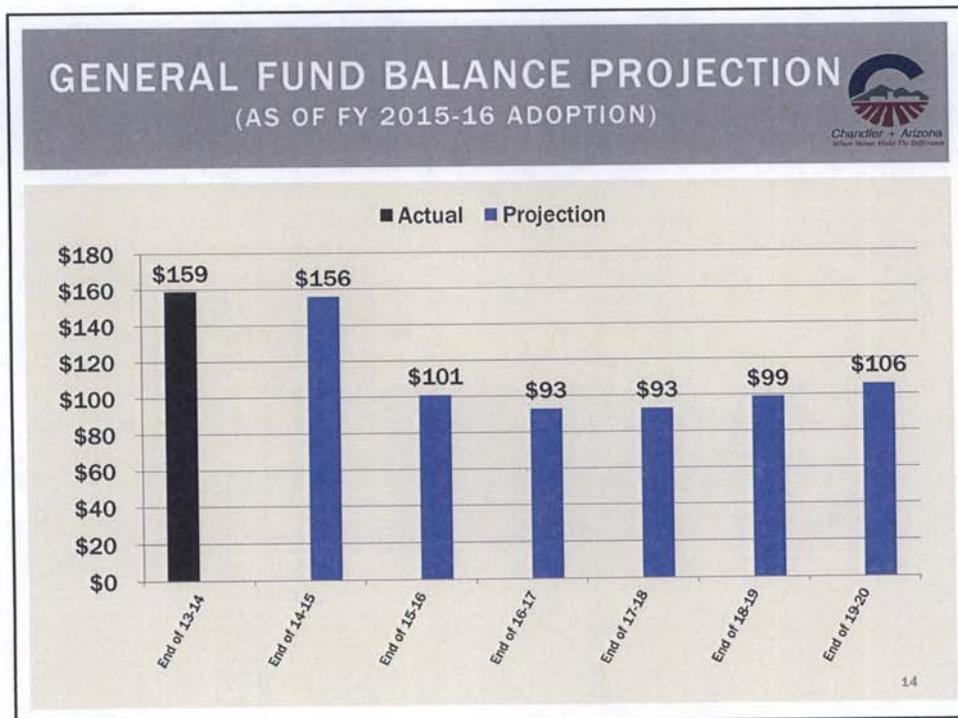
PROPOSED PSPRS UNFUNDED LIABILITY PAY-DOWN PLAN OPTIONS					
<ul style="list-style-type: none"> ■ Council Approved Developing Unfunded Liability Pay-Down Plan <ul style="list-style-type: none"> ■ Option 1 Pays Unfunded Liability in Year 11 <ul style="list-style-type: none"> ➢ Cap Ongoing at FY 2014-15 Contribution of \$9.3M ➢ Pay Cumulative Future Contribution Increases with One-Time Beginning FY 2015-16 ■ Option 2 Pays Unfunded Liability in Year 9 <ul style="list-style-type: none"> ➢ Same as Option 1, But Pay Additional \$2.5 M Beginning FY 2016-17 					
Year	1	2	5	9	
	FY15/16	FY16/17	FY19/20	FY23/24	
Unfunded Liability as of 6/30/2014	\$ 106,525,010	\$ 99,003,358	\$ 65,700,559	\$ 12,558,632	
1 Less: Annual Employer Unfunded Contribution	(7,184,612)	(7,688,934)	(9,461,734)	(12,182,996)	
2 Less: Interest Earned on Prepaid Contribution	(337,040)	(337,040)	(337,040)	(337,040)	
3 Less: Budgeted DROP	-	-	-	-	
4 Less: Additional One-Time Payment Lump-Sum	-	(2,500,000)	(2,500,000)	(38,596)	
Unfunded Liability Remaining	99,003,358	88,477,384	53,401,784	0	

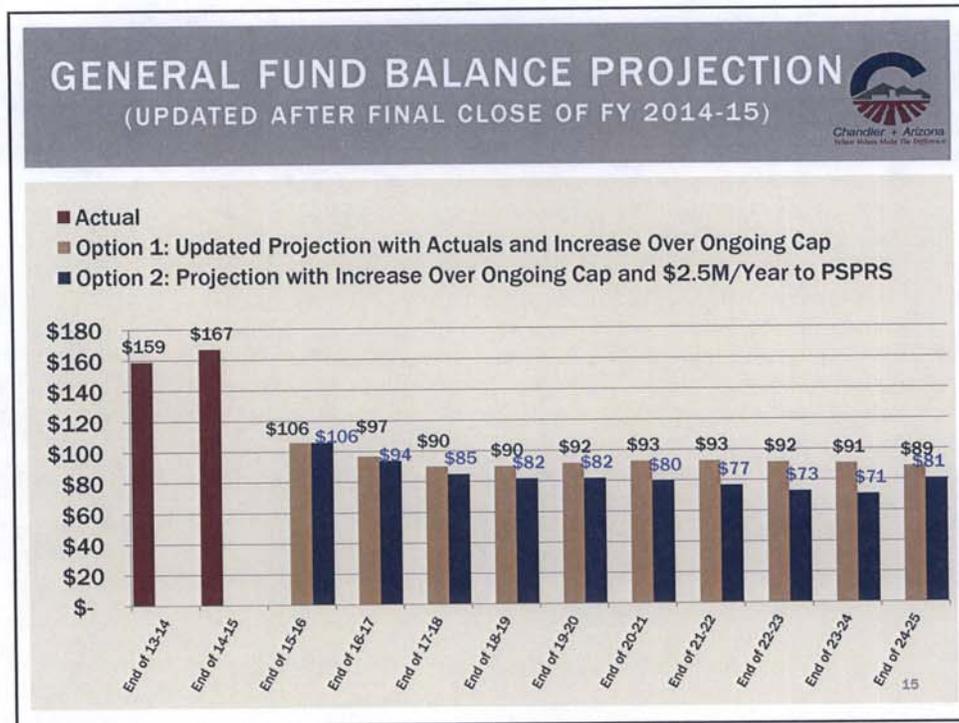

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UPDATED GENERAL FUND BALANCE PROJECTION



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- ### OTHER FINANCIAL POLICIES IN PROCESS
- Existing Financial Policies
 - Reserve Policy - Update Proposed
 - Operating Management Policy
 - Capital Management Policy
 - Debt Management Policy
 - Investment Policy
 - Financial Reporting Policy
- } Updates In Process
for Discussion
in November
- New Financial Policies to be Proposed
 - Grant Management Policy
 - \$30K Contract Threshold for Council Consideration
- Maintaining Strong Fiscal Policies Contributes to Higher Bond Ratings

QUESTIONS OR COMMENTS?



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City of Chandler Updated Financial Reserve Policy

DRAFT

(Blue Text is Informational Only)

The purpose of this financial policy is to ensure the City remains a financially stable organization by maintaining appropriate reserves. Adequate reserves position an organization to effectively plan for cash funded needs, as well as unplanned needs caused by significant economic downturns, manage the consequences of outside agency actions that may result in revenue reductions, and address unexpected emergencies, such as natural disasters, catastrophic events caused by human activity, or excessive liabilities or legal judgments against the organization. In concert with the City's other financial policies, the City's Reserve Policy serves as an important tool to guide the use of City resources in meeting the City's financial commitments and provides a framework for addressing unexpected future events in a fiscally prudent manner.

This policy documents the City's approach to establishing and maintaining adequate reserves (target levels) based on consideration of risks to operations, in the budgetary fund balance across a spectrum of City operations in various funds. The budgetary fund balance represents the one-time amount accumulated from prior years, which is different than the fund balance under Generally Accepted Accounting Principles (GAAP), but includes the same constraints on spending.

Governmental Accounting Standards Board (GASB) Statement No. 54 defines five reserve classifications of fund balance based on the level of restrictions placed on the specific purposes for which amounts can be spent: nonspendable fund balance, restricted fund balance, committed fund balance, assigned fund balance, and unassigned fund balance. The last three classifications are termed *Unrestricted Fund Balance* since the constraint on spending is imposed by the government itself, therefore subject to this reserve policy. Additionally, contingencies and reserves can be appropriated and unappropriated, depending if the City would like the reserve to be available for spending in the current budget year or not.

General Fund Reserve Policy

The General Fund is the main operating fund that pays for general services provided by the City, such as public safety, parks, and library services. The General Fund accounts for all general revenues of the City and for expenditures related to the rendering of the City's general services. The General Fund is considered to have a high level of risk to operations due to its dependence on revenue streams that are susceptible to economic downturns and revenue reduction impacts from outside agency actions. In addition, the General Fund is the main funding source when responding to unexpected events or emergencies.

Consideration of potential risk and other drivers influence the targeted minimum level of total Unrestricted Fund Balance that should be maintained. The Government Finance Officers Association (GFOA) recommends no less than two months of General Fund Unrestricted Budgetary Fund Balance.

The City desires to maintain a prudent level of reserves based on the revenue impacts described above and the City's desire to maintain strong bond ratings to minimize borrowing costs. This reserve policy sets the targeted minimum level at four months of budgeted General Fund operating revenues, excluding one-time transfers in to provide stability and flexibility to respond to unexpected adversity and/or opportunities (FY 2015-16: \$68.3M). Should the minimum reserve level fall below its target, a plan will be formulated to restore within a three year period. The Unrestricted Budgetary General Fund Balance can include the following contingency and reserve types.

General Fund Contingencies/Reserves (Type/ Appropriated or Not/ GASB 54 Classification)

- General Fund Contingency / Appropriated / Unassigned: This Contingency will be maintained equal to 15% of General Fund operating revenues, excluding one-time transfers in. Acceptable contingency reserve uses are emergency situations, unexpected one-time opportunities, and appropriation transfers to allow spending in other funds. Use of this reserve requires Council approval unless delegated in the Budget Resolution. The 15% General Fund Contingency reserve must be replenished annually.

FY 2015-16: 15% General Fund Contingency amount is \$30,725,000

- Council Contingency / Appropriated / Unassigned: This Contingency will be created annually for use by Mayor and Council during the Council budget amendment process or during the year for initiatives identified.

FY 2015-16: Council Contingency is \$400,000 (\$325,000 one-time and \$75,000 ongoing)

- Budget Stabilization Reserve / Not Appropriated / Assigned: This reserve may be created to offset operating deficits that result from economic downturns and revenue reduction impacts from outside agency actions that can create adverse service impacts, allowing time to reduce spending and/or find other ongoing revenue opportunities. Council may add to the reserve from time to time but not draw from it for more than three consecutive fiscal years.

FY 2015-16: Budget Stabilization Reserve amount is \$15,000,000

- Capital and Economic Development Reserves / Appropriated and/or Not Appropriated / Assigned: These reserves may be created to fund economic development opportunities, planned new and redevelopment capital projects and capital maintenance projects to sustain existing City infrastructure and minimize additional borrowing to help manage tax rate impacts.

FY 2015-16 thru FY 2019-20:

- * Strategic Economic Development Opportunities (SEDO) Reserve \$1,100,000 Appropriated and \$4,907,500 Not Appropriated
- * Downtown Redevelopment Reserve \$5,061,686 Appropriated
- * Capital Projects Reserve \$29,782,959 Not Appropriated
- * Infrastructure Maintenance Reserve \$10,850,000 Not Appropriated (to be used in FY 16-17)
- * Lump Sum Reserve \$450,000 Appropriated (for capital projects utilizing funds the developer has previously deposited with the City in lieu of making required offsite improvements)
- * Ambulance Reserve \$992,639 Not Appropriated

- Personnel and Operating Reserves / Appropriated and/or Not Appropriated / Assigned: These reserves may be created to fund specific operating expenditure areas that are susceptible to economic fluctuations and to fund personnel costs that can be reasonably estimated and are short-term in nature.

FY 2015-16:

- * Fuel and Utility Reserves \$200,000 Appropriated for each (covers mid-year price increases)
- * Compensated Absence and Miscellaneous Personnel (CAMP) Reserve \$950,000 Appropriated (covers payout of employee sick and vacation, military leave and light duty overtime, and other misc.)
- * Personnel Reclassification Reserve \$50,000 Appropriated (covers mid-year position Reclassifications)
- * Public Safety Reserve \$1,706,000 Appropriated and \$564,000 Not Appropriated (for potential personnel costs associated with early hires due to projected retirements or loss of grant funding for certain programs)
- * PSPRS Unfunded Liability Pay-Down Reserve \$ TBD
- * Domestic Violence Reserve \$332,408 Not Appropriated

Other Fund Reserve Policies

Other funds have been identified as needing reserves due to one or more of the following reasons: Self-supporting nature, the potential for unanticipated revenue or expense changes that can negatively affect operations, to help maintain a stable fee structure, or to cover the potential of unanticipated events threatening the public health, safety, or welfare. Reserves have been created in Enterprise Operating Funds (i.e. Water, Wastewater, Solid Waste, and Airport), Highway User Revenue Fund (HURF), Self-Insurance Funds and Replacement Funds (i.e. Vehicle and Technology).

Targeted reserves will be maintained as described below. A portion of the reserve will be appropriated annually for each applicable fund to provide for unanticipated revenue shortfalls and/or unexpected expense increases in the current year. Reserves should only be utilized after all other budget sources have been examined for available funds. Should the minimum target level for any of the funds identified fall below its target, a plan will be formulated to restore within the next year, but no more than three years.

- Water Operating Enterprise Fund accounts for specific services funded directly by fees and charges to City Water customers. The fund is intended to be self-supporting and will maintain a minimum target reserve of 20% of operating revenues. Other Water reserves may be created when deemed appropriate (i.e. fuel, utilities, lump sum).
FY 2015-16:
 - * Contingency Reserve \$3,000,000 Appropriated and a Balance Not Appropriated that Meets the 20% Minimum Target Reserve
 - * Fuel Reserves \$52,800 Appropriated (covers mid-year price increases)
 - * Personnel Reclassification Reserve \$5,000 Appropriated (covers mid-year position reclassifications)
 - * Lump Sum Reserve \$250,000 Appropriated

- Wastewater Operating Enterprise Fund accounts for specific services funded directly by fees and charges to City Wastewater customers. The fund is intended to be self-supporting and will maintain a minimum target reserve of 15% of operating revenues. Other Wastewater reserves may be created when deemed appropriate (i.e. fuel, utilities, lump sum).
FY 2015-16:
 - * Contingency Reserve \$15,000,000 Appropriated and a Balance Not Appropriated that Meets the 15% Minimum Target Reserve
 - * Fuel Reserves \$15,000 Appropriated (covers mid-year price increases)
 - * Personnel Reclassification Reserve \$10,000 Appropriated (covers mid-year position reclassifications)
 - * Lump Sum Reserve \$250,000 Appropriated

- Solid Waste Operating Enterprise Fund accounts for specific services funded directly by fees and charges to City Solid Waste customers. The fund is intended to be self-supporting and will maintain a minimum target reserve of 10% of operating revenues. Other Solid Waste reserves may be created when deemed appropriate (i.e. fuel, utilities). A Landfill Post-Closure Compliance Reserve will also be maintained as required by State and Federal law.
FY 2015-16:
 - * Contingency Reserve \$1,400,000 Appropriated and a Balance Not Appropriated that Meets the 10% Minimum Target Reserve
 - * Landfill Post-Closure Compliance Reserve \$4,340,000 Not Appropriated
 - * Fuel Reserves \$8,500 Appropriated (covers mid-year price increases)
 - * Personnel Reclassification Reserve \$5,000 Appropriated (covers mid-year position reclassifications)

- Airport Operating Enterprise Fund accounts for specific services funded directly by fees and charges to City Airport customers. The fund is not currently intended to be self-supporting, and depends on General Fund to fund a portion of operating and capital costs; therefore a minimum target reserve is not a reasonable expectation until the Airport is determined as self-sustainable by Council.

FY 2015-16:

* Fuel Reserves \$1,500 Appropriated (covers mid-year price increases)

- Highway User Revenue Fund (HURF) will maintain a minimum target reserve of 15% of operating revenues. Other HURF reserves may be created when deemed appropriate (i.e. fuel, utilities).

FY 2015-16:

* Contingency Reserve \$3,000,000 Appropriated and a Balance Not Appropriated that Meets the 15% Minimum Target Reserve

* Fuel Reserves \$52,800 Appropriated (covers mid-year price increases)

* Personnel Reclassification Reserve \$5,000 Appropriated (covers mid-year position reclassifications)

- Self-Insurance Risk Fund reserve will be maintained at a level, together with purchased umbrella insurance policies, that will adequately indemnify the City's property and liability risk. Health and Worker's Compensation Self-Insurance Funds reserves are maintained based on their Trust documents approved by Council. Qualified actuarial firms shall be retained on an annual basis in order to recommend appropriate funding levels for Risk, Health and Worker's Compensation Self-Insurance Funds. A minimum reserve of 70% of outstanding claims will be maintained for each.

The General Fund contributions to Self-Insurance Funds (i.e. Insured and Uninsured Liability Funds, Workers Compensation Trust Fund, Health Benefits Trust Fund, Short-Term Disability Fund and Dental Fund) will be reassessed annually and incorporated into the budget process, in order to ensure that the targeted goal is met in a manner that is balanced with other budget priorities.

FY 2015-16:

Workers Compensation Trust Fund

* Contingency Reserve \$678,004 Appropriated

Insured Liability Fund

* Contingency Reserve \$500,000 Appropriated

Uninsured Liability Fund

* Contingency Reserve \$500,000 Appropriated

Short Term Disability Fund

* Contingency Reserve \$300,000 Appropriated

Dental Insurance Fund

* Contingency Reserve \$300,000 Appropriated

Health Benefits Trust Fund

*Contingency Reserve \$500,000 Appropriated

- Vehicle Replacement Fund will maintain a minimum target reserve of 10% of the total City fleet replacement value. A fleet management vehicle replacement plan will be reviewed annually by the Fleet Advisory Committee to ensure systematic replacement of vehicles based on a combination of miles driven, repairs and maintenance schedules, and years of service.

FY 2015-16: Contingency Reserve \$500,000 Appropriated

- Technology Replacement Fund will maintain a minimum target reserve of 10% of the total City technology asset replacement value.

FY 2015-16: Contingency Reserve \$500,000 Appropriated